Approved 2/15/90
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

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

9:00 a.m./~~p.m.~~ on TUESDAY, FEBRUARY 13, 1990 in room 123-S of the Capitol.

All members were present ~~except~~

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

Conferees appearing before the committee:
Jim Maag, Kansas Bankers Association
Bill Docking, President, Kansas Bankers Association
Murray Lull, President, Smith County State Bank
Ed Bruske, Kansas Chamber of Commerce and Industry
Charles Warren, Kansas Inc.
Professor Barkley Clark, Shook, Hardy & Bacon

Chairman Bond called the meeting to order at 9:12 a.m.

SB 532 - Interstate Banking---Proponents

The Chairman recognized Jim Maag, Kansas Bankers Association, who distributed written testimony relative to interstate banking (Attachment 1) and also introduced Bill Docking, President, Kansas Bankers Association. Mr. Docking advised the committee that, because of major changes recently in the financial world, the KBA Governing Council requested a study be made of the interstate issue and discovered that a significant majority (54%)of the bankers supported interstate legislation. Mr. Docking continued saying that no other industry in Kansas has the statutory chains binding it like those which prohibit the interstate activity of banking. Also, entry into the banking business by other types of corporation further accentuates the need for flexibility in the banking industry. (Attachment 2)

Mr. Maag then introduced Murray Lull, President of Smith County State Bank, who stated that interstate savings and loan activity in Kansas is a fact of life because the largest ad in their local newspaper last week was placed by a Nebraska savings and loan. He stressed to the committee that interstate banking would add to the availability of credit for agriculture. (Attachment 3)

Ed Bruske, Kansas Chamber of Commerce and Industry, spoke briefly before the committee in support of this bill and informed them that over 80% of the business community that they polled supported some form of interstate banking. He announced that his organization backed this bill because they felt that this legislation would enhance opportunities for Kansas business. Attachment 4)

Charles Warren, Kansas Inc., addressed the committee briefly in support of SB 532. (Attachments 5 and 6)

Professor Barkley Clark, Shook, Hardy & Bacon, addressed the committee in strong support of SB 532 even though he considers this to be an extremely conservative bill. Mr. Clark referred to the out-of-date "Berlin Wall" surrounding Kansas preventing it from participating in a world increasingly interdependent in the delivery of financial services. Mr. Barkley said that we had achieved two-thirds of the elements needed to modernize banking in Kansas. In 1985, legislation was passed permitting multi-state bank holding companies and in 1990, legislation was enacted permitting unlimited branch banking. Mr. Barkley stated that the "only leg of the stool that is left is interstate banking." Mr. Barkley stressed that

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,

room 123-S, Statehouse, at 9:00 a.m./~~p.m.~~ on TUESDAY, FEBRUARY 13, 1990

legislation permitting interstate banking would stimulate competition, create a free market, and provide a level playing field by placing banks and thrift institutions under the same rules. (Attachment 7)

A short discussion followed after which Chairman Bond announced that opponents to SB 532 would be heard on Wednesday, Feb. 14.

The meeting adjourned at 10:02 a.m.

GUEST LIST

COMMITTEE: FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE DATE: Tues. Feb 13, 1990

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
John Peterson	Topeka	Fourth Financial
Jerel Wright	Topeka	KCUL
Donna Adams	Topeka	KBA
Candise Leonard	"	KBA
Mary Jane Stattelman	Topeka	KIBA
Tom Holman	Leon, Ks.	State Bank of Leon
JIM TURNER	TOPEKA	KNLSI
JEFF SONNICH	TOPEKA	KNLSI
Kathy Taylor	"	Kans Bankers Assn
Chuck Stones	"	"
Sue Bond	Overland Park	
Brad Smoot	Topeka	Fourth Financial
BOB ASMANN	WICHITA	"
Scott Hamel	TOPEKA	Kansas Inc.
Janie Cooper	Lawrence	KU - IPPBR
R G Frey	TOPEKA	KTLA
Howard McPeak	Hutchinson	KAWG
Murray Lull	Smith Center	KBA
[illegible]	Topeka	KBA
Harry Shriner	Wichita	Fourth Financial Corp.
Jim [illegible]	Topeka	KBA
Ken Baker	Topeka	Fourth Financial Corp.
ED BRUSKE	TOPEKA	KCCI
WALT DARLING	TOPEKA	DIV. OF BUDGET
LINDA McGILL	"	KIBA

GUEST LIST

COMMITTEE: FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE DATE: ____________

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Kesa Zagur	Topeka	interin
JERRY LONERGAN	TOPEKA	KS INC
Jeff Wagaman	Topeka	Legislature
M. Hawver	"	Cap Journal
Matt Tavel		
	Topeka	AP
Jim Sullinger	OLATHE	KC STAR + TIMES
MIKE FAHRBACH	HAVEN, KS	KANSAS INDEPENDENT BANKERS ASSOC.
Pete McGill	Topeka, Ks	KIBA

PROPONENT CONFEREES ON SB 532

Jim Maag, Kansas Bankers Association
(Will introduce first two conferees)

Bill Docking - President of the Union State Bank of Arkansas City and President of the Kansas Bankers Association

Murray Lull - President of the Smith County Bank & Trust

Ed Bruske - President of Kansas Chamber of Commerce and Industry

Charles Warren - President of Kansas, Inc.

Professor Barkley Clark - Attorney with Shook, Hardy & Bacon

SB 532

INTERSTATE BANKING FOR KANSAS

THE KANSAS BANKERS ASSOCIATION

Attachment 1
FI & I
2/13/90

QUESTIONS/ANSWERS ON INTERSTATE BANKING & SB 532

How many other states have interstate banking laws similar to SB 532?

26 states - including our neighboring states of Nebraska, Missouri and Colorado - have already enacted interstate laws which allow bank holding companies within specified states to acquire banks in their states if the interstate laws are compatible (reciprocal). 21 other states - including Oklahoma - either have no interstate restrictions or allow nationwide reciprocity. On January 1, 1991, Nebraska and Colorado will move from regional reciprocity to nationwide reciprocity.

Does out-of-state ownership of Kansas banks exist today?

Yes. Individuals and groups of individuals in any state are allowed to own Kansas banks - and do. "Chain banking" also exists where out-of-state individuals and/or groups own several Kansas banks. Only out-of-state bank holding companies are prohibited from owning Kansas banks.

Are Kansans and Kansas bank holding companies allowed to own banks in other states?

Yes. Individual Kansans and groups of Kansans can own banks in other states - and do. In addition, Kansas bank holding companies are allowed to purchase banks in 11 other states, including Oklahoma. Currently two Kansas bank holding companies control banks in Oklahoma.

Are there out-of-state or national institutions offering financial services in Kansas today?

Yes. A wide range of out-of-state institutions are providing banking or banking-related services in Kansas already. These include savings and loan associations (at least four out-of-state S&Ls have branch offices in Kansas), major national corporations (such as J.C. Penney's, Sears, Ford Motor Co., Chrysler, American Express, etc.) , credit card companies (from Delaware to South Dakota), the Farm Credit System, the Farmers Home Administration, and many, many others. A recent study by the Federal

Reserve of Atlanta revealed that over 130 offices which offer banking or banking-related services and are controlled by out-of-state corporations exist in Kansas today.

Does the recently enacted federal law (FIRREA) allow for interstate acquisitions by bank holding companies?

Yes. Bank holding companies can purchase failed or healthy S&Ls in another state and operate them as subsidiaries of the holding company. For instance, FIRREA would allow a Missouri bank holding company to purchase all or part of a Kansas S&L and operate it as a savings bank. Since savings banks and savings and loan associations now have virtually the same deposit-taking and loan authority as a commercial bank, the passage of FIRREA means the interstate barrier around Kansas banking has already been lowered signficantly.

How can interstate banking help the Kansas economy?

In many ways. It can increase the amount of banking expertise and technology in international markets needed for Kansas agriculture and industry to compete in the global economy of the 1990s. It can create a larger capital base which, in turn, will allow larger loan limits for farmers and businessmen. It can enhance access to the country's money centers and create a positive image for Kansas as an area that wants to help business, industry and agriculture grow.

Has the loan volume decreased in those states where out-of-state holding companies control a large percentage of the banks?

No. In fact, just the opposite is true. Information recently compiled by the Federal Reserve of Kansas City shows that in the eleven states where out-of-state holding companies control at least 40% of the bank assets of the state the loan volume increased from 1988 to 1989 by an average of 8.9%. Loan volume in Kansas increased by 0.5% in that same period.

Will interstate banking mean less availability of credit for agriculture?

No. We cannot find one single state where farmers are having trouble getting loans because of interstate banking. Our discussions with Secretaries of Agriculture in many farm states where interstate banking has been in place for several years revealed that ag producers have not experienced a decline in available agricultural credit. In addition, by allowing holding companies to diversify the loan portfolios of their banks it also brings greater stability to the banking system of a rural state during an economic downturn. Agricultural producers in Kansas will need all of the expertise and technological assistance they can muster to compete in the world markets of this decade. It will take both community banks and the larger banks to accomplish this.

How is the average bank customer affected by interstate banking?

The overwhelming majority of bank customers in Kansas will not be impacted by interstate activity. Those who are will have additional services to choose from in the more specialized aspects of commercial banking. The delivery of quality service for less cost is something all holding companies must strive for if they want to maintain a strong customer base.

Will interstate banking cause capital to flow in or out of Kansas?

There is no compelling evidence that interstate banking results in the outflow of capital. If that were the case, there would obviously be attempts in the 47 states where interstate laws exist to put a halt to interstate acquisitions. As noted economist, Paul Nadler, has stated, interstate acquisitions are usually made because holding companies are looking for areas where they can make loans since they already have access to capital through the money markets. Therefore, interstate activity could well bring a significant influx of capital to Kansas.

Will interstate banking reduce the possibility of a large number of bank failures like Kansas experienced in the mid-1980s?

It could be a major factor in reducing bank failures. As noted above, the ability of a holding company to diversify the lending and investment patterns of its subsidiary banks allows for much greater stability during an economic downturn. The greatest number of bank failures in the last decade occurred in those states with the least flexibility in their banking structure laws. Please note the enclosed comments on this subject by the Chairmain of the FDIC.

Has interstate banking resulted in the concentration of bank assets with a few holding companies in our neighboring states?

