

Approved 2/20/90 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 WEDNESDAY, FEBRUARY 14, 1990 in room 123-S of the Capitol.

~~All~~ members ~~were~~ present ~~except~~:

Senators Karr, Kerr, McClure, Moran, Parrish, Reilly, Salisbury, Strick and Yost.

Committee staff present:

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

Conferees appearing before the committee:

Ivan Wyatt, Farmers Union (in absentia)
Sam Forrer, Ulysses, KS
Pete McGill, Kansas Independent Bankers
Michael D. Fahrbach, Kansas Independent Bankers
Howard Tice, Association of Wheat Growers

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

SB 532 - Interstate banking.

Chairman Bond first informed the committee that Ivan Wyatt, President, Kansas Farmers Union, was unable to be present but that his written testimony was before them. (Attachment 1)

The testimony of opponents to SB 532 began with Sam Forrer, Ulysses, appearing before the committee. Mr. Forrer explained that, while his occupation was banking, he appeared before the committee today as an individual concerned about the adverse impact he feels passage of this legislation will have on most Kansans. Mr. Forrer continued by saying that he thought this bill primarily promoted one thing--the ownership of Kansas banks and Kansas money by out-of-state banking corporations. (Attachment 2)

Pete McGill, representing the Kansas Independent Bankers, addressed the committee in opposition to this measure. According to Mr. McGill, in a survey of all Kansas banks, conducted by the Kansas Bankers Association, only a bare majority favored interstate banking. He also reminded the committee that the average constituent was not asking for this legislation. He further advised the committee that his organization did not support this measure because they felt that it would not increase capital availability but would result in a net exodus of Kansas deposits, therefore, would not be in the public interest. (Attachment 3)

Michael D. Fahrbach, President, Kansas Independent Bankers, appeared before the committee in opposition to this bill. Mr. Fahrbach enumerated a number of misconceptions regarding interstate banking and concluded his testimony by expressing his fear that Kansas would suffer the drainage of control of their capital through out-of-state acquisitions as other states have witnessed. (Attachment 4)

Howard Tice, Kansas Association of Wheat Growers, was the last conferee to appear before the committee in opposition to SB 532. Mr. Tice reminded the committee that banking laws were enacted to protect depositors and his organization believe this proposed legislation would be just another way for the large banks to become even bigger and more powerful. He also expressed fear that Kansas deposits would be controlled by out-of-state interests and concluded by urging the committee to protect the interests of the state's number one industry, agriculture, by voting against this bill. (Attachment 5)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,

room 123-S, Statehouse, at 9:00 a.m./~~pm~~ on WEDNESDAY, FEBRUARY 14, 1990.

Discussion followed with one committee member concerned whether any polling of individuals had taken place with regard to their thoughts on this issue. Representatives for Kansas Bankers Association and Kansas Independent Bankers replied that their organizations had taken no such poll among individuals. The question was asked by a committee member regarding what passage of this bill would do to enhance opportunities for depositors. Mr. Fahrback, Kansas Independent Bankers, replied that their banks were providing acceptable services to their depositors and were also quite comfortable with the restraints placed on the small bank. Mr. Forrer told the committee that people's choices of banking services should not be limited--that one of a bank's objectives is to allocate their resources to the people who put their money with the bank.

There being no further questions from the committee, the hearing on SB 532 was pronounced closed by the Chairman.

The minutes of Monday, February 12, 1990, were approved as written on a motion by Senator Reilly with Senator Salisbury seconding the motion. Motion carried.

After requesting Staff to prepare technical amendments to SB 532, the Chairman adjourned the meeting at 10:05 a.m.

GUEST LIST

COMMITTEE: FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE DATE: Wed. Feb. 13

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Eleanor Kerr	Coats, KS	
Howard W. Tice	Hutchinson, Ks.	Ks. Assn. of Wheat Growers
LINDA MCGILL	TOPEKA	KIBA
MIKE FAHRBACH	HAVEN	KIBA
Tom Holman	Leon	State BK of Leon
Marty Holman	✓	✓
JERRY LONERGAN	TOPEKA	Ks. Inc
Kathleen Snyder	Wichita	Fourth Fin'l Corp.
Chack Stones	Topeka	KBA
Becky Tompish	Topeka	KBA
Kathy Taylor	"	"
Bob ASMUND	Wichita	Fourth Fin'l
John Waters	Tyrh	Fourth Fin'l
Cardise Leonard	Topeka	Kansas Bankers
Tom McCan	Ireland	Tourist
Neil Reilly	"	"
JEFF SONNICH	TOPEKA	KNCSI
Jim Turner	TOPEKA	KNCSI
Harold Honer	Topeka	KBA
Ann Miller	"	"
Ken Baber	Topeka	Fourth Financial Corp.
M. Hawer	"	Capital-Journal
SAM FORRER	ULYSSES	GRANT COUNTY STATE BANK

