Approved Del Gross 2-7-91
Date

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS.

The meeting was called to order by DELBERT L. GROSS, Chairperson at 3:30 ~~a.m.~~/p.m. on January 29, 1991 in room 527-S of the Capitol.

All members were present except: Representatives Sam Roper and George Teagarden, Excused

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

Conferees appearing before the committee: James S. Maag, Senior Vice President, Kansas Bankers Association
Barkley Clark, Partner, Shook, Hardy & Bacon
Murray Lull, President, The Smith County State Bank & Trust Company
Tom Riederer, Kansas Industrial Developers Association
Samuel P. Baird, President, Farmers State Bank & Trust Company, Superior, Nebraska
Gary Sherrer, Senior Vice President, Fourth Financial Corporation
Boone Porter, Greater Kansas City Chamber of Commerce, Kansas City
Charles R. Warren, President, Kansas Inc.
Ed Bruske, President, Kansas Chamber of Commerce

Bill Wolff, Legislative Research Department, gave a briefing on interstate banking. HB 2059 amends several sections of the banking code and would allow the acquisition of Kansas banks or holding companies by out-of-state bank holding companies if reciprocity exists with the state where the acquiring holding company is located. This legislation would become effective July 1, 1992.

The only states not having interstate banking are Montana, North Dakota, Hawaii, and Kansas. Any other state allows interstate banking which is why it is being proposed for Kansas. (See Attachment #1)

Jim Maag, Senior Vice President, Kansas Bankers Association, was the first conferee, stating the Kansas Bankers Association supports HB 2059.

During the past decade the Kansas Legislature has enacted several major bank structure laws which have significantly improved the state banking system to the benefit of the citizens of Kansas. Due to these positive changes, Kansas has stronger banks, more banking facilities in towns which did not previously have banks and more services available at bank branches which make banking more convenient for customers.

On November 28, 1990, the Governing Council of the Kansas Bankers Association voted once again to support legislation which would allow the interstate acquisitions of banks by bank holding companies. This marks the second consecutive year the Governing Council has endorsed such legislation. This decision was arrived at after years of discussion and analysis by Kansas bankers.

The KBA believes it will be necessary for our industry to have maximum flexibility if we are going to adequately serve our customers.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS,

room 527-S, Statehouse, at 3:30 XXn./p.m. on January 29, 1991

Interstate banking is not an unknown quantity. It is present in all of our neighboring states and 43 other states.

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 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. Why should it be that 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 suppress competition and which have no rational reason for existing? (See Attachment #2)

Barkley Clark, Shook, Hardy & Bacon, Kansas City and Overland Park, was the next conferee, testifying that Kansas stands as one of only three states without any interstate banking legislation.

Mr. Clark stated that interstate banking is already here. Opponents of interstate banking should recognize that, in many respects, it is already here. Nearly all 50 states have enacted some form of interstate banking legislation, either regional or unlimited.

Under the new FIREAA legislation, out-of-state bank holding companies can acquire healthy thrifts in Kansas, irrespective of state law.

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

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. Interstate banking would cause capital to flow into Kansas. Capital flows will become more efficient. Interstate banking is a way to increase loan and investment diversification. It 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 shows that banks can be crushed by relying on participations when they do not have adequate knowledge about the lead bank in originating the loans. Interstate banking lessens the dependency on participations and thereby increases safety and soundness.

In 1985, Kansas legislature enacted multibank holding company legislation amid cries of doom and gloom by the opponents. In 1990, the legislature enacted unlimited branching legislation, in the wake of federal mandates. This legislation would complete the third leg, i.e., interstate banking. (See Attachment #3)

Ed Bruske, President, Kansas Chamber of Commerce and Industry, was the next conferee stating the members feel that interstate banking would be an asset to developing more job opportunities in the state of Kansas.

As an organization which represents over 3,000 businesses of all types and sizes we have a hard time understanding the reluctance to adopt an interstate banking system.

The members continue to support interstate banking for Kansas. (See Attachment #4).

The next conferee was Murry Lull, President, The Smith County State Bank & Trust Company, Smith Center, Kansas, which is on the border of Nebraska.

The unfairness of the current Kansas prohibition of interstate banking is best illustrated by comparison with other financial service providers that have no such restriction. First Federal Lincoln advertises for my customers' deposits in our local newspaper. 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.

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

Just as there have been many excellent combinations of banks as a result of your allowing branch banking in Kansas, there will be some very beneficial combinations of banking as a result of interstate banking. The winners will Kansans who need and deserve every opportunity for financial services. (See Attachment #5)

The next conferee was Tom Riederer, Kansas Industrial Developers Association (KIDA) which is made up of over 100 economic development professionals serving Kansas.

KIDA believes access to capital at competitive rates is an essential element in the attraction of new firms to Kansas. Kansas economic developers compete on a daily basis with other states and need the same tools which are available in other states and KIDA supports interstate banking. (See Atch #6)

The next conferee was Samuel P. Baird, President, Farmers State Bank & Trust Company, Superior, Nebraska, two miles from the Nebraska/Kansas border.

If HB 2509 were passed, the holding company that owns the bank in Superior would be permitted to acquire the bank in Kansas. That would be of benefit because the earnings from the Nebraska bank would be available to retire the debt that was incurred in purchasing the Kansas bank. The present situation creates a barrier that is unfair to banks in Kansas border counties. The passage of HB 2509 will result in rural banks that are better managed and that provide more complete banking service to their customers. (See Atch #7)

The next conferee was Gary Sherrer, Senior Vice President, Fourth Financial Corporation, stating Fourth Financial Corporation is a bank holding company with assets of $4.3 billion. It is the owner of 13 Bank IV's in Kansas serving 27 cities with 66 offices. Fourth National serves the communities in civic, charitable, and cultural activities.

Multibank holding company legislation has given increased services to our customers, we are able to provide stronger banking and attract business back into Kansas. We provide strength and diversity to the banking system. After purchasing a failed savings and loan in Hays, the people there have a strong full service bank.

Before multibank legislation, it was talked about that Bank IV would not care about agriculture or the western part of our state. This has proven false.

Competition is good and keeping banks out of Kansas and keeping Kansas banks from the opportunity to go to other states is no longer necessary and is certainly counter productive. Geographic restrictions on bank expansion need to be revisited. These restrictions have contributed to an overly regulated and inefficient system for our banks, as well as to greater risk in the banking system due to the lack of diversification, was summarized in the testimony given by ,L. William Seidman, Chairman of the Federal Deposit Insurance Corporation (FDIC). (See Attachment #8)

The next conferee was Boone Porter, representing the Greater Kansas City Chamber of Commerce, stating the Chamber which is made up of over 3,000 businesses and the Chamber Board has endorsed interstate banking in Kansas. This is an economic development issue. Interstate banking will lead to more competition and will give Kansans better access to capital.

Interstate banking already exists and Kansas banks are at a competitive disadvantage. (See Attachment #9)

Testimony was passed out by Charles R. Warren, President, Kansas Inc. stating that in 1989 Kansas Inc. published a report reviewing the issues related to the availability of capital in Kansas. That report revealed significant weaknesses in the banking system of this state. The primary finding was that commercial lending as a percent of total deposits was far below the national average.

In January 1989, the Kansas Inc. Board of Directors adopted a position encouraging the Legislature "to begin the process of instituting interstate banking in Kansas."

Interstate banking, in some form exists in 49 states and Kansas Inc. encourages interstate banking for Kansas. (See Attachment #10)

After discussion the committee adjourned at 5:00 P.M.

Date: January 29, 1991

GUEST REGISTER

NAME	ORGANIZATION	ADDRESS
Chuck Stones	KBA	Topeka
MURRAY LULL	SMITH COUNTY STATE BANK + TRUST	SMITH CENTER
Sam Baird	FARMERS State Bank	Superior NE
GARY SHERRER	Fourth Financial Corp	WICHITA
BOB HANNIBAL	KS-NE LEAGUE OF SAVINGS/ASSN	TOPEKA
Kathy Taylor	Kans Bankers Assn	"
[illegible] Sleppy	Community Bankers Assoc	Topeka
Sue Anderson	Comm. Bankers Assn	Topeka
Gloria J O'Dell	State Treasurer's Office	Topeka
Linda McGill	CBA	Topeka
BRAD SMOOT	BANK IV	"
Ed Bruske	KCCI	TOPEKA
Mike Culbertson	Kansas Credit Union League	Wichita
JERRY LONERGAN	Ks Inc	Topeka
Roger Darrington	Telephone Employees Credit Union	Wichita

Date: January 29, 1991

GUEST REGISTER

NAME	ORGANIZATION	ADDRESS
Tom Ribnorcor	Kansas Industrial Developers Assn.	11900 W 87th St Pkwy Lenexa, KS 66215
Tim Sipes	Bank IV Topeka	Topeka
Boone Porter	Greater KC Chamber of Comm	9401 Indian Creek Pkwy O.P., KS 66210
Ken Balw	Fifth Financial Corp	Topeka
Ken Alexander	Bank IV Topeka	PO Box 88 Topeka
Roger Traude	Bank IV Topeka	" " "

House Bill 2059
Interstate Banking

Written Statement of

Charles R. Warren
President, Kansas Inc.

House Committee on Commercial & Financial Institutions
January 29, 1991

1/29/91
CFI
Atch 10

Mister Chairman, members of the Committee, thank you for this opportunity to submit written testimony on behalf of the Board of Directors of Kansas Inc. in support of House Bill 2059 to establish interstate banking in Kansas.