No. A recent study done by the Federal Reserve in Kansas City shows that in Missouri which has had interstate banking for several years there have been no acquisitions by out-of-state holding companies. In Oklahoma which has nationwide interstate with no reciprocity, only 5.38% of the total state banking assets are controlled by out-of-state holding companies. In Arkansas, which is now in its second year of its interstate law, there have been no acquisitions by out-of-state holding companies. Nationwide, the average assets acquired by out-of-state holding companies under various state laws is only 10.33%. Thus it is apparent that the impact of interstate banking on the total banking assets of Kansas would be minimal.

Does the State of Kansas restrict any other industry from interstate ownership?

No. In fact, the development of major Kansas corporations in aviation, food service, grain storage, insurance, etc. would have been impossible if such ownership barriers had existed for them. In addition, Kansas spends much time and many dollars to attract industry and commerce to the state and yet bans one whole industry from crossing our state borders. Artificially restricting the growth of the banking industry is contrary to the whole concept of economic development in Kansas.

Has interstate banking diminished the role of community banks in states which have interstate laws?

No. The experience in the 47 states where interstate banking already exists shows that community banks continue to thrive and that community banks and banks owned by interstate holding companies can work side by side to the benefit of a state's economy. What is needed is flexibility in the banking structure system for all types of banks and bank holding companies.

Are "big" Kansas banks in the urban counties the only ones in favor of interstate banking?

No. On the KBA banker owners survey conducted on interstate banking in October of 1989, 48% of the banks of less than $25 million in assets voted "Yes" or "No Opinion". That same survey showed that 144 banks in towns of less than 5,000 population voted in favor of interstate banking. Support for interstate banking is evident at all levels of the Kansas banking industry!

COMMENTS BY L. WILLIAM SEIDMAN
CHAIRMAN OF THE FDIC

"Our own experience [at FDIC] indicates that broader banking franchises create stronger banks." *

"Market forces and modern technology dictate that interstate banking activity will continue to grow. Legal restrictions can slow this trend, but they cannot stop it. It is no longer a question of whether, but when." *

"Evidence does not support the claim that liberalizing geographic expansion will threaten small banks' viability. Small banks have thrived in California and New York . . . . Indeed, smaller banks have enjoyed higher average returns on assets than larger banks . . . . success is not necessarily determined by size. Rather, success comes from a firm's ability to supply its product to the customer as he desires and to change with the customer's changing needs." *

* [Comments from a speech given by Mr. Seidman before the Michigan Bankers Association on June 20, 1986]

ADDITIONAL COMMENTS
CONCERNING
INTERSTATE BANKING

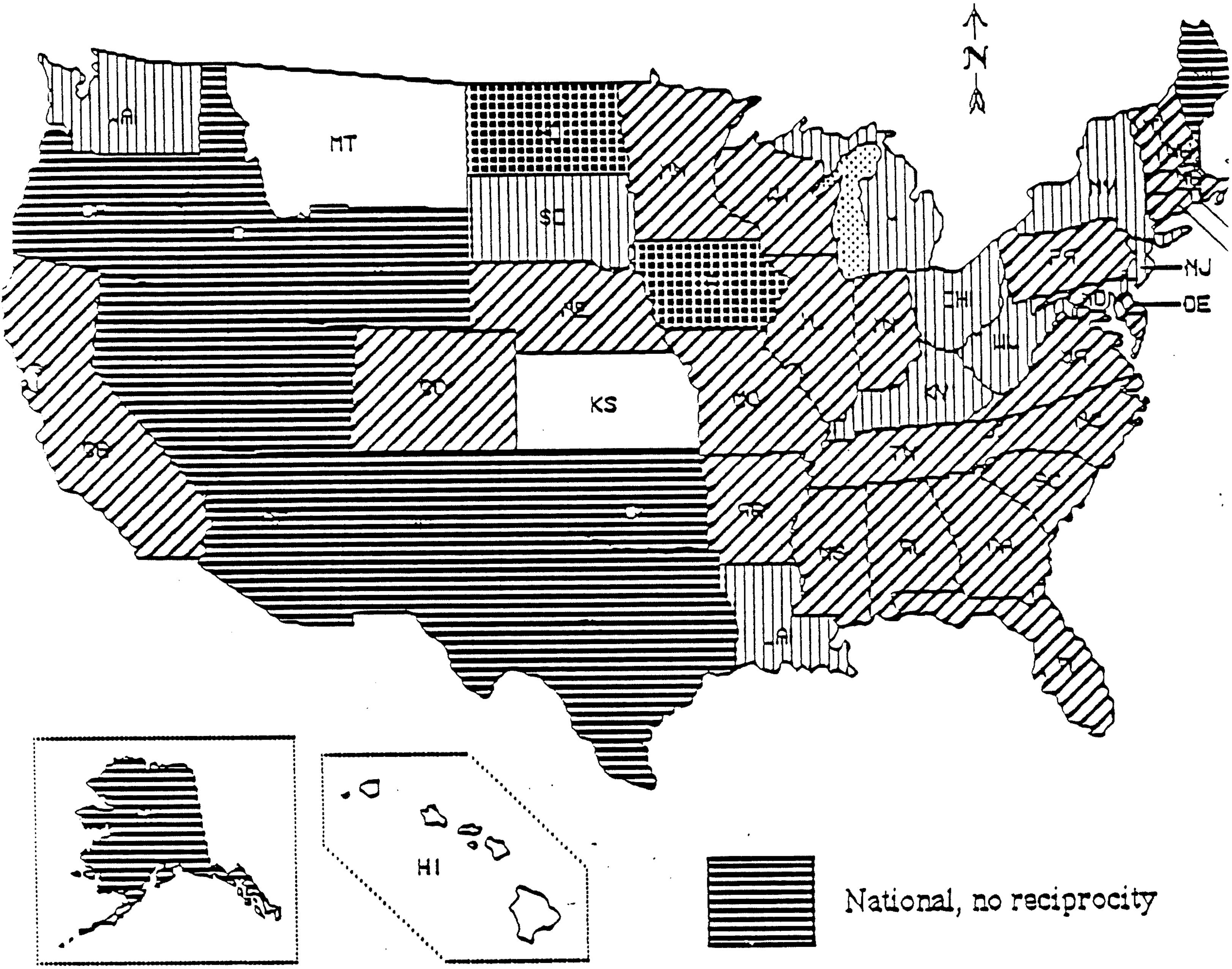
"The bulk of the banking industry's problems are concentrated in states that have severely restricted branching and other forms of geographic expansion. Federal laws also have prevented depository institutions from expanding across state lines. These limits have severely hampered our financial institutions in diversifying their portfolios and, therefore, have left them more vulnerable to sectoral and regional economic strains."

[Comments by Federal Reserve Governor, H. Robert Heller, before the U.S. Senate Banking Committee on May 25, 1988]

"Interstate banking will be a stimulus to competition. As such it should be beneficial to customers and to the financial services industry. First, it eliminates protected markets and makes capital flows more efficient. Second, by establishing a presence in areas previously unfamiliar to them, bankers can learn more about credit conditions in new places. This ultimately expands the information available to potential investors outside those areas at the same time as it helps banks make loan decisions. Thus the sources of possible funds for local development are increased. Finally, competition among existing banks and the potential new entrants into local markets would also tend to enhance banking products and prices for all consumers. . . . We must keep in mind that we are serving the purpose of a larger integration that is already in progress, and that is the integration of markets on a global scale. . . . The times now demand that we streamline our individual banking systems to adjust to rapid advances in the flow of goods and services."

[Remarks from a 1988 speech by Robert P. Forrestal, President of the Federal Reserve Bank of Atlanta]

INTERSTATE BANKING LAWS



1990 National "trigger" date (IL,PA,DE,VT)

1991 National "trigger" date (CA,CO,NE)

1992 National "trigger" date (IN)

National, no reciprocity

National, reciprocal

Regional, reciprocal **

Expansion by
Grandfathered organizations

17

** (States which name Kansas specifically as a possible reciprocal state in their

Wichita Business Journal
4 Dec. 1989

KBA vote ensures debate on interstate banking issue

Legislators should shake sand from ears

The overwhelming vote by the governing council of the Kansas Bankers Association (KBA) to support interstate banking in the 1990 legislative session is another major step toward the modernization of Kansas banking laws.

With the support of a group as respected as the KBA, the Legislature is almost certain to extensively debate the issue next year. The KBA's proposal calls for legislation that would open Kansas to interstate banking two years after passage of a bill.

Updating state laws governing banks and savings and loans has thus far taken a ~~long and~~ tortuous path, primarily due to the head-in-the-sand approach taken by the Kansas Independent Bankers Association and the legislators it influences. The KIBA has been successful in lining up enough legislators to block passage of interstate banking through the lobbying efforts of its rural membership and through the influence of its legislative lobbyist, Pete McGill.

Sweeping changes in banking regulation at the federal level, brought on by the savings and loan crisis and the thrift bailout legislation, have scrambled the rules of the game. Now out-of-state banks can cross the state line to buy a Kansas thrift, and in some cases those thrifts can be converted to a bank.

In addition, a recent decision by the U.S. comptroller of the currency has opened up the state's ban against bank branching. The comptroller ruled that a nationally chartered bank can open a branch in another city, regardless of state law. However, state-chartered banks do not have this authority.

The KIBA has incorrectly argued that interstate banking will mean an exodus of capital from the state. That argument flies in the face of the facts. A recent study by Kansas Inc. showed that while it is true that there is a surplus of capital in Kansas banks, Kansas bankers are far more conservative than the rest of the nation in loans made as a percentage of deposits.

It would appear that Kansas bankers are moving a large percentage of deposits out of state in the form of treasury securities, government bonds and other investments.

Furthermore, it has been the experience in other states that interstate banking can help bring about the expansion of existing banks and the growth that results in more capital being available.

The KBA's endorsement comes only a year after a membership poll showed that Kansas bankers were split on the question of interstate banking. The fact that the governing council of the KBA passed the resolution without a dissenting vote should send a strong signal to the Legislature that it is time for Kansas political leaders to shake the sand from their ears on the issues of both interstate banking and the modernization of the state's banking laws.

Even with due consideration to the conservative nature of Kansas political leaders, is it too much to ask that Kansas join the 46 other states which have approved interstate banking? Curiously, no leader from either party has yet to show any real leadership on this issue. But that's not surprising. Kansas legislators often trail their constituents

Void final bank law

For years the Kansas Independent Bankers Association has been very vocal in opposing any changes in Kansas' protectionist laws. In many cases these laws gave a virtual monopoly to banks in small communities, and banks in that position often took advantage of the situation.