STATEMENT

OF

IVAN W. WYATT, PRESIDENT, KANSAS FARMERS UNION

BEFORE

THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

ON

SENATE BILL NO. 532

(INTERSTATE BANKING)

FEBRUARY 14, 1990

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

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

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

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

*Attachment 1
FI + I
2/14/90*

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

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

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

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

I FIND IT EVEN MORE DIFFICULT TO UNDERSTAND THAT AN ORGANIZATION, FUNDED IN A MAJOR PART BY KANSAS TAXPAYERS' DOLLARS, ADVOCATES MOVING TOWARDS A BANKING SYSTEM, THAT ALLOWS CORRUPTIBLE OR NEAR CORRUPTIBLE PRACTICES CARRIED OUT IN OTHER STATES, TO PRACTICE IN KANSAS. THAT WOULD ALLOW KANSAS BANKING SERVICES TO BE CONTROLLED BY OUT-OF-STATE CORPORATIONS. HOWEVER, IT DOESN'T STOP THERE. CALIFORNIA FOR INSTANCE, ONE OF THE EARLY STATES TO MOVE TOWARDS A MEGA-BANKING SYSTEM, NOW FINDS OVER 25% OF ITS FINANCIAL INSTITUTIONS OWNED BY THE JAPANESE OR OTHER FOREIGN INVESTORS. IF SB-532 BECOMES LAW, HOW SOON CAN WE EXPECT JAPANESE OWNED BANKS OPERATED IN KANSAS, CARRYING THE PROFITS OUT OF THE STATE AND THIS NATION.

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

MEMBERS OF THIS COMMITTEE, THERE ARE THOSE WHO WILL TELL YOU KANSAS BANKING LAWS ARE OUT-DATED, OUT-MODED, EVEN OLD FASHION AND NEED TO BE LIBERALIZED. BUT THOSE REGULATIONS HAVE PROTECTED KANSANS FROM THE EFFECT OF THE FIRE STORMS OF FINANCIAL HIGH-ROLLER MIS-MANAGEMENT THAT RAVAGED TOO MANY OF THIS NATION'S SO-CALLED MEGA OR SUPER BANKS AND FINANCIAL INSTITUTIONS.

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

I AM AMAZED TO HEAR KANSAS BANKERS CRITICIZED FOR MAKING CAREFUL LOANS WHERE AS THEY CLAIM BIGGER BANKS CAN MAKE LESS CAREFUL LOANS.

LESS CAREFUL BIG LOANS CAN BE VERY DANGEROUS. JUST LOOK AT SOME OF THOSE BANKS IN ILLINOIS, OKLAHOMA, TEXAS, CALIFORNIA. THOSE BANKS PROBABLY WERE CONSIDERED BIG AND EFFICIENT. IT WAS JUST ONE YEAR AGO THIS MONTH WE WERE SEEING IN THE NEWS TEXAN'S SUFFERING ANOTHER ROUND OF MAJOR BANK FAILURES.

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

THANK YOU

TESTIMONY BEFORE THE
SENATE COMMITTEE ON
FINANCIAL INSTITUTIONS AND INSURANCE
RE: SB532--INTERSTATE BANK HOLDING ACT
BY: SAM FORRER
FEBRUARY 14, 1990

Chairperson Bond, Vice Chairperson Salisbury, and members of the Committee, thank you for permitting me to express my opposition to SB532. My name is Sam Forrer. I live in Ulysses, Kansas. My occupation is banking. The bank for which I work is a member of the Kansas Bankers Association and the Kansas Independent Bankers Association. However, I appear today as an individual, expressing only my own thoughts. I believe my thoughts are held by most Kansans, most of whom know little about this Bill and the adverse impact it holds for them. This Bill is not in the best interests of Kansans or Kansas banks, as its main tenet is to increase the power base of a few.