In 1989, Kansas Inc. published a report reviewing the issues related to the availability of capital in Kansas. That report revealed significant weaknesses in the banking system of this State. The primary finding was that commercial lending as a percent of total deposits was far below the national average.

In January 1989, the Kansas Inc. Board of Directors adopted a position encouraging the Legislature "to begin the process of instituting interstate banking in Kansas." That objective was achieved with introduction of this bill and hearings in the Senate last session. In January 1990, the Board of Directors revisited this issue and unanimously approved a motion that "urges the Legislature to go beyond review, and, for 1990, to adopt interstate banking."

It is highly appropriate that this Committee is holding hearings on House Bill 2059. Let there be no doubt, this is an economic development issue of major importance. As members of this committee, you realize that availability of financing and lending expertise is one of the most important issues to business start-ups and expansion. The Kansas Legislature has enacted several progressive laws to enhance our system of risk capital. Our venture capital program is being copied by other states. Our certified development companies rank high nationally in financial packaging and SBA lending assistance. These public sector efforts, however, can make only a marginal contribution. Business financing is predominately a private sector, banking function. Business success in Kansas depends on a strong, diversified banking system.

We do not have a banking system in Kansas capable of meeting the needs of Kansas businesses.

- o Kansas has fewer total deposits in loans than banks across the nation -- preliminary FDIC data for September 1990 indicate Kansas had 57% of its deposits in loans while nationally banks had a 78% loan-to-deposit ratio.

- o Commercial lending in Kansas is far below the national average (a commercial loan to deposit of 14 percent versus 24 percent nationally).

- o Low lending ratios are due in part to the sluggish economy, but are directly related to the small size of Kansas banks. In 1988, banks with more than $100 million in assets made over 43 percent of all commercial loans. Banks of that size represented less than 10 percent of all banks in Kansas (41 of 587).

Kansas needs stronger, more diversified banks that can withstand economic losses and be more effective as risk-takers and partners in economic development.

Kansas also needs a strong system of community banks. Our smaller banks play an important role. Interstate banking and community banking will exist side by side. We would not expect our medical profession to consist solely of general practitioners. Larger more specialized medical practices are needed to serve the full range of our health needs. Our financial health requires the services of small, community banks as well as large, sophisticated regional banks. Each has its role. House Bill 2059 recognizes the need to; ensure community investment while at the same time allowing larger financial institutions to provide their expertise and lending capability.

Interstate banking will bring several advantages to the State's business community.

- o Increased access to international and national financial markets, especially in public and private debt financing.

- o Greater expertise in export financing for international trade. Only one bank in the State of Kansas has an international finance department. Kansas exporters deal with out-of-state banks today to handle their international and export transactions.

- o Greater expertise in commercial lending for today's sophisticated, global financial markets.

Interstate banking, in some form, exists in 49 states. Interstate finance is a reality in almost every aspect of personal and commercial anti-competitive policies of the past. Their arguments against interstate banking rest on emotional, outdated notions. The predictions of doom that you will hear against this bill are unsupportable. They are the same dire forecasts raised against multi-bank holding companies and branch banking. None of those consequences have come to pass.

Before Kansas can participate fully in the global economy, it must first join as an equal participant in the United States banking system. Your support in favor of House Bill 2059 will be the most important positive action that you can take for the economic future of Kansas.

I would be pleased to answer any questions.

PROVISIONS OF HB 2059

HB 2059 amends several sections of the state banking code and would allow the acquisition of Kansas banks or bank holding companies by out-of-state bank holding companies if reciprocity exists with the state where the acquiring holding company is located. The specific provisions of each section of the bill are as follows:

Section 1 - Technical amendments which make the bill apply to all bank holding companies (both multi-bank and one-bank holding companies) and clarifies the definition of the term "bank".

Section 2 - Technical amendments to K.S.A. 9-523 relating to the structure of boards of directors of subsidiary banks of a holding company.

Section 3 - Eliminates the existing language which prohibits the purchase of a Kansas bank by an out-of-state bank holding company after July 1, 1992.

Section 4 - Subsection (a) provides that after July 1, 1992, banking holding companies with home offices in the states of Missouri, Nebraska, Colorado, Oklahoma, Iowa and Arkansas will be allowed to acquire, with the approval of the state banking board, Kansas banks and bank holding companies.

Subsection (b) specifies that the home office of a bank holding company is determined by that state where its subsidiary banks have the largest total deposits.

Subsection (c) requires out-of-state holding companies which plan to purchase a Kansas bank or bank holding company to file an application with the state banking board and pay a $5,000 application fee.

Section 5 - Requires the out-of-state bank holding company to file with the state bank commissioner: (1) a copy of any acquisition applications for a Kansas bank or bank holding company made to a federal

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agency; (2) copies of the public sections of the most recent Community Reinvestment Act (CRA) performance evaluations on all existing subsidiary banks of the holding company; (3) various statements on the present and projected condition of all subsidiary banks and the bank or banks to be acquired; (4) information on how the holding company plans to fulfill its CRA requirements in all communities where the acquired bank or banks are located.

Section 6 - Sets forth the four factors which the state banking board must consider when determining whether to approve an application for acquisition of a Kansas bank by an out-of-state bank holding company. The factors include: (1) whether present subsidiary banks of the holding company are being operated in a "safe, sound, and prudent manner"; (2) whether those subsidiary banks have fulfilled their CRA obligations; (3) whether the holding company can adequately fulfill the CRA obligations of the Kansas bank or banks they are acquiring; (4) whether the acquired Kansas bank will have adequate capital and "good earnings prospects".

Section 7 - Requires the state banking board to approve an acquisition application if the following criteria have been fulfilled: (1) Such an acquisition is authorized by law; (2) Reciprocity exists with the state in which the acquiring bank holding company is located; (3) The acquisition is in the interest of depositors and creditors of the bank or bank holding company to be acquired and in the public interest generally.

Section 8 - Requires that any application for acquisition of a Kansas bank by an out-of-state holding company must satisfy the provisions of the change of control provisions of the state banking code.

Section 9 - Authorizes the state bank commissioner to review the activities of the out-of-state bank holding company and its subsidiary banks in Kansas to determine if they are fulfilling the requirements set forth in Section 5 of the bill.

Section 10 - Requires any Kansas bank which is a subsidiary of an out-of-state bank holding company to submit a copy of the public section of its most recent CRA performance evaluation to the state bank commissioner within 30 days after receiving such evaluation from its primary federal regulator. If the evaluation for the bank is one of "substantial noncompliance" then the bank commissioner is authorized to give "appropriate public notice" to this fact and is required to notify the state Pooled Money Investment Board that the bank is no longer eligible to be a depository for state monies.

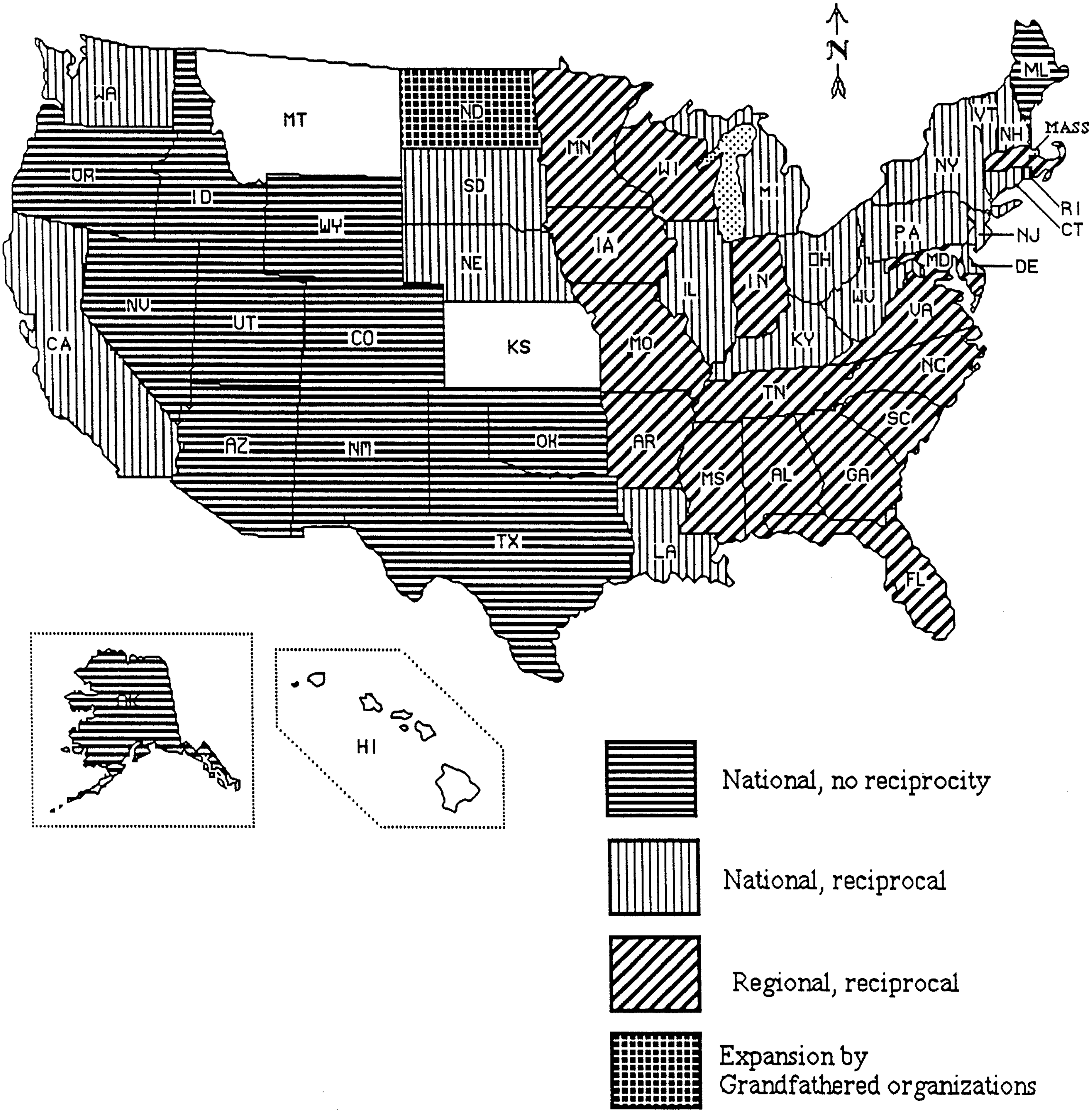
Section 11 - Gives the state bank commissioner the authority to adopt the rules and regulations necessary to carry out the intent and purpose of the act.