Gradually, due primarily to the recession in agriculture that began in 1983, those laws have been relaxed and the state now has gotten rid of most of them with one important exception — interstate banking.

Under Kansas law, no Kansas bank could operate in any other state and banks in other states couldn't operate in Kansas.

As a result of the savings and loan bailout, however, it appears now that that only will apply to banks chartered by the state of Kansas. Banks anywhere can now come into Kansas and buy savings and loans and national banks in Kansas can buy out-of-state S&Ls.

That imbalance puts state banks at a distinct disadvantage and in spite of the continued howls coming from the Kansas Independent Bankers Association, the only thing left for the Legislature to do this session is to do away with this last protectionist law.

— McPherson Sentinel

1-10

KANSAS
Wichita Eagle
DEC - 6 1989

... party's power yet.

Modernize

Ban on interstate banking in Kansas makes no sense

Even before the huge federal savings and loan bailout earlier this year dramatically altered the face of U.S. banking, the laws prohibiting interstate banking in Kansas made little sense. Because those laws bar out-of-state banks from buying, opening or participating in Kansas banks, they hindered economic growth: Kansas banks alone often were hard-pressed to assemble the huge blocks of capital necessary to finance big projects.

Now, the S&L bailout has made it possible for out-of-state banks wishing to establish a Kansas presence to do so — despite the state's anti-interstate banking laws. Such banks need only buy a Kansas savings and loan association — perfectly legal under the terms of the bailout, as established by Congress — and open for business.

But Congress applied this logic only to S&Ls, and that makes the state's anti-interstate banking law even more onerous to Kansas banks: They alone are barred from partnerships with out-of-state banks.

Opponents contend that giving Kansas banks such freedom could spell their doom. Under this theory, once voracious out-of-state banks are free to buy banks here, Kansas bank ownership — and Kansas bank capital — would gravitate out of state.

But it's unlikely out-of-state banks would buy Kansas banks simply to erase their Kansas identities and loot them; that would debase the value of their own investments. It's likelier that out-of-state participation in Kansas banks would bring more investment capital into the state, not less. Certainly, the governing council of the Kansas Bankers Association, which last week called on the Legislature to implement interstate banking by July 1, 1992, never would have supported such legislation if association members feared wholesale outside takeovers or looting of their banks.

The anti-interstate banking laws may have made sense in the days when Eastern bankers treated the Plains states as colonies to be exploited for their mineral and agricultural wealth. But those days have long since ended, and Kansas, like it or not, is but a cog in an increasingly internationalized, market-driven economy.

Kansas needs to adjust its banking laws to that reality — especially now that out-of-state banks will have a presence here anyway. If it does, it will be better able to compete in the new global sweepstakes for growth and greater wealth.

1-11

Time for Kansas banking to catch up to the nation

In the upcoming legislative session, Kansas lawmakers are likely to embroil themselves in a debate that will turn otherwise rational people into verbal fire-breathers lashing out accusations ranging from disregarding communities to keeping the state in banking's dark ages.

The issue: interstate banking.

The question of whether Kansas should allow other states to buy its banks and vice versa is one that has a lengthy tradition of producing gale-force rhetoric among lenders but little action.

Finally, change came in recent months when the Kansas Bankers Association endorsed interstate banking for the first time, conceding by a slim majority that it was high time to join 46 other states that permit such beyond-the-border transactions.

The association expects to see an interstate banking bill introduced in the Senate in the coming weeks.

This step forward has provoked an outcry among many of the state's 575 banks. Their distrust runs deep, even though a federal thrift bailout bill that became law last year and the enormous use of automatic teller machines and other technological changes have strong-armed interstate banking into Kansas despite complaints or praise.

Critics nonetheless predict that if the interstate banking bill passes, lending leviathans will invade, consume some smaller banks, forage for too many loans away from home, and neglect the needs and identities of towns that made Kansas what it is today.

There is no reason to doubt the sincerity of their views. But the lament sounds old and stale, as if spoken mechanically from conditioned response rather than critical examination.

The fact of the matter is that, in the other 46 states, hardly a shred of evidence has surfaced that giant banks furiously bought up smaller ones and ignored the community.

On the contrary. Though some banks were purchased, the consumer, the tiny town, the local voice gained the most. Interstate banking invites technology and change; it inspires competition and provides safeguards against economic crises.

Kansas needs to dust off its pants, wash its hands and come to the dinner table like everybody else.

It's getting awfully late.

1-12

In God We Trust—

Banking wall must come down

In banking circles, landlocked Kansas might as well be an island. It is the only one of the contiguous 48 states that does not allow at least some form of interstate banking.

The state's regulations not only keep out-of-state banks from coming into Kansas, but they also keep Kansas banks from expanding outside the state.

It is time for a change.

The door has been opened part way as a result of the federal savings and loan bailout legislation. That package allows the purchase of savings and loans (healthy or unhealthy) by out-of-state banks regardless of state prohibitions. The new owners can turn the S&Ls into banks, if they want.

Faced with that reality, the Legislature should kick the door wide open by enacting interstate banking legislation.

Both banks and consumers would benefit, much as they have from the multi-bank legislation passed five years ago. Considered controversial at the time, the multi-bank and branch-bank option has helped many communities retain local banking services when their local banks failed.

With interstate banking, Kansas businesses will have a larger pool of capital from which to borrow. Businesses in need of large loans to finance expansions or purchases now have to seek those funds from out-of-state lenders. The process is inconvenient and may even discourage development in some sectors.

Kansas consumers, meanwhile, are wooed constantly with offers of credit cards from major banks around the country. That is a subtle, indirect way to get Kansas money in those banks without setting up shop in the state. The Kansas economy would benefit from keeping some of that business at home or bringing it here.

Although Kansas' provincial banking laws may have made sense at one time, today's economic climate and technology have made them obsolete. The Governing Council of the Kansas Bankers Association has endorsed interstate banking without a single dissent.

If Kansas wants to enter the 21st century in a few years on a par with the other states, now is the time to bring its banking laws up to date.

PUBLIC TESTIMONY
ON
SB 532

PRESENTED TO
THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

WILLIAM R. DOCKING, PRESIDENT
KANSAS BANKERS ASSOCIATION

Attachment 2
FI & I
2/13/90

February 13, 1990

TO: Senate Committee on Financial Institutions and Insurance
RE: SB 532 - Interstate acquisitions by bank holding companies

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before this committee in support of **SB 532**. My name is Bill Docking and I am President of the Union State Bank of Arkansas City. I am also currently serving as President of the Kansas Bankers Association and I appear here today in that capacity.

May I say to the committee that this is the same Kansas Bankers Association that has just funded the Eisenhower Centennial Committee with $30,000; that contributes that same amount every year to KU and Kansas State for Economic Education projects; that annually provides the maximum support Kansas, Inc. requests; that is the major financial sponsor for the Governor's Scholarship Program, and supports many, many, more Kansas projects.

As testimony and discussion proceeds on interstate banking for the next few days, and various witnesses make statements about who has and who has not made a strong record for the benefit of this great state, I would ask you to remember what the KBA has done and will continue to do toward being a good citizen of this state - - a record we would challenge most any other organization to match and one we would ask you not ignore! We want to work constantly for the benefit of Kansas in every way we possibly can - - and our position on interstate banking is no exception.

On November 29, 1989, the Governing Council of the KBA voted to support legislation which would allow interstate acquisitions by bank holding companies. This was not a decision arrived at lightly, but one that was the culmination of several months of discussion and analysis by Kansas bankers.

Because of major changes in the financial world, the KBA Governing Council last May requested that the State Affairs Committee of the Association study the interstate issue and report to them at the November meeting. During the summer and fall the Committee discussed the matter and directed KBA staff to review the issue with Kansas bankers throughout the state at the annual fall conferences. This was done and hundreds of bankers had the opportunity to present their viewpoints and make recommendations. No official votes were taken at these conferences, but informal polls taken after roundtable discussions indicated a significant majority of the bankers attending supported interstate legislation.

The State Affairs Committee then recommended that a more official poll be taken of the owners of all Kansas banks on the issue of interstate banking. That poll was conducted in early October and the results are attached to this testimony. As the chart reveals, 54% of the bank owners responding supported interstate legislation while 41% opposed such legislation. Those voting "Yes" represented over 70% of the total banking assets of the state.

Following further discussion, the 23-member State Affairs Committee recommended to the 13-member Board of Directors and the 32-member Governing Council that the KBA support interstate legislation. On November 7, the KBA Board of Directors also endorsed this recommendation. At the Governing Council meeting on November 29, every member of the Council, as well as bankers in attendance, had the opportunity to express fully their opinions on the subject of interstate banking. It was only after all of these steps had been completed that the Governing Council took action. Thus it is apparent that this was a decision openly arrived at by many Kansas bankers from throughout the state representing all sizes of banks.

During the past decade the Kansas Legislature has enacted several major bank structure laws which have significantly improved the banking system to the benefit of the citizens of Kansas. Due to these positive changes, we have stronger banks, more banking facilities in towns which did not previously have banks, more services available at bank branches which make banking more convenient for customers. In addition, there are banks and bank branches in communities where there would be no such services or facilities if it had not been for the changes made in state banking laws. It would be difficult to find any bank customer today who would want to give up the positive changes in banking structure which you, the Legislature, have enacted. And yet every one of those changes was strongly opposed with predictions of great problems to come - - none of which has ever come true.

Now you must analyze how our banking system can best meet the challenges of this new decade as Kansas business, agriculture, and industry expand their various roles in what is rapidly becoming a global economy. The KBA believes it will be necessary for our industry to have maximum flexibility if we are going to adequately serve our customers. We believe the granting of authority for interstate acquisition of banks is the next logical step in creating a safer and sounder banking system for Kansas.

As you well know, interstate banking is not an unknown quantity. There is no need to speculate about its results because all that is required is to look around us. It is present in all of our neighboring states and 43 other states. An objective examination of what is occurring in those states totally defeats predictions of doom. Recent economic studies by the Federal Reserve have shown clearly that in those states where there is a relatively high concentration of out-of-state ownership loan volume has increased - - most often at a rate higher than those states where interstate activity is dormant.