There is only one issue involved in SB532, and it has nothing to do with interstate banking. Interstate banking as an activity has existed in every Kansas community and has been available to every Kansas citizen for decades. This Bill primarily promotes one thing--the ownership of banks by out-of-state banking corporations. How many of your constituents, who have no connection to banking except as customers, have asked you to legalize that type of ownership? I suspect very few. Yet, it is they who would lose because the real issue is control and where it will reside. This Bill, if passed, will diminish the ability of every bank customer to have an impact on how his/her money is used by the banker; i.e. the consumer control would diminish.

Attachment 2
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The term "leveraged-buyout" is well-known, but is not usually associated with bank ownership. However, this Bill raises leveraged buyouts (or sellouts) to a new level. It constitutes the virtual sell-out a whole state. That's the reason bank structure laws exist--to retain some degree of control in the hands of the depositors. That is important because over 90% of the size of any bank belongs to the depositor, not the bank owner. Being human, bankers managing huge sums often become consumed with size itself. And if the bank structure law doesn't have adequate checks and balances, achieving size becomes the consuming issue and accountability to the depositor is sacrificed in the process. This Bill would dilute those checks and balances. It is the child of those who have huge appetites for size and the power that goes with it.

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

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

Are they hurting for profits? Apparently not--the January 20 Wichita Eagle read, "Fourth Financial Booming". An adjacent article with a Boston dateline

read, "Bank Predicts \$1.05 Billion Loss", referring to The Bank of New England Corp, New England's second-largest bank holding company. It, like many of the nation's largest banking organizations, is severely undercapitalized and struggling to stay afloat. Size merely imposes the mistakes of a few on many.

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

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

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

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

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

Here's another reason to oppose this Bill--it is, at best, misleading. Do you really believe it would limit the ownership of Kansas banks to corporations located in the six states named? I don't. If you do, I believe you'll be surprised. Once sold to out-of-state owners, our laws would have no more jurisdiction. Leap-frogging puts our little banks, and there's not a big bank in Kansas, at the mercy of the megabank weaklings.

You have never gotten the full story, and you are not getting it now. Remember just 3-4 years ago when these same proponents said a 9% control level of Kansans' deposits was enough for one banking organization? Their appetite for

size is insatiable...so now they want a modest 33% increase to 12%. What the proponents want is size--it's an ego thing. And they believe they can get this much now, but make no mistake about it! They'll be back until there are no limitations on who and how much any organization can control, in-state or out-of-state.

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

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

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

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

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

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

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

TESTIMONY
BEFORE THE
SENATE COMMITTEE
ON
SB 532
BEFORE THE
FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
BY
PETE MCGILL
OF
PETE MCGILL & ASSOCIATES
ON
FEBRUARY 14, 1990

*Attachment 3
77 + 7
2/14/90*

Mr. Chairman and Members of the Committee:

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

I have with me here today Mike Fahrback, President of the Kansas Independent Bankers Association who you will hear from in a few moments--and also Tom Holman of the Leon State Bank in Leon. Tom is Chairman of the KIBA Legislative Committee. Many of you have met Tom, and he is here to assist in responding to any questions you may have.

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

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

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

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

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

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

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

I have no idea how many banks chose to do this because it obviously takes time and effort and increases the cost of mailing, but I do know one Senate secretary said to me several days ago that her boss, who is one of your Senate colleagues, had received between four and five hundred pieces of correspondence in opposition to interstate banking.

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

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

Some of you were here when you heard the same arguments about the Savings and Loan industry and legislatures all across America bought into those arguments and the rest of that story is history. Now it has been suggested we should compound those problems by placing in jeopardy the soundness of the Kansas banking system by providing interstate banking legislation to facilitate the acquisition of troubled savings and loans.

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

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

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

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

Yes, I have made references to New York, California and banks from distances removed from Kansas borders when the bill before you allegedly only pertains to regional interstate banking. Next year or the year after it would be interstate banking from coast to coast.

Many of you will recall comments made when the multibank holding company issue was before you just a short time ago. Some of the very same people now supporting interstate banking told you of their strong oppositions to interstate banking if you would only approve multibank holding companies.