Section 12 - The first of two statutory "repealer" sections. Since the effective date for allowing interstate acquisitions is not until July 1, 1992, the old version of K.S.A. 9-524 is not repealed until that date.

Section 13 - The other "repealer" section which will become effective on July 1, 1991.

Section 14 - Provides that the bill will become effective on July 1, 1991, thus allowing interstate acquisitions to begin on July 1, 1992.

INTERSTATE BANKING LAWS



TRIGGER dates

A Look at Laws Granting Interstate Powers to Banks

Only Hawaii, Kansas, Montana, and North Dakota still lack laws that permit some kind of interstate activity for banks. The District of Columbia and the remaining states have all enacted interstate banking legislation, as follows. If there is other information you would like to see included in future listings, please write to Terence Bormann at the American Banker, 1 State Street Plaza, New York, N.Y. 10004.

ALABAMA: Under legislation that became effective in July 1987, bank holding companies from Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Texas, Virginia, West Virginia, and the District of Columbia may acquire Alabama banks that have been in existence for at least five years.

ALASKA: Without restriction, legislation allows out-of-state bank holding companies to acquire banks in Alaska.

ARIZONA: Out-of-state banks may acquire Arizona financial institutions under a law effective Oct. 1. 1986. The legislation allows out-of-state institutions to set up de novo operations in the state after June 30, 1992. Since May 31, 1984, Arizona financial institutions less than five years old have been protected from hostile out-of-state bidders.

ARKANSAS: Subchapter 18 of the Regional Reciprocal Banking Act of 1988 (23-32-1803 of the Arkansas Business, Commercial, and Regulated Industries Laws) permitted regional reciprocal interstate banking beginning Jan. 1, 1989. The region includes Alabama, the District of Columbia, Florida, Georgia, Kansas, Louisiana, Maryland, Mississippi, Missouri, Nebraska, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia. The Arkansas law requires acquiring bank holding companies to comply with the federal Community Reinvestment Act of 1977 and to submit a plan for meeting the credit needs of individuals and small businesses in the communities affected by the

CALIFORNIA: A law signed in September 1986 and effective in July 1987 allows California banks to be acquired by bank holding companies in the states that make up the 12th Federal Reserve District (Alaska, Arizona, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington), plus Colorado, New Mexico, and Texas. The legislation hinges on reciprocity in the state of the acquirer, which has not been enacted in Hawaii, Nevada, or Utah. Full nationwide reciprocal banking begins **Jan. 1, 1991.** The law also specifies that out-of-state banking companies outside the approved region, with units in states inside the region, may not enter California until the nationwide trigger date.

COLORADO: Regional reciprocal banking with seven adjacent states became effective July 1, 1988. Full nationwide interstate banking will be permitted on **Jan. 1, 1991.**

CONNECTICUT: Public Act 90-2, effective March 19, 1990, expanded its New England regional interstate banking law to allow banking institutions and holding companies from outside New England to acquire Connecticut banking institutions and holding companies on a reciprocal basis. The act also allows out-of-state holding companies to establish de novo banking institutions and holding companies in Connecticut on a reciprocal basis, beginning **Feb. 1, 1992.**

DELAWARE: A law passed in May 1987 and effective Jan. 1, 1988, allows banks from the District of Columbia, Maryland, New Jersey, Ohio, and Pennsylvania to acquire Delaware banks on a reciprocal basis. Virginia is included if it incorporates Delaware into its regional compact. Stockholders of in-state banks may elect to exempt themselves from out-of-state takeovers. On June 30, 1990, nationwide banking – on a reciprocal basis only – took effect. Laws passed in 1981 and 1983 allow out-of-state bank holding companies from outside the newly established region to set up wholesale-oriented single-office banks restricted to the credit card and consumer lending business.

DISTRICT OF COLUMBIA: Since Nov. 23, 1985, banking companies from Alabama, Florida, Georgia, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia may acquire banks in the District of Columbia. Since April 11, 1986, banks outside the reciprocal region are permitted to acquire District of Columbia banks if they make certain community development commitments in the District.

FLORIDA: Bank holding companies may enter on a reciprocal basis from states in Florida's regional interstate banking compact: Alabama, Arkansas, Georgia, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia. The 1984 law stipulates that the Florida institution being acquired must be at least two years old. Under a 1972 law, Florida also permits two out-of-state bank holding companies (NCNB Corp. of North Carolina and Northern Trust Co., Chicago) — that already have grandfathered operations in the state — to make further in-state acquisitions.

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GEORGIA: Out-of-state bank holding companies from Alabama, Florida, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee, and Virginia may acquire Georgia banks that are at least five years old, under provisions of the state's 1984 law. Maryland and the District of Columbia were added to the region in 1987. Mississippi was included when its reciprocal law became effective, on July 1, 1990.

IDAHO: Banks and thrifts from any state in the union have been permitted to buy Idaho banks and thrifts since Jan. 1, 1988. The March 1987 law does not hinge on reciprocity.

ILLINOIS: Bank holding companies in the contiguous states of Indiana, Kentucky, Michigan, Missouri, and Wisconsin are permitted to acquire Illinois banks and bank holding companies. Iowa is included in this group if it enacts reciprocal legislation. Full nationwide interstate reciprocal banking becomes effective Dec. 1, 1990, under Senate bill 990. Signed into law in September 1987, this bill amends the Illinois Bank Holding Company Act of 1957.

INDIANA: Out-of-state bank holding companies from the contiguous states of Illinois, Kentucky, Michigan, and Ohio may acquire Indiana institutions. IC 28-2-15-1, passed in 1985, became effective Jan. 1, 1987. Another law, effective June 1, 1987, adds Iowa, Missouri, Pennsylvania, Tennessee, Virginia, West Virginia, and Wisconsin to the compact. No out-of-state bank holding company may acquire more than 12% of the total deposits of all financial institutions in the state. Full nationwide banking on a reciprocal basis goes into effect July 1, 1992 (IC 28-2-16-1).

IOWA: Under a 1970 law, only one out-of-state institution, the Minnesota-based Norwest Corp., was permitted to acquire banks in Iowa. Norwest's operations in Iowa were grandfathered under the Bank Holding Company Act of 1956. In 1990, the Iowa Legislature adopted HF 685, permitting regional interstate banking from Jan. 1, 1991 for the contiguous states of Illinois, Minnesota, Missouri, Nebraska, South Dakota, and, W...

KENTUCKY: A 1985 law permits bank holding companies located anywhere in the United States to acquire banks in Kentucky on a reciprocal basis. On July 13, 1989, a law expired that limited holding company acquisitions to three banks a year. No company is allowed to control more than 15% of bank deposits in Kentucky.

LOUISIANA: Under legislation signed in July 1986 and effective July 1987, banking companies and savings and loans from Alabama, Florida, Georgia, Kentucky, Maryland, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia may acquire Louisiana banks. Mississippi was added to the list July 1, 1988, when its reciprocal law became effective. Arkansas is included if it enacts the required legislation. Full interstate banking on a reciprocal basis became effective Jan. 1, 1989.

MAINE: Bank holding companies nationwide may acquire Maine banks under legislation passed in 1984.

MARYLAND: Out-of-state bank holding companies not included in a regional pact drawn up by the state's legislature may establish limited-purpose banks in Maryland, according to legislation passed in 1983. As of July 1, 1986, Citibank was given permission to establish limited-service operations and 10 offices a year for two years in the state. Citibank is also now allowed to solicit business. In a separate regional reciprocal arrangement, banks in Delaware, Virginia, West Virginia, and the District of Columbia may acquire Maryland banks. Under legislation effective July 1, 1987, bank holding companies in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Pennsylvania, South Carolina, and Tennessee are permitted to enter the state. Arkansas lacks the necessary reciprocal law.

...SSACHUSETTS: This ...e's 1982 law permits bank branching and bank holding company acquisitions on a reciprocal basis with other New England states.

MICHIGAN: Since Oct. 10, 1988, banks from any state have been permitted to acquire Michigan banks on a reciprocal basis. Bank holding companies in Illinois, Indiana, Ohio, and Wisconsin had been allowed to enter Michigan on a reciprocal basis under a law that took effect in January 1986.