Experience in those states also indicates large and small banks, as well as all types of bank ownership, can exist side by side and provide even better services to communities and to all segments of the economy. There can be no doubt that community banks do thrive and will continue to thrive in an interstate environment. As FDIC Chairman, L. William Seidman, has noted, "Success is not necessarily determined by size. Rather, success comes from a firm's ability to supply its product to the customer as he desires and to change with the customer's changing needs."

The time has come to give Kansas banking the opportunity to plan for the decade ahead. No other industry in this state has the statutory chains binding it like those which prohibit the interstate activity of banking.

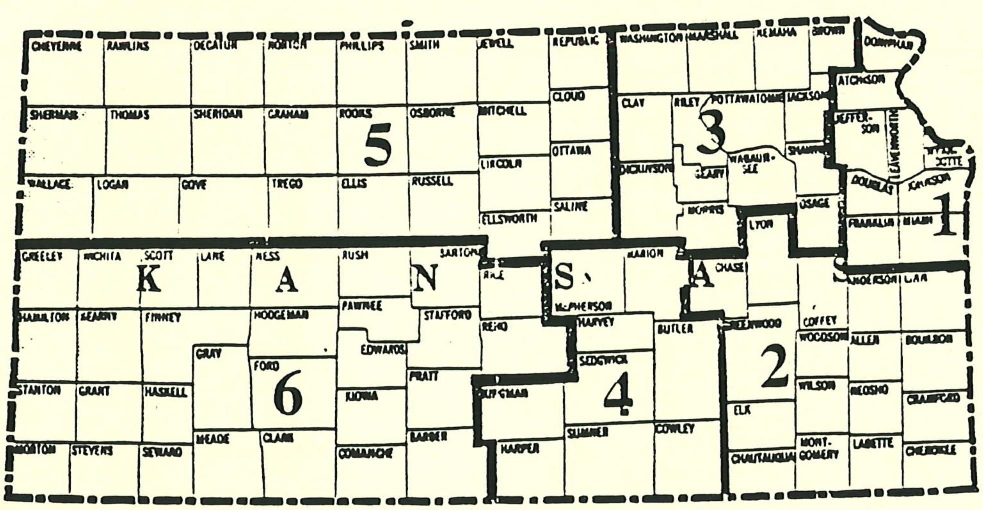
While our competitors in the marketplace are allowed to come and go across state lines and grow as they please, we are subject to restrictions on expansion which have no rational reason for existing.

The fact that changes in the banking industry are occurring at an ever increasing pace is reflected in such events as the recent enactment of federal legislation (FIRREA) which has overridden many state restrictions to interstate activity by banks and bank holding companies. Expansion into the banking industry by other types of corporations, i.e., Sears, American Express, J. C. Penney, etc., continues at a rapid rate which further accentuates the need for giving the Kansas banking industry maximum flexibility in meeting this competition.

For these reasons and many others which will be expressed by the conferees who follow me, the Kansas Bankers Association is requesting the passage of **SB 532**. We certainly hope the material presented to you by the KBA staff has been of assistance as you ponder your decision on the interstate issue. As always, the staff and officers of the Association stand ready and willing to discuss the issue with you and provide any additional information which might be needed. Thank you again for the opportunity to appear before the committee and I will be most happy to answer any questions the committee might have.

	A	B	C	D	E	F	G	H
1	Kansas Bankers Association----October 20, 1989							
2								
3	RESULTS OF KANSAS BANK OWNERS SURVEY ON INTERSTATE BANKING LEGISLATION							
4								
5	(Response was 469 of 575 Kansas banks for 82%)							
6								
7	Question: Do you favor or oppose changing Kansas statutes to authorize interstate banking?							
8								
9	BY KBA REGION	# IN FAVOR	% IN FAVOR	# OPPOSED	% OPPOSED	# NO OPINION	% NO OPINION	TOTAL #
10	Region 1	54	72%	20	27%	1	1%	75
11	Region 2	48	68%	22	31%	1	1%	71
12	Region 3	38	48%	37	46%	5	6%	80
13	Region 4	34	47%	36	49%	3	4%	73
14	Region 5	40	47%	36	42%	9	11%	85
15	Region 6	41	49%	40	48%	2	2%	83
16								
17	BY SIZE OF BANKS							
18	Below $10 mm	37	42%	48	55%	3	3%	88
19	$10-$25 mm	60	42%	72	51%	10	7%	142
20	$25-$50 mm	73	61%	43	36%	4	3%	120
21	$50-$100 mm	52	69%	20	27%	3	4%	75
22	Over $100 mm	33	79%	8	19%	1	2%	42
23								
24	TOTAL RESPONSE	255	54.37%	193	41.15%	21	4.48%	469
25								

Counties in Each Region of Kansas Bankers Association



2-6

TO: Senate Committee on Financial Institutions & Insurance

RE: **Senate Bill 532** - Interstate Banking

Mr. Chairman and Members of the Committee

My name is Murray Lull. I am President of The Smith County State Bank and Trust Company, a border county bank in Smith Center. I am also Chairman of the Board of another border county bank in Smith County, the First National Bank of Lebanon. Since 1985, I have been very active in the American Bankers Association's efforts in Agricultural Banking, serving on the ABA's Ag Bankers Division Executive Committee, and have just completed a term as Chairman of that Committee.

I also presently serve as one of eleven American Bankers Association's Banking Advisors. As spokesmen for the ABA, I travel across the United States talking about consumer issues in banking through interviews on television, radio, and in newspapers. I've found out a lot about banking laws and practices across the United States, and when I talk about interstate banking, being a Kansas banker, I have an advantage in remembering that Kansas is one of now only three states that does not allow interstate banking in any form.

I would have to say that I am one of those who has sometimes felt that interstate banking is really not a crucial issue for me and my bank and my customers. That is until I realize that there are few issues that do NOT affect us and our delivery of services to our customers in some way. Interstate banking is an issue for which the time has come in **Senate Bill 532.**

The unfairness of the current Kansas prohibition of interstate banking is best demonstrated by comparison with other financial service providers that have no such restriction. The largest ad in the last two weeks in the Smith County Pioneer, our local newspaper, was placed by First Federal Lincoln. First Federal Lincoln is a Nebraska savings and loan with branches in Kansas communities such as Stockton and Plainville. By virtue of the ads they put in our local paper, they're also in Smith Center, Kansas. Interstate savings and loan activity in Kansas is a fact of life. And so are the interstate financial activities of insurance brokers, investment firms, even Sears, none of whose business opportunities are restricted by state boundaries.

One of the concerns commonly tossed out by opponents of interstate banking is that there will be an export of lendable funds from Kansas agricultural banking. That is just not so. In the years that I have worked and talked with agricultural bankers across the United States, never has there ever been any evidence, comment or concern that interstate banking has been a detriment to the nation's ag bankers providing funds to their farm customers. Period.

Certainly today credit is NOT scarce in agricultural finance. And it has rarely been so. Interstate banking will not lessen the availability of credit for agriculture -- it will add to that availability.

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What is scarce in Kansas banking is capital. The median size bank in Kansas today is $23 million in total assets. The capital needed to support a bank this size ranges from $1.5 to $2 million, and, of course, is provided by the owners' investment in these banks. When owners of Kansas banks attempt to sell their banks, it is increasingly difficult to find investors who are both capable of managing banks and willing to invest sizeable amounts in banks located in small rural communities in Kansas. Interstate banking will add to the availability of capital needed to support Kansas bank depositors' funds.

As agriculture becomes more and more international, it is increasingly inappropriate for Kansas to remain so restrictive in allowing the full range of banking service options to be available, not only to Kansas farmers, but to their suppliers, and purchasers and exporters of farm commodities.

Because interstate banking is one of the few remaining issues we and some of our banking friends carrying the so-called independent banking banner disagree about, I was reminded of the irony of the debate over the years about banking structure by a recent news story in an area newspaper. That story announced the proposed purchase of a small rural bank by a larger community bank. The smaller bank would be absorbed by the larger, and the smaller, as has been done numerous times across the state, would become a branch of the larger. Until the law was changed in 1987, this merger and branch formation would not have been possible. But you, the Legislature, had the courage and foresight to know that for small communities to retain banking services for their residents, branch banking was necessary. The irony is that the bankers involved in this announced branching transaction were two of the most vocal opponents of what you and we saw as progress in Kansas banking and one of the bankers even appeared before the Legislature in opposition to branching. Now, less than three years later, they themselves are utilizing branch banking as a way their banks might survive in an area of shrinking population.

Just as there have been some excellent combinations of banks, (and theirs' will be among those) as a result of your allowing branch banking in Kansas, there will be some very beneficial combinations of banking service as a result of interstate banking. The winners will be Kansans, who need and deserve <u>every</u> opportunity for financial service.

Interstate banking is truly a consumer issue. As Kansans choose the provider of financial services that best suits their needs, I have every confidence that well-managed community and rural banks will always thrive in such a marketplace environment.

I urge your favorable consideration of **Senate Bill 532.**

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B.__________

Tax I.D. #__________ ☐ A ☐ B

Street Address__________

City__________ State______ ZIP______

Daytime Phone (____)__________

CD Interest to be paid ☐ monthly ☐ quarterly ☐ semi-annually ☐ annually ☐ credited to account

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201 S. Cedar
Stockton, KS 67669

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3-3

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A consolidation of the Kansas State Chamber of Commerce, Associated Industries of Kansas, Kansas Retail Council

February 13, 1990

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Financial Institutions and Insurance Committee

by

Ed Bruske
President

Mr. Chairman and members of the Committee:

My name is Ed Bruske, president of the Kansas Chamber of Commerce and Industry. KCCI would like to take this opportunity to support SB 532, interstate banking for Kansas.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

It was just a few years ago that KCCI received an education on the banking industry in Kansas when we were requested to support multi-state banking. As you remember, KCCI

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supported multi-state banking, and, at the time, asked the question: why not interstate banking?

It goes without saying that KCCI supports a minimum amount of trade restrictions on any business in Kansas, assuming such business activity does not endanger the public welfare. In reviewing SB 532, we feel this legislation would enhance the business opportunities for Kansas. Consequently, we are in agreement with the Kansas Bankers Association in regard to this matter.

We have been bothered by the fact that Kansas is one of only three states that do not allow interstate banking activities. It is our contention that financing is one of the principal economic engines that drives job expansions. The establishment of interstate banking would allow Kansas business the opportunity to explore additional financial resources for expanding plant facilities and product lines, and, at the same time, give Kansas business a chance to play on equal levels with their competitors in 47 other states.