You heard the argument yesterday that interstate banking would increase competition thereby assuring more and better services to all bank customers. Some of you will recall the sad plight of Citicorp a few years ago when they instituted a new policy for their smaller customers. Citicorp said you had to have \$5000 on deposit, I believe that figure is correct, before you could even see a bank teller, and you had to have a certain card and proper identification even to do that. The smaller customer, those of more modest means, had to use an electronic device to do their banking. "Good morning, Ms. Machine, I'd like to deposit \$2,000 in my savings account." Of course a large majority of their customers rebelled and they were forced to abandon that idea really quickly. Make no mistake about it, the larger the banking institutions, the less the personalized service. Since over 95% of Kansas' business is considered small, where would this type of banking philosophy leave those small businesses?

Where would it leave agriculture, our largest business?

We know you have heard the proponents say Kansas is not progressive and we need to charge into the 21st century. That argument is a little stale when we have one of the lowest unemployment rates in the nation, one of the highest literacy rates in the nation, above average in the average per capita income and a standard of living that is the envy of most other states. Yet the proponents of interstate banking contend they have a solution to make it even better.

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

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

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

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

Thank you Mr. Chairman.

TESTIMONY
BEFORE THE
SENATE COMMITTEE
ON
SB 532
BEFORE THE
FINANCIAL INSTIUTUIONS AND INSURANCE COMMITTEE
BY
MICHAEL D. FAHRBACH
PRESIDENT
KANSAS INDEPENDENT BANKERS ASSOCIATION
ON
FEBRUARY 14, 1990

*Attachment 4
FI + I
2/14/90*

Mr. Chairman and Members of the Committee:

My name is Mike Fahrback, President of the Haven State Bank in Haven, and currently serving as President of the Kansas Independent Bankers Association.

The Industry I am proud to be a part of in Kansas is known and recognized nation-wide for its respectable credit quality, healthy capital bases, and modest stock valuations. These qualities come from sound, conservatively paced growth over many decades. You have a proposal before you, SB 532, that could subject this well nurtured industry to out-of-state ownership with out-of-state concerns.

There are many facts about interstate banking that cause me, as a Kansan and a banker, to be concerned - if not alarmed. They are facts born of statistics and conditions within our own state, and born of experiences of other states who have opened the interstate ownership gate. I want to share some of these facts with you, but first would like to review some misconceptions that I feel have hampered a true understanding of how many of the Kansas banks stand on this issue.

MISCONCEPTION #1: *"Small banks fear being overwhelmed or 'gobbled up' by larger, out-of-state banks."*

I have never met the banker who lived in fear of this myth, and yet I constantly read it in article after article dealing with interstate banking. In all my conversations with other community bankers, the common denominator is that we do not understand why anyone would think we fear those that

have no concern of us in the first place. From observing other states, it's clear that the major metropolitan cities are the prime targets for takeovers....both hostile and friendly. Our fears are plainly and simply of what can happen - and what has happened in other states - when laws are passed that make it possible for banking entities located who-knows-where to purchase control of the deposits held in Kansas financial institutions.

MISCONCEPTION #2: *"Multibanking has not produced the detrimental effects many bankers proclaimed that it would."*

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

MISCONCEPTION #3: *"A state with laws that permit interstate banking is a state that is progressive."*

I would perhaps make that statement if I were a large banking organization on the hunt for new assets. I would perhaps make that statement if I were positioning my bank to be purchased by an out-of-state entity, or if my bank were located near the Kansas-Missouri border where banks on both sides are drooling over greener grass. But as Kansans with

reasonable concerns about opening up the possibility of handing the assets of this state over to outside control on a silver platter, I do not find interstate banking progressive. As Kansans in any profession or industry we must understand that this kind of law helps "progress" only to the wants of the few who can sell at the cost of the many who would now look to strangers for credit decisions.

MISCONCEPTION #4: *"Kansas banking laws have hampered Kansas banks from becoming active players in national banking opportunities."*

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

If you let the barriers down tomorrow, there's no guarantee that even our largest banking system in Kansas will be ready in two, ten, or twenty years to withstand being purchased by New York, North Carolina, or Japan.

MISCONCEPTION #5: *"Interstate banking will be good for the economic development of Kansas."*

This myth is founded on the assumption that, should interstate banking legislation pass, Kansas banks will purchase banks outside of Kansas and increase the capital available to Kansans. I see several problems with that assumption, the first of which directs me to some facts from the experiences of other states.