MINNESOTA: Since July 1, 1986, it has been permissible for banking companies from Iowa, North Dakota, South Dakota, and Wisconsin to acquire Minnesota banks on a reciprocal basis. Iowa and North Dakota have no reciprocal interstate laws. The 1988 session laws, chapter 616-SF203 (effective April 24, 1988) add Idaho, Illinois, Kansas, Missouri, Montana, Nebraska, Washington, and Wyoming to the list of reciprocating states.

MISSISSIPPI: Banks in Alabama, Louisiana, and Tennessee may acquire Mississippi banks after July 1, 1988. Arkansas can be included if it enacts reciprocal legislation. Since July 1, 1990, banks from Florida, Georgia, Kentucky, Missouri, North Carolina, South Carolina, Texas, Virginia, and West Virginia have been permitted to enter the state on a reciprocal basis.

MISSOURI: Since Aug. 13, 1986, bank holding companies from Arkansas, Illinois, Iowa, Kansas, Kentucky, Nebraska, Oklahoma, and Tennessee have been permitted to acquire Missouri banks on a reciprocal basis. Iowa has no reciprocal legislation and Nebraska limits the activities of out-of-state banks.

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NEBRASKA: On April 8, 1 the governor signed LB 375 into law, opening Nebraska to regional reciprocal interstate banking for a period of one year beginning Jan. 1, 1990. The states in the designated North Central region are Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, North Dakota, South Dakota, Wisconsin, and Wyoming. Full nationwide reciprocal interstate banking becomes effective **Jan. 1, 1991.**

NEVADA: Out-of-state bank holding companies may establish limited-purpose, wholesale-oriented, single-office subsidiaries in Nevada under a 1984 law. Reciprocal restrictions were dropped on Jan. 1, 1989. Until July 1, 1990, only an institution chartered prior to July 1, 1985, may be acquired. Since July 1, 1990, out-of-state organizations have been permitted to acquire an existing institution, charter a new institution, or establish a branch office.

NEW HAMPSHIRE: Governor Judd Gregg signed SB 387 into law on April 13, 1990, permitting nationwide interstate banking. This law expands state deposit caps on banks to 20% from 15% and grants authority to the bank commissioner to waive the 20% rule with the concurrence of the attorney general's office under the same criteria that federal regulators use in a merger, consolidation, or acquisition of an unhealthy institution. Legislation enacted in 1987, allowing New Hampshire banks to avoid out-of-state acquisition by "opting out" of the interstate law every two years, has been retained.

NEW JERSEY: Nationwide reciprocal interstate banking went into effect Jan. 1, 1988. States that have been certified as reciprocal by the New Jersey Banking Department are Alaska, Arizona, Delaware, Idaho, Kentucky, Louisiana, Maine, Michigan, Nevada, New Mexico, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Texas, Utah, Vermont Washington, West Virginia, and Wyoming. Puerto Rico has also been certified. Five other states are to meet the reciprocity test when their laws become effective: Illinois (Dec. 1, 1990); California, Colorado, and Nebraska (all on Jan. 1, 1991), and Indiana (July 1, 1992).

NEW MEXICO: On Feb. 17, 1988, the state legislature passed full interstate legislation for commercial banks, with no reciprocity requirements and no geographic limitations, effective Jan. 1, 1990. To enter New Mexico a depository institution must have operated continuously for at least five years. De novo entry will be allowed from **July 1, 1992.**

NEW YORK: A 1982 law permitted out-of-state commercial bank holding companies from anywhere in the United States to enter New York on a reciprocal basis, for a five-year experimental period. In 1987 this law was made permanent and extended to cover thrifts.

NORTH CAROLINA: Bank holding companies from Alabama, Florida, Georgia, Kentucky, Louisiana, Maryland, South Carolina, Tennessee, Virginia, and West Virginia may enter this state under a law enacted in 1984. Mississippi has been included since its nationwide reciprocal law became effective July 1, 1990. Arkansas becomes eligible if it enacts reciprocal legislation.

OHIO: Since Oct. 17, 1988, bank holding companies from any state may acquire Ohio banks or bank holding companies on a reciprocal basis. Two laws enacted in 1985 authorized initial entry by out-of-state bank holding companies. The first permitted Chase Manhattan Bank, New York, to purchase a thrift institution closed pending acquisition of federal deposit insurance. A second bill, effective Oct. 17, 1985, authorized banking companies from Delaware, Illinois, Indiana, Kentucky, Michigan, New Jersey, Pennsylvania, West Virginia, and Wisconsin to enter Ohio. They were limited to no more than 20% ownership of the state's bank and thrift deposits. Maryland, Missouri, Tennessee, Virginia, and the District of Columbia were included if they passed reciprocal legislation.

OKLAHOMA: Under a May 1986 law (Title 6 of Oklahoma statutes, sections 504-507), bank holding companies from anywhere in the nation may bid against in-state banks to acquire failing Oklahoma institutions. Since July 1, 1987, bank holding companies from anywhere in the nation have been allowed to acquire healthy Oklahoma institutions. There is no reciprocity limitation attached to Oklahoma's law. However, in order to expand after the purchase, the acquiring institution's home state must have similar legislation on its books. If no legislation exists, the out-of-state institution must wait four years before expanding.

OREGON: Since July 1, 1986, banking companies in Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington have been allowed to buy Oregon banks in existence for at least three years. Banking companies in those states may acquire failing in-state institutions. Under a law that became effective July 1, 1989, Oregon opened its borders to nationwide interstate banking on a nonreciprocal basis.

PENNSYLVANIA: Legislation eff[illegible] Aug. 25, 1986, perm[illegible] ba[illegible] companies from De[illegible]ware, Kentucky, Maryland, New Jersey, and Ohio to acquire banks in Pennsylvania. Virginia, West Virginia, and the District of Columbia are included if they pass reciprocal legislation. New York banks were allowed in the state beginning March 4, 1990, also the trigger date for nationwide reciprocity.

RHODE ISLAND: Under RIGL (1956) 19-30, effective Jan. 1, 1988, banks from any state may acquire Rhode Island banks on a reciprocal basis.

SOUTH CAROLINA: Bank holding companies in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia may acquire South Carolina banks that have been in operation for five years or more.

SOUTH DAKOTA: Effective Feb. 17, 1988 (responding to a decision by the 8th Circuit Court of Appeals), the South Dakota Legislature opened the state to reciprocal interstate banking on a nationwide basis. Insurance activities of banks are still limited to the extent that such activities "cannot compete to the substantial detriment of South Dakota companies."

TENNESSEE: Bank holding companies from Alabama, Arkansas, the District of Columbia, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Mississippi, Missouri, North Carolina, South Carolina, Virginia, and West Virginia may acquire banks in this state that have been operating for at least five years.

TEXAS: As of Jan. 1, 1987, banks from anywhere in the nation may acquire Texas banks. However, the September 1986 legislation mandates that no Texas bank chartered after July 15, 1986, may be acquired until it has been in operation for at least five years. The state also requires that at least 50% of the board of directors of any banking company new in the state be Texas residents. Also, the law prohibits any out-of-state bank from acquiring control of a Texas bank if, as a result of that acquisition, the acquiring out-of-state bank holding company would control 25% or more of the total deposits of all banks in the state.

UTAH: Since Dec. 31, 1987, banking companies from any state have been permitted to acquire healthy banks and thrifts in Utah.

VERMONT: Since Jan. 1, 1988, banks from Connecticut, Maine, Massachusetts, New Hampshire, and Rhode Island have been permitted to acquire Vermont banks. Since Feb. 1, 1990, banks from any state have been allowed to acquire Vermont banks on a reciprocal basis.

VIRGINIA: Out-of-state bank holding companies from anywhere in the United States may acquire newly chartered banks in Virginia. Their operations however, must be restricted to the credit card business. Also, bank holding companies from Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, North Carolina, South Carolina, Tennessee, West Virginia, and the District of Columbia may acquire Virginia banks that are at least two years old. Mississippi was added to this list since its reciprocal law became effective, on July 1, 1990.

WASHINGTON: Out-of-state bank holding companies from any state may acquire a failing Washington institution if the state banking superintendent gives final approval. Under a law that took effect in July 1987, banking companies nationwide are permitted to acquire healthy institutions that are at least three years old, but only on a reciprocal basis.

WEST VIRGINIA: Since Jan. 1, 1988, banks and savings and loans from any state have been permitted to acquire, respectively, West Virginia banks and savings and loans, but only on a reciprocal basis. The in-state institution must be at least two years old.

WISCONSIN: As of Jan. 1, 1987, banking companies, savings and loans, and credit unions from Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, and Ohio may acquire banks, savings and loans, and credit unions in Wisconsin on a reciprocal basis. Iowa is included if it passes reciprocal legislation.

WYOMING: Since May 22, 1987, banking companies and savings and loans from any state in the union may acquire Wyoming financial institutions. The law, passed early in 1987, does not require reciprocity. It stipulates, however, that the charter of the in-state institution being acquired must be at least three years old. □

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

January 29, 1991

TO: House Committee on Commercial & Financial Institutions

RE: **HB 2059** - Interstate acquisitions by bank holding companies

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the committee in support of **HB 2059.**

On November 28, 1990, the Governing Council of the Kansas Bankers Association voted once again to support legislation which would allow the interstate acquisitions of banks by bank holding companies. This marks the second consecutive year the Governing Council has endorsed such legislation. This was not a decision arrived at lightly, but one that was the culmination of years of discussion and analysis by Kansas bankers. Every Kansas banker and bank owner has had the opportunity for input on this issue through membership polls and discussions and debates at numerous industry gatherings over the past several years and it wasn't until this open and democratic process was completed that the Governing Council made the decision to support interstate legislation. A copy of the poll taken among all Kansas banks during the summer of 1989 is attached to this testimony.