In the past, the banking community has done an outstanding job of assisting Kansas business in job expansion, but the time has come to move forward with a proven procedure. Interstate banking opens up a whole new vista of financial opportunities.

KCCI strongly supports SB 532 and would hope that the majority of this committee agrees.

KANSAS inc.

BOARD OF DIRECTORS' POLICY RECOMMENDATIONS

1990 LEGISLATIVE SESSION

January 11, 1990

Attachment 5
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2/13/90

BOARD OF DIRECTORS'
1990 POLICY RECOMMENDATIONS

On January 11, 1990, the Kansas Inc. Board of Directors met to discuss the organization's legislative policy agenda for the 1990 legislative session. The following recommendations are those which the Board approved. Following these policy statements are brief background notes which were prepared by Kansas Inc. staff and presented to the Directors for their information. These recommendations are presented to the Governor and the Legislature as a guide to the successful implementation of the state's economic development goals.

James Braden
Speaker of the House
Clay Center

Paul "Bud" Burke
President of the Senate
Leawood

Tom Clevenger
President
Fourth Financial Corporation

Governor Mike Hayden
Co-Chairman
Topeka

Henry Helgerson
State Representative
Wichita

Eric Thor Jager, Co-Chairman
President
Wincrest Investment Management

Michael Johnston
Senate Minority Leader
Parsons

Don Landoll
President
Landoll Corporation

Bill Moore
Business Representative
Teamsters Union

Dick Nichols
President & Chairman
Home State Bank and Trust

Harland Priddle
Secretary
Department of Commerce

Ladd Seaberg
President
Midwest Grain Products

John Walsh
Chief Scientist
Boeing Military Airplanes

Bill Wohlford
Executive Vice President
Slawson Company Oil Producers

KANSAS INC. POLICY RECOMMENDATIONS

1. STRATEGIC PLANNING GRANTS/GRANT REPORTING SYSTEM

a) The Board of Directors of Kansas Inc. recommends that the Legislature establish a Community Strategic Planning Grant program, as proposed by Kansas Inc. staff and adopted by the Joint Committee on Economic Development.

b) The Board of Directors of Kansas Inc. recommends that the Legislature establish an economic development grant reporting system, as proposed by Kansas Inc. staff and adopted by the Joint Committee on Economic Development.

2. RURAL DEVELOPMENT ISSUES

a) The Board of Directors of Kansas Inc. recommends that uniform regions of state-funded economic development organizations be established to increase the effective delivery of community and business assistance.

b) The Board of Directors of Kansas Inc. recommends that in conjunction with uniform state regions, the regional and field offices of state-funded economic development agencies should co-locate as much as possible.

c) The Board of Directors of Kansas Inc. recommends that a strategic planning data base be established to monitor the economic and demographic conditions of rural counties and communities in Kansas.

3. WORK FORCE TRAINING

The Board of Directors of Kansas Inc. recommends that the appropriate legislative committees consider the policy options on workforce training proposed in the Kansas Inc. report, Work Force Training: The Challenge for Kansas, to develop and implement a more responsive training and retraining system.

4. MARGIN OF EXCELLENCE

The Board of Directors of Kansas Inc. recommends that the Legislature, in setting its budget priorities, give strong consideration to funding for the third year of the Margin of Excellence.

5. STATE UNIVERSITY ADMISSION STANDARDS

The Board of Directors of Kansas Inc. recommends that the Legislature implement qualified admissions to the State's higher education institutions as proposed by the Kansas Board of Regents.

6. INTERSTATE AND BRANCH BANKING

a) In January 1989, the Board of Directors of Kansas Inc. adopted a policy position "to encourage the Legislature to begin the process of instituting interstate banking in Kansas." The Board of Directors of Kansas Inc. urges the Legislature to go beyond reviewing the process, and for 1990, to adopt interstate banking.

b) The Board of Directors of Kansas Inc. reaffirms its policy position recommending the removal of all geographic restrictions on branch banking.

7. KANSAS LOTTERY SUNSET

The Board of Directors of Kansas Inc. recommends that the 1990 Legislature introduce and adopt a concurrent resolution providing for the continued operation of the Kansas Lottery.

Strategic Planning Grants/Grant Reporting System

Background

In March, 1989, Senator Dave Kerr requested Kansas Inc., on behalf of the Senate Economic Development Committee, to *"review all the reports issued recently by state agencies and task forces on rural development, synthesize the findings of those reports and other information, as needed, and present recommendations to the Joint Committee on Economic Development..."* Kansas Inc. presented this report to the Joint Committee on August 22, 1989.

The report includes four basic sections. They are an introduction to the problems of rural Kansas, a statistical profile of all counties in Kansas, a discussion of several policy issues related to rural development, and a set of recommendations developed by Kansas Inc. staff.

From the statistical analysis and other related information, Kansas Inc. staff developed several policy recommendations. The primary recommendation was the development of a community strategic planning grant program. This program would be designed to assist Kansas' non-metropolitan counties in developing effective and realistic strategic economic development plans. This recommendation flowed from the data analysis but also from interviews with numerous individuals closely involved in rural development. These individuals noted that the most fundamental shortcoming in non-metropolitan counties was the lack of overall strategic plans for community economic development.

The first stage of the program, which would last three years, would provide $50,000 grants, with a local match requirement, to 60 non-metropolitan counties or combination of counties. The funds would be used for obtaining professional services from universities, private consultants or other technical providers; purchasing necessary equipment; and, other related activities. Regional economic development organizations in the state's six regions would also be provided $50,000 grants during the first phase. The second phase would provide $100,000 grants to each region to develop a regional economic development strategy which would combine the various county-level strategies.

This program would provide an opportunity for smaller communities to become involved in their own development plans instead of being directed by either regional or state organizations.

Two bills, H.B. 2602 and 2603, have been introduced by the Joint Committee on Economic Development this session to implement this program.

The second proposal (1b) proposed by Kansas Inc. staff and adopted by the Joint Committee on Economic Development would provide a mechanism to receive complete and accurate information on the various economic development grants awarded by state agencies and departments. This information would be collected by Kansas Inc. for transmittal to the Governor and the Legislature.

It is presumed that state funds for economic development are directed primarily to eastern and urban areas of the state. Concern cannot be adequately addressed without accurate data on program delivery and funding by region and size of community. Some economic development programs naturally provide greater benefit to communities in metropolitan areas because of the diversity in the scale and nature of urban economic activity and demographics.

A bill has been introduced in the Senate, S.B. 436, which will require agencies to submit an annual report to Kansas Inc.

Rural Development Issues

Background

a) Over several years, various operating regions have been designated by economic development agencies and departments. The lack of consistency between these regional boundaries is considered a major barrier to the coordinated and integrated delivery of services to communities and businesses. While some of these boundaries are set in part by federal agencies, the state should make every effort to develop consistent boundaries among the Department of Commerce regions served by its field offices, the Small Business Development Centers and the Certified Development Companies. In the case of certified development companies serving the urban counties of Johnson, Wyandotte, Douglas, Leavenworth and Shawnee, the exiting boundaries would remain as is.

The regional systems for these three organizations are very different. The Commerce Department has six regions, the SBDCs have eight regions, and the CDCs have 14 regions. The only regional conformity in these three organizations exists in the western portion of the state.

b) In conjunction with establishing uniform regions, the regional and field offices of DOC, SBDCs and CDCs should be co-located. This change will ease the process for individuals wishing to obtain business assistance and program information. To the extent possible, other state agencies such as KDOT and regional organizations (Economic Development Districts and regional planning organizations) should be co-located following the highly successful model of co-location adopted for southeast Kansas at Pittsburg State University. Co-location should also be strongly encouraged for newly created regional offices such as those proposed under the KTEC industrial liaison program for Regional Technical Service Centers.

c) Comprehensive, accurate and timely data on conditions in rural Kansas are required for use by state and local policy makers, planners, and economic development officials to evaluate programs and determine whether local economies are improving or worsening. Kansas Inc. and the Institute for Public Policy and Business Research, University of Kansas, developed a strategic planning data base during Fiscal Year 1989. This data base will be refined and updated in Fiscal Year 1990 in cooperation with the Kansas economic development districts. Eventually, this information from the data base can be made available in hard copy or on diskette to community agencies for planning purposes.

Only modest investment has been made in development of the strategic planning data base to date. Additional resources will be required but this can be minimized, if a cooperative effort is undertaken by Kansas Inc., regional agencies, university research centers, and state agencies. The data base will be coordinated with the Geographical Information System (GIS) being developed by the Kansas Water Office and the Kansas Department of Health and Environment.

Kansas Inc., in cooperation with the Kansas Bar Association, has developed a proposal to create a non-profit entity to manage a public/private information network to provide private sector access to state agency electronic data bases. The strategic planning data base can be made available on this network as well as data now contained in the Department of Commerce on industrial sites and buildings.

Work Force Training

Background

The most critical element to the future growth of Kansas is the availability of skilled workers. Without a strong market of workers, the state's businesses will not be able to compete with those in other states and other countries.

The importance of this topic was recognized when Kansas Inc. and the Kansas Department of Education contracted with the Institute for Public Policy and Business Research at the University of Kansas to conduct a study of the State's workforce training system and to present policy options on ways in which the system can be improved to facilitate the development of a strong labor force in Kansas.

The report's introduction highlights the importance an efficient vocational-technical training system has on the effective response to new economic challenges. The report states that:

First, products and processes are changing rapidly in an era of innovation based on science and technology. Experts predict a shift from homogeneous product, assembly-line mass production to customized, job batch, human capital intensive processes. Second, increasing internationalization of the U.S. economy and intense global competition places a high premium on productivity growth. Third, in the context of a relative, though not absolute, *decline in manufacturing employment, remaining manufacturing jobs require greater skills and higher levels of basic education and training.*

The report concludes with 56 policy options which cover numerous subjects. The subject areas discussed are:

1) basic academic skills,
2) secondary technical skills,
3) postsecondary technological and technical skill training,
4) coordination of technical education programs across training institutions,
5) coordination of technical education and training programs across agencies,
6) program funding,
7) equipment funding,
8) customized training,
9) innovative technical programs,
10) program information and evaluation,
11) faculty/staff development,
12) Job Training Partnership Act (JTPA)
13) planning for training programs, and
14) business commitment and partnership

The report was presented to the Joint Committee on Economic Development and the Legislative Educational Planning Committee during November. Both committees have requested further information from various state agencies and will be holding hearings throughout the 1990 legislative session.