Florida's laws were changed to allow for interstate banking, and here is a quote from the October 1989 issue of "Florida Trend" magazine, "Florida lost 12 of its 15 biggest bank companies to outside buyers in the 1980's. Today only three remain independent of out-of-state control." Now folks, when 80% of the state's biggest banks are subject to the whims of those that come to Florida only for vacation, I would have some sizeable concerns about what that could do for their economic development. How can we legislate out-of-state bankers to assure economic development for our state?

Let's look at another. In Arizona, three banks control 85% of the state's banking business. Two of those three major banks are owned and controlled by out-of-state corporations.

In 1975, Maine had 45 banks, all owned within the state borders. In 1982, Interstate banking was activated and in 1988 only 12 of the 45 banks in the state have local ownership. Approximately 90% of all commercial deposits are now owned and controlled by out-of-state interests.

Is this good for the Kansas economy? Is this progressive? Do we want Kansas to fall prey to the possibility of this nightmare? My concerns for the loss of control over Kansas capital are very real. Too many examples of other states having to witness the drainage of control of their capital through out-of-state acquisitions exist in the record books. Kansas, with its sound banking industry and cleanly run institutions, is a ripe and delicious looking apple to outside entities looking for new sources of capital. Already, the purchase of just our largest Kansas holding company could subject one out of ten Kansas deposit dollars to outside control.

Ladies and gentlemen, I urge you to vote "no" on Senate Bill 532.



Kansas Association Of Wheat Growers

"ONE STRONG VOICE FOR WHEAT"

TESTIMONY

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Chairman: Senator Richard Bond

SB-532

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

The members of the Kansas Association of Wheat Growers opposed multi-bank holding companies and unlimited branch banking because of the negative effect they tend to have on agricultural credit. Our members oppose interstate ownership of Kansas banks for the same reason. We want to see loan decisions made by people who know the local economy, who are familiar with the needs of the local community, who have an emotional as well as a financial commitment to the local community, and who know the local people as well.

While most of our members would prefer not to depend so heavily on borrowed money, the cost of land, equipment and other production inputs makes the use of credit a necessity. Once the debt is incurred, it becomes an even more vicious circle since the cost of servicing that debt simply adds to the problem. However, since the loans are necessary for most farmers, keeping local options open is extremely important. It must also be noted that the money which provides the loan funds, comes from local deposits. In short, it belongs to local residents, not to the bank.

One of the proponents of this bill stated that agriculture would not suffer from interstate banking. He said that if the need is there, Kansas banks would service that need. Contrary to his assertion, we cannot just put a period to his statement and end the discussion there. Maybe he hasn't had a negative impact in his local area as yet, but other areas certainly have. I made two phone calls yesterday, to banks that were acquired under the state's multi-bank holding company laws. At one of those banks, in a community which is heavily dependent on agriculture, farm loans have been greatly scaled back from the 70's and early 80's. The other bank had no farm loan officer, and participates in farm loans only through correspondent banks.

In previous testimony to this committee, I have mentioned the higher costs incurred by bank customers when Kansas' largest banking enterprise took over one of the banks in the community in which I was living. I have also given this committee examples of the inefficiency and lower quality service that resulted from that union. Proponents of measures to allow big banks to get even bigger told us that would bring greater efficiency. However, in my experience, the reverse is true.

*Attachment 5
T I & T
2/14/90*

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

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

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

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

This year, we also heard **Kansas** banking laws compared to the **Berlin Wall**. I believe that the conferee's original comparison to the **Great Wall of China**, as pointed out by **Senator Kerr**, was much more accurate. The **Berlin Wall** was erected to imprison an oppressed people. It's destruction was long overdue. The **Great Wall of China**, on the other hand, was built to protect that country against invasion. We believe the banking laws of **Kansas** were enacted to protect **Kansas** depositors.

Unfortunately, as was also mentioned, you've not been given factual evidence by this bill's proponents. You've heard mostly opinion. We all have a right to our opinions, but even college professor's opinions can be wrong. As another example, I cannot agree that the issue of multi-bank holding companies is a non-event. It is our best indicator of what will happen to agriculture when the control over loan decisions is removed still further from the local community.

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

Banking laws are enacted to protect depositors. You have to decide if interstate banking is good for **Kansas**, or just another way for big banks to become even bigger and more powerful, and for **Kansas** deposits to be controlled by bankers from other states.

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

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