During the past decade, you, the members of the Kansas Legislature, have enacted several major bank structure laws which have significantly improved the state 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, and more services available at bank branches which make banking more convenient for customers. It would be difficult to find any bank customer today who would want to give up the positive changes in banking structure which the Legislature has enacted. And yet every one of those changes was strongly opposed by some groups who predicted that great problems would arise if these changes were made and, of course, none of the problems ever came.

Office of Executive Vice President • 1500 Merchants National Building
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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. Our banks will need the opportunity to become part of national and regional banking networks which are being, and will continue to be, forged during the 1990s. Therefore, we believe the granting of authority for interstate acquisition of banks is the next logical step in creating a safer and stronger banking system for Kansas and the nation.

As you are well aware, 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. 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. Why should it be that 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 supress competition and 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, Ford Motor Company, continues at a rapid rate which further accentuates the need for giving the Kansas banking industry maximum flexibility in meeting this competition. In addition, several out-of-state S&Ls have established interstate operations in Kansas. Since S&Ls have now acquired essentially the same powers as banks it is just another example of the competitive inequalities facing the Kansas banking industry.

In closing, I would like to call the committee's attention to the provisions of Sections 6 through 10 of **HB 2059** . Those who have testified in opposition to interstate banking in the past have always raised the specter of communities being ill-served when their banks are acquired by out-of-state holding companies. Not only is there a dearth of evidence to support this contention, but the provisions of these sections of **HB 2059** plus federal law and regulations assure that all banks, no matter who owns them, must meet the needs of their community.

Sections 6 and 7 of **HB 2059** set extremely high standards which must be met before an out-of-state holding company is allowed to purchase a Kansas bank and then Sections 9 and 10 of the bill require that reports be filed with the State Bank Commissioner showing that the acquired bank is serving the community where it is located. If the State Bank Commissioner finds that the bank has failed to fulfill its community responsibilities the Commissioner is empowered to make these failures known to the public and to take other measures against the bank.

Again, I would strongly urge each member of the committee to study these sections closely. I truly believe it will alleviate any fears you might have about the consequences of a Kansas bank being purchased by an out-of-state holding company or about the activities of the bank after it is acquired.

It is also important to remember that this legislation is necessary if Kansas bank holding companies are to be allowed to expand into other trade areas. While several states to the south and west have no reciprocal requirements on interstate acquisitions, many of the other states in the Midwest do require reciprocity and that blocks Kansas bank holding companies from making acquisitions which could strengthen and stabilize their banking operations.

For the reasons which I have stated, and many others which will be expressed by the conferees who follow me, the Kansas Bankers Association is requesting the passage of **HB 2059.**

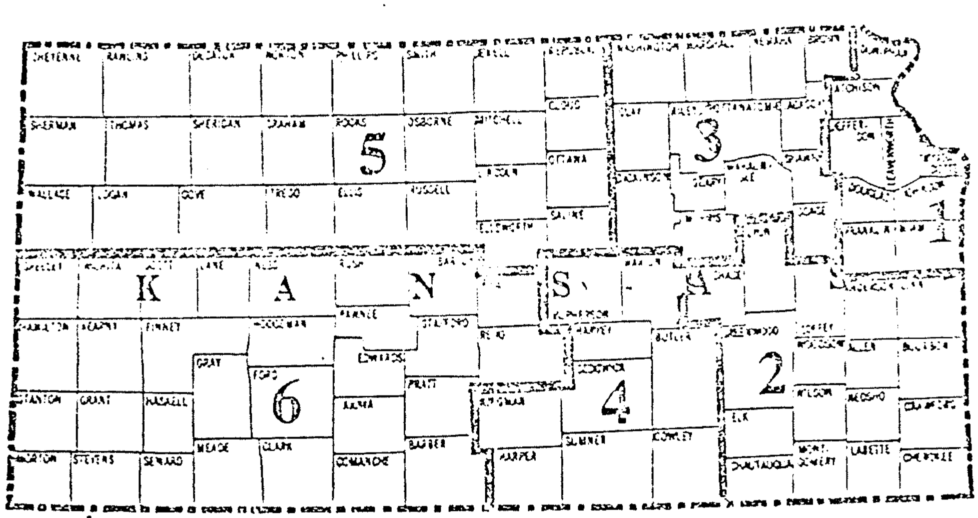
We certainly hope the material presented to you by the KBA staff has been of assistance as you ponder your decision on the interstate issue. As always, the staff and members of the Association stand ready and willing to discuss the issue with you and provide any additional information which might be 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.

James S. Maag

James S. Maag
Senior Vice President

	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						# NO OPINION	% NO OPINION	TOTAL #
9	BY KBA REGION	# IN FAVOR	% IN FAVOR	# OPPOSED	% OPPOSED	1	1%	75
10	Region 1	54	72%	20	27%	1	1%	71
11	Region 2	48	68%	22	31%	5	6%	80
12	Region 3	38	48%	37	46%	3	4%	73
13	Region 4	34	47%	36	49%	9	11%	85
14	Region 5	40	47%	36	42%	2	2%	83
15	Region 6	41	49%	40	48%			
16								
17	BY SIZE OF BANKS					3	3%	88
18	Below $10 mm	37	42%	48	55%	10	7%	142
19	$10-$25 mm	60	42%	72	51%	4	3%	120
20	$25-$50 mm	73	61%	43	36%	3	4%	75
21	$50-$100 mm	52	69%	20	27%	1	2%	42
22	Over $100 mm	33	79%	8	19%			
23						21	4.48%	469
24	TOTAL RESPONSE	255	54.37%	193	41.15%			
25								

Counties in Each Region of Kansas Bankers Association



THE TIME HAS COME FOR

INTERSTATE BANKING IN KANSAS

Barkley Clark
Partner - Shook, Hardy & Bacon
Kansas City and Overland Park

House Committee on Commercial
and Financial Institutions
January 29, 1991
Topeka, Kansas

1-29-91
CF&I
Atch 3

THE TIME HAS COME FOR INTERSTATE BANKING IN KANSAS

Barkley Clark
Shook, Hardy & Bacon
Kansas City and Overland Park

To: House Committee on Commercial and Financial Institutions

As of 1991, Kansas stands as one of only three states without any interstate banking legislation. In fact, when you factor out various exceptions, Kansas remains as the only state without any legislation at all. In a world that is increasingly interdependent in the delivery of financial services, the continued existence of a Berlin wall around Kansas banking 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 free market for financial services seems self-defeating.

Interstate Banking Is Already Here

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:

* Nearly all 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 seven years.

* 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. 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.

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

*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.

*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.

Public Policy Considerations

*Level and Quality of Banking Services to Kansas Consumers. 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. 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 now stand, banks in a metropolitan area which straddles two states are not allowed to serve their natural "community." For example, a bank in Johnson County

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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 has also been made in connection with state-wide branching, but we don't hear any hue and cry from Kansas bankers that unlimited branching has had 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 addition, the legislation before this committee has special safeguards to make sure that the acquisition of any Kansas bank is accompanied by assurances that it will adequately meet the convenience and and needs of the local community. This is a restatement of the Community Reinvestment Act at the state level.

In fact, taking down this Berlin Wall 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 Berlin Wall, community banks comfortably maintain their market nitch. Small banks tend to outperform larger banks in 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 1991, it is very unlikely that many acquisitions from out of state will 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.

*<u>Competitive Equality: Toward an Even Playing Field</u>. Commercial banking is just about the only business that is subject to a geographic Berlin Wall. 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. 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

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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 Berlin 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.

*__The Three-Legged Stool__. In 1985, the Kansas legislature enacted multibank holding company legislation, amid cries of doom and gloom by the opponents. All objections proved unfounded, and the legislation has been a boom to structural flexibility in Kansas banking. In 1990, the legislature enacted unlimited branching legislation, in the wake of federal mandates. The people who had opposed branching for 100 years suddenly discovered that it was a tempest in a teapot; like multibank holding companies, unlimited branching has made for a stronger, more flexible banking System in Kansas. Now the legislature is looking at the third leg of this three-legged stool: interstate banking. The same nay-sayers who opposed multibank holding companies and unlimited branching are opposing interstate banking. It is the same old tempest in a teapot, the same old unfounded fears. By enacting this bill, the 1991 Kansas legislature will complete the modernization of bank structure in the state that began in 1985. The time has come to add the third leg to the stool.

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LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

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

January 29, 1991

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Commercial and Financial Institutions

by

Ed Bruske
President

Mr. Chairman and members of the Committee:

Approximately four years ago KCCI adopted a policy supporting interstate banking. Since that time KCCI, through polling of its members and district meetings, continues to support that policy.

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.

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In reviewing the issue of interstate banking, and after having listened to testimony from experts, including our members, we feel that interstate banking would be an asset to developing more job opportunities in the state of Kansas. It is our belief that no industry or business should be unduly restricted from growth through artificial restraints, particularly when it cannot be proven that interstate banking would be harmful to the citizens of Kansas.