The report was presented to the public during a conference at the Kansas Expocentre on December 1, 1989. In four concurrent sessions, leaders of business, government and education discussed the merit and feasibility of each of these policy options. In speaking with conference participants, there was a virtual unanimity on the usefulness of the presentations and discussions and merit of the proposed policy choices.

Copies of the executive report have been sent to each community college, vocational-technical school, school district superintendent, and legislator.

Margin of Excellence

Background

In 1988, the Legislature initiated a three-year program proposed by the Kansas Board of Regents to attract high quality professors to Kansas universities and to enhance mission-related programs. This program, the Margin of Excellence, has seen tremendous success.

Funding for the first year of the program was set at $11.9 million. The 1989 Legislature endorsed second year funding through $16.7 million in appropriations. The Board of Regents is requesting $16,690,000 for FY1991.

The Board of Directors unanimously supported first and second year funding of the Margin of Excellence on January 7, 1988 and January 12, 1989. This is a reaffirmation of support for the program.

State University Admission Standards

Background

The admission standards under which the Kansas Regents universities operate is specified in K.S.A. 72-116 which states that:

Any person who shall complete a four-year course of study in any high school accredited by the state board of education shall be entitled to admission to the freshman class of any state educational institution under the control and supervision of the state board of regents.

This statute is in direct contradiction to the principle in K.S.A. 76-717 which states that:

The board of regents may adopt rules and regulations for the admission of students at the state educational institutions.

This limitation placed on the Board of Regents and state universities allows them to restrict only out-of-state students, which some institutions do in a limited way.

The Kansas Board of Regents proposed for the 1989 Legislature that new admission standards requiring minimum level of academic achievement in high school be adopted. The Board of Regents recommended that:

1. Entering freshmen should have a "C" average on a college preparatory curriculum, or score 23 on the ACT, or rank in the top third of their high school's graduating class.

2. Recommendation will not be implemented until four years after adoption.

3. Recommendations be included for transferring students from Kansas community colleges and independent institutions.

4. Allow a certain number of exceptions to be administered by individual regent institutions, and

5. Applicants 21 or over or who have earned the GED at a minimum level may receive unconditional enrollment.

The Board of Regents believes that open admissions is detrimental to achieving academic success in Kansas. Two symptoms of this policy are that students must share classrooms with those who have a far lower level of preparation, and faculty must lower academic expectations and instruction to accommodate a greater number of students.

Stanley Koplik, executive director of the Kansas Board of Regents, wrote in an editorial in the December 21, 1988 edition of the Wichita Eagle-Beacon that the implementation of a qualified admission standard would, *"...go a long way toward addressing the difficulties our state is experiencing in remaining competitive and meeting the academic and economic challenges of the future."*

In 1988, only two other states, New Mexico and Louisiana, had open admission policies for their state universities. In 1989, both of these states adopted qualified admissions. According to Board of Regents' staff, Kansas now is the only state which provides, by statute, that all graduates of home state high schools are entitled to unconditional admissions to state universities.

Interstate and Branch Banking

Background

In 1989, Kansas Inc. published a report reviewing the issues related to the banking industry and the availability of capital in Kansas. The study's conclusion is that consideration needed to be given to the "implementation of policies that help ensure the reduction and eventual elimination of barriers to growth in the State's banking industry." This conclusions stemmed from the study's findings that Kansas:

1) had more total banks and that on average these banks contain less deposits than banks nationally, and within a five-state region only Nebraska had a smaller average deposit per bank; and,

2) was below the nation in the ratio of loans-to-deposits and that the smaller the bank the more likely it would be lending at rates significantly lower than the national average;

Data available after the Kansas Inc. report was published reveal that the trend among Kansas banks to have loan-to-deposit ratios lower than the nation's has continued. In addition, the State's larger banks are increasingly lending a larger percent share of their deposits. In 1988 banks with assets over $100 million had a loan-to-deposit ratio just under 70 percent while the loan-to-deposit ratio for all other banks was 54 percent.

Besides the continued trend to bank consolidation, national policy and judicial decisions beyond the control of Kansas regulators have been made that impact the industry. These changes have the potential to put Kansas banks at a competitive disadvantage with out-of-state banks.

The first change involves a ruling by the Comptroller of the Currency allowing Peoples National Bank and Trust of Ottawa to open an office in Stillwell. The branching was permitted by the Comptroller because federal laws permit federally chartered banks to compete equally with state-chartered savings and loans. Basically this ruling allows federally chartered banks both in and out of state to no longer be restricted by Kansas' limited branching laws.

A second regulatory change resulted from the passage by Congress of a savings and loans bailout plan. One provision of the act allows banks to purchase ailing or healthy thrifts with such purchases not restricted by state boundaries.

Another matter related to interstate banking is that this fall the governing board of the Kansas Bankers Association (KBA) developed a position directing KBA staff to promote an interstate banking bill during the 1990 Legislature.

Both data analysis which demonstrates Kansas trends toward larger banks, and national legislation and court rulings suggest that Kansas can no longer manage bank activity in a way that prevents outside competition. These activities coupled with the endorsement by the KBA governing board only solidify the policy position of the Kansas Inc. Board of Directors and should impress on policy-makers the need to act quickly to prevent further erosion of the competitiveness of Kansas banks.

Kansas Lottery Sunset

Background

The voters of Kansas approved a constitutional amendment [Article 15, section 3c] in 1986 which provided the Legislature the authority to establish a state-owned and operated lottery. During the 1987 legislative session, the Kansas Lottery Act [K.S.A. 1987 Supp. 74-8701 through 74-8721] was passed creating the Kansas Lottery.

The profits from the Lottery are deposited in the State Gaming Revenues Fund. This fund has been used for county reappraisal, corrections and economic development. The Lottery has been very successful and has provided over $30 million to the Economic Development Inititives Fund (EDIF) over its three years.

In the constitutional amendment, a sunset provision was included which requires that a concurrent resolution be adopted by a majority of both houses during the 1990 legislative session to allow the lottery to continue operating after June 30, 1990.

INTERSTATE BANKING
QUESTIONS AND ANSWERS

Prepared by

KANSAS INC.
400 SW 8th - Suite 113
Topeka, KS 66603-3957
913-296-1460

January 22, 1990

Attachment 6
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2/13/90

1-22-90

KANSAS INC.
INTERSTATE BANKING QUESTIONS AND ANSWERS

1. **What do you perceive to be the basic arguments supporting interstate banking? Can the potential negative impacts be addressed through legislation?**

   * Too often the debate implies we can either have interstate banking or have community banking but not both together. The financial markets are large and diverse enough to accommodate both regional and community banks.

   * The primary advantages to interstate banking for Kansas are to bring to the state:

     increased access to international and national financial markets, especially in public and private debt financing;

     greater expertise in export financing for international trade; and,

     increased expertise in commercial lending;

   * Any disadvantages to interstate banking, could be addressed through legislation that protects and preserves community banking and ensures that out-of-state banks invest in Kansas communities. (See Question 8, pp. 6-7)

   * Interstate banking would most likely result in larger banks competing more aggressively for accounts providing technologically current customer services, and managerial expertise to deal with increasingly complicated commercial lending deals.

   * Larger banks have a number of advantages (Wichita Eagle, September 1, 1989):

     stronger banks are more diversified, they can withstand economic losses and be more effective as risk-takers and partners in economic development;

6-2

with the ability to have larger staffs they are more aggressive marketers and compete against each other for market shares;

they offer more convenience through their branch network and other increasing technological advances;

they have more money available for lending and they will actually loan it out; and,

there are larger loan limits and faster responses times, they do not have to seek participating lenders and money can be shifted from subsidiary banks.

2. **Do you see a trend toward banking consolidation?**

* Absolutely! In 1983, Kansas had a total of 623 banking institutions, by mid-year 1989 the number had declined to 574.

* The share of total deposits among larger banks has increased significantly just over the past five years:

Bank Size by Total Assets	Percent Share of State Deposits 1983	1987	1988
+ $100 Million	28.9%	36.1%	37.4%
$50-$100 Million	24.8%	25.8%	25.8%
$25-$50 Million	25.0%	21.3%	20.8%
- $25 Million	21.3%	16.8%	16.0%

* In the past, Kansas has lagged the nation in following this trend toward bank consolidation. From 1983 to 1987, banks with less than $25 million in assets declined by 22 percent nationally and only by 13 percent in Kansas. Those banks with assets greater than $100 million increased by 40 percent in the U.S. and increased by almost 21 percent in Kansas.

* With the increased merging and branching activity in Kansas from multi-banking holding legislation, Kansas' consolidation should continue at a pace comparable to the nation's. From the start of the year to the end of 1988, there were 13 fewer banks with assets less than $25 million and two additional banks with assets above $100 million.

3. **Interstate banking presumes that bigger banks are better, are they?**

   * The data demonstrate that larger banks are superior in terms of international finance, commercial lending, and, in terms of efficiency of operations, they have consistently performed better.

   * Small banks may be better in terms of personalized, customer service, but bigness does not prevent a bank from paying attention to the consumer.

   * The data supports the fact that larger banks provide greater capital for loans and particularly commercial and industrial loans, critical to business formation and expansion. Loan to deposit ratios have historically been significantly higher for larger banks.

   * Larger banks with 37.4 percent of all Kansas deposits, do over 43 percent of all lending. The 41 larger banks (out of 587) do almost 52 percent of all commercial/industrial lending:

Bank Size	Percent Share of State Loans		
by Total Assets	1983	1987	1988
+ $100 Million	30.6%	41.7%	43.4%
$50-$100 Million	24.4%	25.0%	24.4%
$25-$50 Million	24.5%	19.8%	18.8%
- $25 Million	20.5%	14.3%	13.5%

   * Kansas, with smaller banks relative to the nation had a total loan to deposit ratio of 60.3 percent compared to the national ratio of 77.8 percent.

* The Commercial/industrial loan to deposit ratio difference was even greater, nationally it was 24.6 percent and in Kansas the ratio in 1988 was 15.9 percent, a decline from the 1987 ratio of 17.4 percent.

* Beyond lending practices, studies have shown that significant economies of scale exist for banks which approach $100 million in assets size. (Economic Review, Fed. Reserve Bank of Kansas City, Sep/Oct 1988)

* The stabilization of profits for larger banks is apparent in return on asset data from 1980 through 1987. While smaller banks outperformed larger banks early in the decade, as the oil price decline and farm crisis reared, smaller banks began to decline in profitability. In fact the under $25 million banks in Kansas, as a group, in 1986 experienced a negative return on assets. The larger banks, even during the severe recession of the early 1980's, had stable returns on assets that fluctuated between .88 percent and .96 percent.

4. **What effect would interstate banking have on the state economy and the people of Kansas?**

   * Most small communities would likely be unaffected by interstate banking because of the small asset size of local banks and the declining local economies. These banks and the communities would be unattractive to out-of-state banks. The communities' survival will rest, as it always has, on the people and leadership in them.

   * Both bank sizes can survive well with interstate banking. This too is related to the quality of leadership and the entrepreneurial skills of the local bank owners/managers. The Wall Street Journal in 1988 reported on how independents are effectively competing with out-of-state large banks. The independents were successful largely by providing exactly the kind of personal services the Kansas Independent Bankers' Association notes are crucial to some customers.

* In the same article, the Journal noted that other Florida customers enjoy the "consistently higher interest rates [on deposits] and lower rates on consumer loans". Additionally, the business community expressed satisfaction with the end of parochialism and the good old boy network. The large bankers, according to business owners interviewed, "are more competitive and have a broader geographical view."

5. **Do you believe corporate bank ownership across state lines would result in better or increased competition? Is fear of out-of-state ownership justified?**

   * The argument for interstate banking does not rest on the need for more banks competing in Kansas. We have plenty of banks and, in some cases, particularly in the smaller communities, too many banks competing over too few customers.

   * Maine is an example of a state that has taken a fear of outside ownership and made it a positive economic development tool. While Maine does indeed have a larger share of its total assets (85 percent) owned by out-of-state banks (Wall Street Journal, October 1987), it also has a requirement that annually banks file a report detailing the net new funds provided to Maine. In 1984, the report showed that over $50 million in loans and investments were generated above the Maine funds in these banks. The study found that the $50 million was reflected a shift from the acquired banks portfolio in federal securities to state and local issues.

   * Legislation comparable to Maine's net investment requirement can be a part of any Kansas legislation. The "fear" may be related to banks' concern of new competition.

6. **What effect on small business in Kansas would you expect to see from the passage of interstate banking and why?**

   * We do need banks that can offer a broader range of services and compete in terms of more sophisticated lending and the ability to offer expertise to the small business owner.

* Kansas Inc. recently completed an evaluation of Certified Development Companies. The study involved a survey of CDC clients to determine their satisfaction with the process of acquiring loans. Thirty-two percent of those surveyed, all who eventually received funds from Small Business Administration loan programs, felt that their local banks ability to handle their financial needs was inadequate.

7. **How can legislation in Kansas be written to insure that out-of-state corporate ownership would not drain away Kansas capital?**

   * The question presumes that the capital in Kansas banks is staying in the state under our current system. Nothing could be further from the truth.

   * Kansas has fewer total deposits in loans than banks across the nation (60.3 percent versus 77.6 percent), and it has even less loans in commercial and industrial lending (15.9 percent versus 24.6 percent). Most likely, the alternative uses of deposit dollars are in securities and bonds that leave the state anyway.

   * From 1987 to 1988, the dollar total in commercial/industrial loans was reduced over $226 million (a decline of over 6 percent in one year). Only the largest banks increased the total number of dollars in commercial/industrial loans.

8. Can legislation be crafted that addresses potential problems that may occur with the introduction of interstate banking?

* Kansas does have the benefit, given other state's experiences in interstate legislation, of seeing what statutes can effectively ensure the healthy transition to interstate banking. Provisions might include (similar to HB-2272):

  review of the acquiring banks record of community service and investment under Community Reinvestment Act (CRA), tough state monitoring;

  acquiring bank make proposal of how it will meet CRA requirements in the community;

  required net investment in the community or state, provision for funds into the state above the dollars that go from the community to the acquiring bank; and,

  provisions for local banks to exempt themselves from being acquired.

9. The most often repeated reason for having interstate banking is that Kansas is the only one of three states which have not adopted this type of legislation. Is this a good enough reason to adopt it?

* No, but given all the information available, there should be little doubt that it can have a positive impact on the state's image and business climate.

* From an economic development perspective, as the state seeks to demonstrate to relocating and new business that Kansas wants to be a partner in future growth, the lack of interstate banking contributes to a negative state image of being a backward, parochial state with little vision.

10. What effect on agriculture would be expected from the passage of interstate banking and why?

* There is no reason to expect a negative impact on agriculture. Recent data does not support the contention that the small local banks are the only support for the farm community.

* In fact between 1987 and 1988 total farm loans increased by less than 1 percent. Continuing a trend, banks with assets greater than $100 million increased their farm lending by over $38.6 million a gain of 16.4 percent. Banks with assets below $25 million decreased their loans to farms by over $35.6 million, a 5 percent drop.

* Banks with assets above $100 million, while representing only 7 percent of all banks, now account for 14.5 percent of all farm loans. This 14.5 percent is an increase in the share of farm loan of 2 percent since 1987 alone. We expect that as the farm economy turns around, this trend will continue.

* The smallest banks share of statewide farm lending decreased by 2 percent from 33.4 percent to 31.4 percent. In effect, the larger banks are picking up the farm lending that the smaller banks are losing.

* The ability of smaller banks, with a historical reliance on agriculture lending, to diversify has been identified as critical to the future of rural banks and communities. Federal Reserve economists in a June 1988 Economic Review article noted:

  > Earnings at agricultural banks turned up in 1987. But earnings did not rebound at small agricultural banks like they did at medium size agricultural banks, which hold smaller concentrations of agricultural loans. Earnings at larger banks ... have been more resilient to market shocks than earnings at smaller banks."

  The article speaks to the inevitability of great change in the banking industry. It concludes that in order to be competitive in the future and serve local needs (regardless of the presence of interstate banking laws) banks must diversify and compete.

THE TIME HAS COME FOR INTERSTATE BANKING IN KANSAS

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The Louisiana Parallel. I just returned from a trip to New Orleans, where I spoke to Louisiana bankers and bank attorneys about Article 9 of the UCC governing secured lending. The Louisiana legislature refused to enact Article 9 until last year, making it the last state in the country to modernize its commercial law. The legislature finally got the message when it became apparent that people did not want to do deals in Louisiana because of its antiquated laws. It was perceived as insular by businesses and lenders around the country. Now it finally has adopted the UCC and it is madly trying to make up for lost time.

There is a parallel between the Louisiana experience with the UCC and the Kansas experience with interstate banking legislation. As of 1989, Kansas now stands alone with Hawaii, Montana and North Dakota as one of the few states without any interstate banking legislation. In fact, when you factor out the exceptions, only Montana and Kansas remain without any legislation at all. In a world that is increasingly interdependent in the delivery of financial services, the continued existence of Chinese walls around Kansas seems more and more out of date. For a state that looks with eagerness to the sale of its goods and commodities in national and international markets, the refusal to recognize a

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free market for financial services seems self-defeating. I think it creates a real image problem.

Objections are Overblown. In my conversations with many Kansas bankers at the Bank Management Clinic in Lawrence last June, and at the CEO meetings in August, I got the feeling that the objections to interstate banking are overblown. I sensed that most Kansas bankers feel that it is inevitable that we take down the Chinese walls, and that we not try to win the prize for being the very last state in the country to do so. Kansas has a history of progressive legislation in many areas, including banking. The UCC, the UCCC, the lifting of interest rate ceilings, the corporation and banking codes--all of these laws have kept us in the forefront. But when it comes to interstate banking, time just keeps passing us by.

Let's Look at the Broader Policy Issues. The discussions of interstate banking focus on who is likely to make the most money, and who is worried about some more competition. I would like to stand back from these concerns and look at the broader public policy issues. Having been closely involved with bank legislation in Washington during the last four years, I have become persuaded that the benefits of interstate banking far outweigh any negatives. It is also true that many elements of interstate banking are already in place, regardless of what the Kansas legislature does. It seems preferable for Kansas bankers to have a say in how good legislation is shaped for the future, rather than simply await the inevitable.

<u>1990 as a Watershed</u>. 1990 is a particularly appropriate year for the legislature to act, since we have now had a reasonable length of time for consolidation within the state under the 1985 multibank holding company legislation. In addition, the new FIREAA legislation for the first time allows the acquisition of healthy thrifts across state lines, so that Kansas thrifts can now be used as deposit-gatherers for out-of-state bank organizations, and are therefore given an edge over Kansas commercial banks. 1990 is appropriate also because the legislature is dealing with the branching issue, enacting a law that puts state-chartered banks on a par with national banks. Intrastate branching and interstate banking should logically be considered as part of a "modern bank structure" package in this session of the legislature. Finally, 1990 marks the beginning of a new decade, an appropriate starting point for more progressive interstate banking legislation.

Set forth below are some of the important policy issues regarding interstate banking as I see them.

<u>We Already Have Interstate Banking</u>. Opponents of interstate banking should recognize that, in many respects, it is already here. Consider the following elements of interstate banking that are presently in place:

*46 of the 50 states have enacted some form of interstate banking legislation, either regional or unlimited. Virtually all of this activity has taken place in the last five years. Just this month, Iowa enacted an interstate banking bill.

*Correspondent banking networks abound.

*Loan production offices are found throughout Kansas.

*The farm credit system is an interstate operation.

*Credit unions and thrifts--the closest competitors of commercial banks--have no geographic limits on doing business. A 1987 Kansas statute allows reciprocal thrift interstate branching. Four out-of-state S&L's have branches in Kansas. Other financial institutions like finance companies and mortgage bankers have no geographic limits. They can offer their services according to their natural markets, giving them a competitive edge over commercial banks in Kansas.

*Under the new FIREAA legislation, out-of-state bank holding companies can acquire healthy thrifts in Kansas, irrespective of state law. This is sure to happen, and happen soon.

*Other companies offering a wide range of financial services--Sears, Prudential/Bache, Ford, American Express, etc.--have no geographic limits.

*Bank holding companies that operated interstate prior to enactment of the Bank Holding Company Act of 1956 are grandfathered.

*Electronic banking knows no state boundaries. Elements of interstate electronic banking include: ATM's, nation-wide bank credit card systems, point-of-sale debit cards, automated clearinghouses, wire transfer systems, and telephone home banking. There are now 70,000 ATM machines in this country and 190 million bank credit cards; both of these devices allow banks to follow their customers across state lines.