Our position of support for interstate banking has not developed primarily because of our unhappiness with the present system. It is true we have had continuous complaints from members of our business community concerning the availability of capital. However, it's our opinion that our banking efforts should be competitive with other states if it is to allow our business community to be competitive, particularly at a time when there is a crunch for dollars and, at the same time, world markets are opening up for our Kansas products.

There's nothing in this proposal that mandates a Kansas banking institution become part of the interstate system, just as there is no guarantee that our existing banking system will be successful and not make any bad loans in the future.

As an organization which represents over 3,000 businesses of all types and sizes we have a hard time understanding the reluctance to adopt an interstate banking system. We have consistently opposed any legislation which attempts to artificially guarantee our members' customers, much less protect one business from another from generating customers. If a banking customer is not receiving adequate service from his local bank, or, if he or she cannot receive a loan with adequate assets or collateral, then you have to assume they are going to do their banking somewhere else. The fact that they are an interstate bank has little or nothing to do with it. The customer is looking for service.

The majority of our members continue to support interstate banking for Kansas. They are the primary users of the systems, and, after all, they are the individuals creating jobs for Kansas. I think we should listen to them.

TO: House Committee on Commercial & Financial Institutions

RE: **HB 2059** - Interstate acquisitions by bank holding companies

Mr. Chairman and Members of the Committee:

My name is Murray Lull. I am President of The Smith County State Bank & Trust Company, in Smith Center, a Kansas border county bank in Smith County. Since 1985, I have been active in the American Bankers Association's efforts in agricultural banking initiatives, serving on the ABA's Ag Bankers Division Executive Committee, and have served as Chairman of that division of the ABA.

I am currently a member of the ABA's Agriculture and Rural Development Credit Task Force and also presently serve as one of ten American Bankers Association's Banking Advisors. As a spokesman 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 regrettable advantage in remembering that Kansas is one of the last remaining states that does not allow interstate banking in any form.

I used to say that I was one of those who sometimes felt that interstate banking may not be a crucial issue for me and my bank and my customers. However, I now realize that there are few issues that do NOT affect us and our delivery of service for which the time has come in **House Bill 2059**.

The unfairness of the current Kansas prohibition of interstate banking is best illustrated by comparison with other financial services providers that have no such restriction. First Federal Lincoln advertises for my customers' deposits in our local newspaper. 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.

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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 customes. Period.

Some opponents of interstate banking would have you and me believe that out-of-state ownership of Kansas banks would somehow "control" the deposits in Kansas banks to the detriment of our State's ecomony. Let me tell you that no banker, Kansas or Nebraskan or Californian, will <u>ever</u> control my customers' deposits. Kansans put their deposits where they choose, based on many factors including how well a bank serves their community's needs.

This leads to a further reminder to opponents of interstate banking who say communities may not be well-served by out-of-state banking entering a local market.... All banks, wherever and everywhere they do business, are mandated by the Community Reinvestment Act to fulfill the credit needs of each community in which they locate. Banks are now examined on how well we <u>do</u> serve our communities' credit needs, and more than that, we then are required to make our CRA examination ratings public. A summary of these CRA assessment factors is attached to this testimony.

Bankers wanting to expand, whether it be intrastate or interstate, know that they will be required to demonstrate that they have been successful in meeting the credit needs of the communities they are currently serving and that they have in place a definitive plan to meet the credit needs of the new location in which they wish to locate.

With demand for ag credit down some 45%, certainly today credit is NOT scarce in agricultural finance. And it has rarely ever been so. Interstate banking doesn't lessen the availability of credit for agriculture -- it will add to that availability.

What today <u>is</u> 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 these rather sizeable amounts in banks located in small rural communities in Kansas. Because it will offer another source of investment capital in Kansas banks, interstate banking will add to the availability of that capital needed to support Kansas bank depositor's 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 services options to be available, not only to Kansas farmers, but to their suppliers, and purchasers and exporters of farm commodities.

Just as there have been many excellent combinations of banks 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 every oppportunity for financial service.

I can assure you that I and many, many rural Kansas bankers I know do not fear interstate banking. We must all remember 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 continue to thrive in such a marketplace environment.

I urge your favorable consideration of **House Bill 2059.**

COMMUNITY REINVESTMENT ACT

TWELVE ASSESSMENT FACTORS	EXAMINATION PROCEDURES
1) Bank activities that ascertain the credit needs of its local community.	Obtain information from a review of bank records and interviews with bank staff. (Studies/customers/neighborhood groups/local government)
2) The extent of the bank's marketing and special credit-related programs to make community members aware of credit services available.	Review bank's marketing program. (RE brokers/mtg counseling program/advertising/convenient hours/brochures)
3) The extent of participation by the bank's board of directors in formulating CRA policies and in the bank's CRA performance.	Review minutes of board of directors meetings and any other bank documentation available. (Bank staff awareness of CRA)
4) Any practices intended to discourage applications for credit listed in the bank's CRA statement.	Review other fair lending examination programs {ECOA and Fair Housing Act}. (Bank staff awareness of CRA/prescreening)
5) The geographic distribution of the bank's credit extensions, credit applications and credit denials.	Initially rely on discussion with other examiners, review of examination reports and working papers of other programs. Review bank files and interview bank management. Additional reliance may be placed on geocoding.
6) Evidence of discriminatory or other illegal credit practices.	Review prior reports of examination and other examination programs currently being performed.
7) The bank's record of opening and closing offices and providing services at offices.	Obtain information from the field or district office or from the bank's records. Review any public comments.
8) Bank participation in local community development and redevelopment projects or programs.	Review written lending policy and procedure manuals. Interview lending officers. (HUD's community development block grant program/local neighborhood preservation efforts/CDCs/neighborhood housing services)
9) The bank's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated within its community.	Review bank financial statements, HMDA disclosures, lending policy and procedure manuals. Interview bank staff.
10) Bank participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses or small farms.	Review bank financial statements, HMDA disclosure, lending policy and procedure manuals. Interview bank staff. (FHA/VA/FmHA mortgage loans/SBA loans/FHA Title I home improvement loans)
11) The bank's ability to meet community credit needs based on its financial condition and size, and legal impediments, local economic conditions, and other factors.	Review examination workpapers and reports. Consider safety and soundness. (Small banks may lack resources)
12) Other factors that bear upon the extent to which a national bank is helping to meet the credit needs of its entire community.	Consider factors such as bank purchases of state and municipal bonds, secondary mortgage market securities or whether the bank's policies promote efforts to assist existing residents in neighborhoods undergoing reinvestment and change.

Remarks before the

House Commercial and Financial Institutions Committee

in support of
INTERSTATE BANKING IN KANSAS

HEARING

Tuesday, January 29th, 3:30 p.m., Rm. 527 - State Capitol

by
Tom Riederer
Kansas Industrial Developers Association

The Kansas Industrial Developers Association (KIDA) is made up of over 100 economic development professionals serving Kansas. Our members are located throughout Kansas and represents both urban and rural Kansas. KIDA supports interstate banking for Kansas.

Access to capital at competitive rates is an essential element in the attraction of new firms to Kansas. Kansas economic developers compete on a daily basis with other states and need the same tools which are available in other states.

KIDA strongly believes that interstate banking will allow Kansas to be more competitive in the creation of new job opportunities in Kansas.

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Mr. Chairman and Members of the Committee:

My name is Samuel P. Baird and I appear before you today in support of HB 2059.

I am the president of the Farmers State Bank & Trust Company of Superior, Nebraska, a bank two miles north of the Nebraska/Kansas border. I am also the president of the Jewell County Bank of Mankato, Kansas, a bank 18 miles south of the Nebraska/Kansas border. With assets of $44 million in the Nebraska bank and assets of $25 million in the Kansas bank, both banks are classified as community banks in rural areas.

Both banks have a reputation of being active lenders to farmers and ranchers in the area. My grandfather started the bank in Superior in 1916 and it has been managed by him, my father, and myself since that time. We acquired the bank in Formoso, Kansas, in 1978 and recently merged it with the First National Bank in Mankato to form the Jewell County Bank.

If HB 2059 is passed, the holding company that owns the bank in Superior would be permitted to acquire the bank in Kansas. That would be of benefit to us because the earnings from the Nebraska bank would be available to retire the debt that was incurred in purchasing the Kansas bank. This is a very real illustration of how interstate banking will work. The present situation creates a barrier that is unfair to banks in Kansas border counties. The passage of HB 2059 will result in rural banks that are better managed and that provide more complete banking service to their customers.

As farmers have found expansion necessary to survive economically, bankers in rural America have also found expansion necessary to serve the credit needs of the area farmers. Before the Formoso Bank was merged, it had a $75,000 loan limit. When a combine costs in excess of $75,000, it is readily apparent that the small bank cannot adequately service its customers' credit needs. In the past, these overline loans were sold to larger banks. However, when things got tough in the mid-1980s, these were some of the first loans called. Therefore, it is necessary for the smaller banks to affiliate with a larger banking organization. When the bank happens to be located in a border county, that bank's choices are severely limited because of the state line.

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With the advent of computer technology, more sophisticated investment opportunities and the overwhelming burden of federal government regulation, it has become more and more difficult to manage a bank. Unfortunately, these burdens have fallen on the small bank and the large bank to the same degree. It is very difficult, if not impossible, for a staff of 5 to 10 people to properly manage a bank to the degree that is now required by regulators.

For example, the paper work for a variable rate home loan is so complicated that I would assume many of the banks in rural Kansas do not offer their customers these excellent terms that are available in larger cities like Topeka. The close affiliation through common holding company ownership will permit banks to develop specialists who can serve all the banks of the group.

In both Kansas and Nebraska banks are being merged into multi-bank holding companies or into a branch structure regularly. It only makes sense to permit these mergers to occur over state lines. I am at a loss to understand why the merger of my two banks which are 20 miles apart into a single holding company is prohibited soley because of the artificial state line.

I have been on the governing board of the Nebraska Bankers Association since 1986 and I am currently President of the Association. Nebraska bankers struggled long and hard with the interstate banking issue until 1988 when our Legislature passed an interstate bill. The bill authorized a two-step phase-in of interstate banking beginning on January 1, 1990. The first step authorized regional reciprocal interstate banking in an 11-state area including Kansas. The second step authorized nationwide reciprocal interstate banking which just became effective on January1st of this year.

Prior to the passage of Nebraska's interstate law, only one out-of-state bank holding company had a presence in Nebraska. That company was Norwest Corporation which is headquartered in Minneapolis, Minnesota. Norwest's banks in Nebraska had been "grandfathered" under federal legislation and have been operating in Nebraska since the mid-1950s.

Since Nebraska's interstate law took effect only one interstate application has been filed. That application would allow a Council Bluffs, Iowa, bank holding company to acquire a suburban bank in nearby Omaha. As in my situation, the Omaha bank and the Council Bluffs bank already have common ownership. So it is apparent that the concerns which opponents of interstate banking have expressed are just not valid in the state of Nebraska and interstate banking has been a non-event.

If the time comes when a large out-of-state holding company has a presence in Nebraska, we feel it will be positive for Nebraska because:
(1) there will be a capital commitment within the state; and (2) the federal Community Reinvestment Act regulations will require active lending within the community and state.

Mr. Chairman, with that I conclude my testimony. I will be happy to respond to any questions at the appropriate time.

TESTIMONY

HOUSE COMMITTEE ON FINANCIAL AND COMMERCIAL INSTITUTIONS

January 29, 1991

Mr. Chairman and Members of the Committee, my name is Gary Sherrer, Senior Vice President, Fourth Financial Corporation. I very much appreciate the Committee making time available to discuss the issue of Interstate Banking as embodied in House Bill 2059.

Fourth Financial Corporation is a bank holding company with assets of $4.3 billion dollars. It is the owner of 13 BANK IV's in Kansas serving 27 cities with 66 offices. Fourth Financial Corporation is owned by nearly 5,000 investors, the majority of whom live in Kansas. Fourth Financial Corporation employs 2,420 Kansans with annual salary and benefits of nearly $72 million dollars. We provide our customers a full range of banking services and believe that during the year, one in five Kansans does business with a BANK IV. Our 1990 loan to deposit ratio was 60.59%. We believe this compares favorably with other bank category averages. For example, the 421 banks in the 0-50 million dollar category had a 51.95 ratio; the 88 banks in the 50-100 million dollar category had a 54.09 ratio and the 28 banks in the 100-200 million dollar category had a 57.50 ratio.

We are more than just loan ratios and bank services. We are also your neighbors. We sit on volunteer boards with you and we make significant financial and human resource commitments to the communities we serve and to the state of Kansas. Systemwide we average in excess of 6,000 volunteer hours per month to civic, charitable, and cultural activities. In 1990, nearly $1 million dollars was provided to support education, health and human resources, cultural and civic activities. An additional $1 million dollars in long-term pledges to our regent universities is also part of our commitment. We direct our activities to both small local community projects and statewide efforts. To give you a sample of the local programs we are involved in, you might be interested in the donation of a repossessed house in a historic district in which we led the effort to have the house renovated and through "sweat" equity, a local family earned the right to become homeowners. This type of project of local community focus is repeated on almost a daily basis throughout the BANK IV system. As to our statewide efforts, we are pleased that we have been honored by the Kansas Arts Council and other statewide groups for our commitments. We were one of the first Corporations to support the new Kansas Agricultural and Rural Leadership Program and continue to do so. Even though most of our banks are not in PRIDE communities, we take pride in being the only bank to be a statewide sponsor of this important and valuable program. To give you a sense of the types of programs we are involved in and the quality of service we are providing Kansans, I have also included with this testimony, a copy of our publication, IV Front, that contains sections on our community activities and the public's response to the services we provide. In summary, it can be best said that we know a bank can be no better than its community or its state and we are committed to both.

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That is who we are. Now let me tell you why we are supportive of this effort to recognize change in the world around us and to adjust and adapt to those changes with the modernization of Kansas banking laws. This isn't the first time we've appeared before the legislature on this type of issue. Our first appearance was in the decade of the 50's. At that time, we had been told by our customers that it would be helpful if we could have a facility other than just one single main bank, perhaps something that could even handle drive-through traffic. For a number of years, we came to the legislature asking, with our fellow Kansas bankers, that this legislation be allowed. It was vigorously opposed by the same organization that you're going to hear from tomorrow. Those who seem more interested in what their agenda was than the needs of our customers. Fortunately, in the late 50's we finally were allowed one facility within one-half mile of our main facility that could take deposits, cash checks, but not make any loans. We were back again a decade later asking if we could continue to improve the services available to the Kansas banking consumer. Our customers had been so pleased with the detached facility, that they were asking us if we could not provide them more locations. Finally, in the decade of the 70's we were allowed two more locations, but still were not allowed to make loans to our customers. We received these two opportunities to better serve our customers in spite of vigorous opposition again by the same group who is going to be here tomorrow, the same organization who talks about the need to take care of the Kansas consumer and yet who fought the opportunity for the Kansas consumer to have more service and more convenience.

So we had the situation in which we had facilities to serve our customers, except truly not serve them. In other words, we had the odd situation of where a hard working Kansas man or woman could bring their check in to us and deposit it, but if they needed a car loan or some other financial help, we had to tell them they had to drive downtown to get it. It made no sense to us. We continued to come before this legislature and ask for changes. In the decade of the 80's, again with opposition from the group you're going to hear from tomorrow, the legislature finally gave full service to our customers. The next fight was also in the 80's when in 1985 multi-bank holding company legislation was passed. Kansas was the 49th state in the union to allow its banks to own more than one bank. The rhetoric was strong and the group who has opposed all these changes in the decades past were there once again and once again, it's the group that you'll hear from tomorrow. They looked the committee members in the eye and told them that credit would dry up, that ag would be ignored, that loans would be reduced and that the community wouldn't be cared for. More than half a decade later, the truth is none of these things have occurred and in fact I will share with you a number of things that have occurred that would not have been possible without multi-bank holding companies. When we, along with other Kansas bankers, advocated multi-bank holding company legislation, it was our belief that we would be better able to serve the state and its people. Let me give you some samples of why I think that belief has proven itself.

1. Our customers have received increased services. For example, a number of the banks we purchased were not aggressive in making single-family mortgage loans and others had no trust services. We have expanded the services offered by each and every bank that has been purchased and joined the Fourth Financial Corporation family. As a result, there was more competition for the consumer, more choices for the consumer, and more opportunities for the consumer in those towns in which we entered.

2. We were able to provide stronger banking and attract business back into Kansas. One of our southeast Kansas banks had lost customers to Tulsa banks and Missouri banks. This bank was able now with a strong holding company structure, to go back to those customers, show them how they could be served by one bank and to attract that business, its profitability and its strength back into Kansas away from our competitors across the state line. One of our Kansas City banks was able to go to a Kansas-owned corporation who had all of its business in Missouri and attract a multi-million dollar line of credit back into Kansas now that they were able to service this client.

3. We have provided strength and diversity to the banking system. The people in the town of one of our banks probably are not even aware that early in the acquisition, the bank had serious financial problems. It was not a profitable bank and it was a very difficult time for the bank to get its loan portfolio into a sound shape. During this difficult period, there were no layoffs, no reduction in the amount of lending being done and certainly no reduction in the amount of services being provided. On the contrary, additional services were offered to the people of that community because this bank had the strength of a statewide holding company and while its economy and its lending portfolio were in jeopardy, it was able to ride it out and continue to provide outstanding service to its clients because of its position in the holding company.

4. Without the strength of our Holding Company, many communities would not have the service they have today. When we purchased a failed savings and loan in Hays, Kansas, the people there, instead of having a weak and failing savings and loan to deal with, had a strong, full service bank who brought new services and new competition for their accounts into the community. There was an article in the newspaper after we entered that market in which professors of banking at Kansas State University and Fort Hays State University were quoted, and both had the conclusion that what had occurred was good for the banking consumer in that community. This story has been repeated numerous times throughout the state and we recently received a letter from the publisher of the newspaper in Caney, Kansas in which he said, "Our town is certainly a better place because of BANK IV's presence and involvement." Without the Holding Company structure building a strong banking system for this state, these savings and loan acquisitions would not have been possible and this type of support and strength for the communities would not have occurred.

5. We have put an end to the myth that was talked about during the multi-bank holding company legislation hearings that BANK IV would not care about agriculture or the western part of our state. That was spoken over and over, and in fact was spoken in testimony before committees such as this. I point that out because you're going to hear a lot of accusations that just don't seem to find their way into the column that say's "fact." Look for yourself at our acquisitions in Salina, McPherson, Garden City, Hays, and Goodland, Kansas. We are committed to the total state and our agricultural lending has demonstrated that as well as our acquisitions in agriculturally dominated communities. In addition, we recently worked with a large insurance company to begin assuming some of their agricultural loans and working with their agricultural clients in lending needs.