*Loan participations are made interstate.

*Federal funds and U.S. securities markets involve interstate investment.

*Nonbank offices owned by a bank holding company but not qualifying as "banks" under the Bank Holding Company Act may be established across state lines. Activities permitted by Federal Reserve Board Regulation Y that can be carried on across state boundaries include: loan servicing, factoring, operation of industrial loan companies, commercial and consumer finance companies, trust or fiduciary services, investment or financial advising, equipment leasing, data processing, discount brokerage, credit-related insurance activities, courier services, management consulting, real estate and personal property appraisal, arranging commercial real estate equity financing, underwriting and dealing in U.S. government obligations, consumer financial counseling, investment advice on financial futures and options, tax planning and preparation, and operating a collection agency or credit bureau. By order, the Federal Reserve Board has expanded this list of allowable interstate activities by a bank holding company affiliate. All of these interstate activities go on in Kansas all the time.

*Chain banking, in which Kansas is heavily involved, can take place across state boundaries.

This list could be expanded further, but the point is clear: Kansas banks already operate in an interstate environment, like it or not. This trend will only continue. You cannot ignore economic interdependence, natural market forces and modern technology.

Other Public Policy Considerations

*Level and Quality of Banking Services to Local Communities. Most economists agree that interstate banking increases the range of banking services available to the public. Competition is the key. Research indicates that availability of credit to farmers, businesses and consumers tends to increase, since larger banks have higher lending limits and loan-to-deposit ratios. The evidence indicates that market entry by acquisition generally leads to a broadening of portfolio policies, an increase in the variety of products offered, and downward pressure on prices for those products, along free market lines. Interstate banking also increases competitive linkages and thus enhances competition in general. It seems clear that the Kansas consumer will benefit from interstate banking.

*__Capital Outflow and Inflow__. One of the arguments always trotted out in opposition to interstate banking is that deposits will be drained from the state and used for lending elsewhere. There is no evidence to support the contention that interstate banking tends to syphon funds from rural markets into national or regional money centers. Community banks already "export" deposits when they invest in U.S. securities or put themselves in a net Fed Funds Sold position. If the loan demand is there, it will be met by the bank, whether it is owned by a Kansas bank holding company or one headquartered in another state. Banks are also constrained by the Community Reinvestment Act into assuring a flow of credit into the local community. As things stand now, banks in a metropolitan area which straddles two states are not allowed to serve their natural "community." For example, a bank in Johnson County cannot have a formal presence in Kansas City, Missouri, and is therefore cut off artificially from its natural market and "community."

The argument that local deposits will be collected by outsiders and used to make loans elsewhere has also been made with respect to multibank holding companies in Kansas. After four years' experience with multibank holding companies, it seems clear that any fears were unfounded. The argument is also made in connection with state-wide branching, but I do not hear a great hue and cry from Kansas bankers that unlimited branching will have any significant impact on deposit flows.

Evidence in other states that have had interstate banking for some time indicates that neither unlimited branching, nor multibank holding companies, nor interstate banking lead to deposit drains in local communities; local credit is not only maintained, but often increased. Entering banks have dual interests--deposit gathering and loan generation; these are highly interdependent in a given market.

In fact, taking down the Chinese walls should cause capital to flow <u>into</u> Kansas. Capital flows will become more efficient. Regional players have access to broader capital markets through issuance of commercial paper and other techniques. Experience in other states has shown that interstate banking can make more loans available for local businesses, with higher lending limits.

*<u>Viability of Community Banks</u>. Another argument against interstate banking is that it poses a threat to smaller community banks. There is no evidence at all to support this assertion. In fact, the evidence suggests that smaller banks are not hurt by interstate banking because they have no significant scale size disadvantages. when a state drops its Chinese walls, community

banks comfortably maintain their market nitch. In California and New York, both of which have allowed unlimited branching for years, community banks continue to have an unchallenged market nitch, with a stream of new applications. Small banks tend to outperform larger banks in terms of return on assets and equity, and there is no indication that this performance will be dampened by interstate banking.

In today's financial services market, there is room for a great variety of players--money center giants, regional banks, mid-sized banks, and community banks. If Kansas adopts interstate banking in 1990, it is very unlikely that many acquisitions from out of state would occur in smaller communities; interstate acquisitions in other states have generally been limited to banks of at least $100 million in footings, which is by definition beyond the size of Kansas community banks. In fact, for the typical community bank, interstate banking will be a "nonevent," just like multibank holding companies and state-wide branching. Most activity will probably occur in places like Johnson County. With or without interstate banking, Kansas will continue to have a large number of strong community banks, although we can expect some continuing consolidation.

*<u>Safety and Soundness</u>. One of the factors that has led to bank failures in the last decade is geographic insularity. Banks too heavily dependent on the oil patch or agricultural lending can be hurt badly when that segment of the economy goes

into the dumps. One of the beauties of interstate banking is the way it increases loan and investment diversification. It also serves as a mechanism for injecting capital into weak banks suffering under a bad economy. Asset diversification can also be achieved by loan participations, but the sad experiences of Continental Illinois and SeaFirst show that banks can be crushed by relying on participations when they do not have adequate knowledge about the lead bank originating the loans. Interstate banking lessens the dependency on participations and thereby increases safety and soundness. Of course, the Fed will carefully scrutinize any interstate acquisition in terms of safety and soundness.

*Market Concentration. Out-of-state bank holding companies are not going to come into Kansas and divide the market into a few huge slices. In the first place, as discussed above, experience in other states shows that the market for interstate acquisitions is limited to the larger banks. In Missouri, which has had interstate banking for some years, there have been no acquisitions by out-of-state holding companies. Second, the regulators have the duty to stop undue market concentration through the antitrust laws. Third, the Kansas legislature can continue to limit the market share of any bank in Kansas; that limit is now 9% of deposits and S.B. 532 would raise that only to 15%. A bigger problem of market concentration is the insulation of local markets from competition right now. Interstate banking may increase this competition somewhat, but that's good. Most markets will probably be unaffected.

*<u>Competitive Equality: Toward an Even Playing Field</u>. Commercial banking is just about the only business that is subject to geographic Chinese walls. Credit unions are not. Savings and loans are not. Finance companies are not. Mortgage bankers are not. Insurance companies are not. Securities firms are not. Manufacturing firms are not. In order to be put on an even playing field with other competitors in the financial services industry, commercial banks need to be able to operate according to their natural marketplaces. The worst scenario is that of growing dominance of a few Kansas thrifts acquired by large out-of-state bank holding companies, under new authority granted by FIREAA. Why shouldn't Kansas commercial banks have the same opportunities to acquire and be acquired interstate as Kansas savings and loan associations or credit unions? Just as the Kansas legislature corrects the competitive inequality between national and state banks regarding unlimited branching, so should it correct the inequality between commercial banks and the rest of the financial services industry.

*<u>The Free Market</u>. Most Kansas bankers believe in a free market. This is the public policy behind the Commerce Clause of the United States Constitution. It is now our national policy for world trade. Those Kansas bankers who were hurt badly when their farm customers were unable to sell grain abroad as a result of the

1979 embargo should think twice about continuing an embargo against interstate banking. Kansas has a strong interest in tying itself more closely with banking organizations that are regional and national in scope. Only in this way will Kansas products and commodities get maximum penetration in global markets. Interstate banking will allow "importation" of additional banking and technical expertise.

Interstate banking will also eliminate artificial barriers in smaller natural markets. Perhaps the best example is the Kansas City area, which now contains a Chinese wall along State Line Avenue, prohibiting area banks from tapping their natural markets on either side of the state line. There is no doubt that enactment of interstate banking will lead to some acquisition activity in this market, as well it should.

I remember vividly the testimony I gave to the Kansas legislature in the early 1980's regarding the need to remove artificial rate ceilings from our usury laws. These ceilings were distorting lending and denying market realities. The Kansas legislature finally saw the light and liberalized all our usury laws in the name of free market decisions. This has had a very positive effect in the state ever since. I think there is a close parallel between imposition of numerical limits on rate ceilings and imposition of geographic limits on commercial banking activity. Both distort the free market and are ultimately self-defeating. Both may have made sense when they were originally enacted, but they have since outlived their usefulness. Kansas thrives with free markets.

<u>Evaluation of S.B. 532</u>. Many of the elements of interstate banking are already in place. There are strong public policy arguments in favor of it. The precursors of interstate banking--multibank holding companies and unlimited branching--have proven to be nonevents. So it is time to pass an interstate banking bill that all Kansas bankers can live with. S.B. 532 is a good compromise bill, though I think it is extremely conservative.

S.B. 352 provides regional reciprocity with states contiguous to Kansas, plus Iowa and Arkansas; this is a big step forward, though many states have larger regions or have moved to total interstate reciprocity. S.B. 532 prohibits out-of-state bank holding companies from establishing a new bank in Kansas or purchasing any Kansas bank that has been in operation for less than five years; this limit on <u>de novo</u> acquisitions is protective of existing Kansas banks, though many other states do not impose it. S.B. 532 prohibits any bank holding company from controlling more than 12% of total Kansas deposits of all banks and thrifts (up from the present 9%); this puts a very strict limit on bank concentration that could result from any interstate acquisitions. By comparison, the recent Iowa bill uses a 35% deposit cap for any one holding company. Finally, the effective date of S.B. 532 is put off until July 1, 1992, nearly two years in the future; by comparison, the Iowa bill becomes effective next year. All of these key elements of the bill make it quite conservative, something that even many opponents of interstate banking should be able to live with. If I were drafting a bill as Philosopher King, I would make it much more liberal, but S.B. 532 seems to be sensitive to political realities.

Conclusion: The Three Elements of Structural Reform

Reform of our banking structure these days is comprised of three elements: (1) authorization of multibank holding companies; (2) unlimited branching; and (3) interstate banking. The first two elements are already in place in Kansas. We have had multibank holding companies since 1985, and they have worked well, despite what the nay-sayers preached at the time of enactment. We have had unlimited branching for national banks in Kansas since last year, when federal judicial developments under the McFadden Act overrode state anti-branching laws. This session, the legislature is appropriately giving state-chartered banks competitive equality by allowing them to branch without limit. This is the second major structural change, one that has been needed for a long time. The third element is a modern interstate banking law. S.B. 532 will put this final element into place, like adding the third leg to the stool.

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