6. There are numerous ways having had a strong banking system can benefit all Kansans, even those who do not live in towns in which those banks are located. An example of this would be our commitment to assist public financing in Kansas. We have a public financing manager who works with communities to assist in providing the best competitive rate public financing possible. We also are aggressive in bidding for bond issues and where there is competition in bidding, there is benefit for the community. A recent example of this took place in Unified School District 415 regarding the Hiawatha elementary school. By outbidding seven others, BANK IV Wichita was able to bring a low rate, that in the words of one of the school officials, provided savings that would result in a levy that "would be about one-third mill less than estimated." A benefit again of having a strong banking system, one of the benefits that we told the committee about in 1985 and the proof is that this state has a stronger, better banking system because of the passage of multi-bank holding company legislation. There are numerous other examples, but time doesn't permit going through them all. I would be more than happy to visit with you individually, should you want more information on these or other ways in which we believe modern banking legislation benefits Kansas and the consumer.

Let me take a moment here to point out that this is not an argument for "bigness." Unlike those that you will hear from tomorrow, we don't think there has to be a singular banking system of either all locally owned independent banks or all large chains of banks. In every state that we have analyzed, it is clear that both systems work well side by side. There's nothing inherently good or bad about being a large bank or a small bank. Each has its strengths and its weaknesses and we think the two together make a strong system of choice for the banking public in Kansas. We would never advocate any system that would remove the small independently owned bank and in every single state in which there is interstate banking, there is a thriving, successful group of independently owned banks. The difference is, we believe, that it's good for the consumer to have this choice and those you'll hear from tomorrow are worried that the consumer isn't smart enough to know when they're getting good service and when they're not and they want to make those choices for them.

There was one other time in which a structure issue was brought before a committee and I must tell you that we were not at that hearing because it was that rare time in which those you'll hear from tomorrow were advocating branching. You need to understand the reason they were advocating it was it was already decided in the courts that national banks could have branching and they simply were bringing in legislation that made sure that state banks could have the same right. We did not oppose this, even though we are all national banks and we do not have any state banks. We would like to be consistent with our philosophy that a modern bank structure that allows competition and doesn't over-regulate the industry is healthy for the Kansas consumer. We don't simply advocate those things on occasions that have a specific benefit to us.

In that light, I must address one other issue that I know has been brought to you because many legislators have talked to me about it. They are being told by the opposition that this bill has one purpose and that is so that Fourth Financial Corporation can sell out. I am authorized on behalf of our

Board of Directors, our Shareholders and our Senior Management to tell you that it is the current strategic plan of this organization to be aggressive in building a strong regional organization through acquisitions in other states should you pass this legislation. Now for me to stand here and tell you what the ownership of this holding company will be a decade from now is impossible just as it is for those who come before you tomorrow. There is no way they can guarantee to you that somebody down the road will not make the decision to sell their banks, perhaps even to out-of-state individuals. I can assure you that it's our intention to build a strong regional banking system and that's why we support this legislation. Interestingly enough, in many ways perhaps we should oppose this legislation. After all, we are by far the largest and the strongest of the banking systems in this state. So perhaps we would be smarter if we tried to keep competition out. After all, if we had a bank system our size enter Kansas, it'll make the competitive element in this state a great deal different. The truth is that our philosophy has been, is and will continue to be, that competition is good for the industry and it's good for the consumer and that these artificial barriers that protect turf are not good and need to be removed.

Finally, I would like to talk about the issue itself, although I will not devote a great deal of time to that as you've already heard from people more knowledgeable than I as to why it is time for this happen. I would say to you from the perspective of Fourth Financial Corporation, that we are genuinely concerned that if Kansas doesn't allow us a regional interstate banking bill, that at some point, and most of the industry's in agreement with this, there will be a day when the federal government is going to authorize a national bank bill. We need the time to prepare. In 1985, you allowed us to grow our banking system. At that time, we would not have been a strong competitor with the major Missouri banks or those in Colorado, Nebraska or Oklahoma. Because you removed these unnecessary shackles of regulation from us, we now are a banking system that is on par with most of the competitors in the states around us. It is critical, in our judgment, that we move forward and allow for a regional interstate banking system to take shape so that when that inevitable day of a national interstate banking system does arrive, we can control our own destiny and not simply be one of the smaller ones who are unable to compete in the environment we know is going to be created.

It should not be ignored that the Office of the Comptroller, FDIC, and the Federal Reserve are all advocates of breaking down geographical barriers to banking. We can cast this off by simply saying well what do they know about Kansas, but the truth is these three separate regulatory agencies do have a picture of the developing banking industry in the United States as we near the 21st century. After a great deal of time and study and research, and after observation of interstate banking that's going on in almost all the other states in this nation, these three agencies have reached the same conclusion. I would challenge you to go beyond the isolated picking out of facts and relating of anecdotes you will hear tomorrow and look at all the wealth of studies on the issue of interstate banking. It becomes so very, very clear that the hard evidence supports the contention that it does benefit the consumer, that it does strengthen the banking system and that it will be a fact of life as we leave the decade of the 90's. This legislation allows Kansas banks to prepare for that change.

A couple of year ago at an economic conference at the University of Kansas, a senator from Indiana who is involved in agriculture, was on a panel. I bring this up because the opponents have always used Indiana to tell you how bad the system is. Senator Morris, when asked what the impact on Indiana of interstate banking has been, made the following observations, "I think among the public in general, it's almost a non-event. I have the feeling that good loans still have all the money they want and poor loans have a hard time getting it, and I guess that'll probably continue to be the case." On his own personal note, he pointed out that one of the banks formed out of state that came in was very aggressive in securing business and said, "In fact we just moved our major banking line to that company." He noted that they were very innovative in the kinds of loan arrangements they could make and his final comment was, "I think those are the kind of innovations that are going to create capital in our state." He went on to say that the banks in Indiana were stronger and that "there has been an improvement in services in many of our areas." I use this quote for a number of reasons. First, it's a legislator who was involved in agriculture that has first-hand experience with the changes this brings. Secondly, I think his comments are so true, that for the public it is a non-event much as what multi-bank holding was. I would remind you that even though multi-bank holding passed with the bare 63 votes needed in the House, that two years later, it was a non-issue and showed up in no one's re-election efforts. I bring that point to you simply to let you know that the public only is interested in the service it gets and is not interested in the squabbling of those who provide it.

In conclusion, I must be candid with you and tell you that I don't think there will be any miracles occurring with the passage of interstate banking. In my judgment, it does have the potential for our state to build stronger banking systems. In my judgment, it does have the potential to increase competition and that's always good for the consumer. I think there will be new products, new services and I think there will be new strength to finance the business and agriculture needs of this state. On the other hand, I can see no value in continuing to lock Kansas into a very narrow and frankly provincial position of refusing to acknowledge the changes going on in banking and finance throughout this country. A year ago, as Iowa was nearing the passage of its interstate banking law, David B. Lawrence, an associate professor of finance at Drake University, wrote the following editorial opinion."

> "The time has come to modify Iowa banking laws again. The last thing Iowa needs is to be to America what Albania is to Europe, isolated and locked out of world developments because of an archaic and dogmatic philosophy."

Kansas is beginning to look at the world for markets. It is beginning to find new places to sell its products and new ways in which to create business and industry in this state by finding the products and services those in other states and even other countries need. Kansas does not need to be locked out, to be isolated from those developments going on in banking because of an archaic and dogmatic philosophy. For nearly three decades in this state, those you will hear from tomorrow have opposed virtually all changes in our bank structure laws. It is with some irony that once the changes occur, they are some of the very first to use them. So while I wouldn't give them an "A" for consistency, I would for their pragmatic ability to see the value to their customer of these changes. Our appeal to you today is that competition is good and that keeping banks out of Kansas and keeping Kansas banks from the opportunity to go to other states, is no longer necessary and is certainly counter-productive. L. William Seidman, Chairman, Federal Deposit Insurance Corporation (FDIC), in testimony last summer before Congress summarized it well when he said "geographic restrictions on bank expansion need to be revisited. These restrictions have contributed to an overly regulated and inefficient system for our banks, as well as to greater risk in the banking system due to the lack of diversification." It is time to revisit this issue. It has been talked about and offered to this legislature for three years, and I urge you to consider making 1991 the year that Kansas joins the union.

Thank you.

TESTIMONY OF H. BOONE PORTER
REPRESENTING THE GREATER KANSAS CITY
CHAMBER OF COMMERCE
JANUARY 29, 1991
COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS
KANSAS HOUSE OF REPRESENTATIVES

My name is Boone Porter of Overland Park and I am an attorney with Lewis, Rice and Fingersh and chairman of the Legislative Committee of the Greater Kansas City Chamber of Commerce's Kansas State Affairs Committee. My legal practice specializes in banking laws and regulations.

The Greater Kansas City Chamber is made up of over 3,000 businesses in the Greater Kansas City area. Many of our Chamber businesses are either located in Kansas or a substantial number of their employees live in Kansas. The Chamber Board of Directors has endorsed interstate banking in Kansas.

According to a 1989 Kansas Inc. study, attention needs to be given to the removal of barriers to growth in Kansas' banking industry. Last year, the Kansas Legislature approved legislation allowing for unlimited branch banking. However, legislation allowing for interstate banking was not approved and Kansas remains one of three states in the nation which bars interstate banking.

This is an economic development issue. In order for businesses to expand or new businesses to start-up, the availability of capital is critical. Interstate banking will lead to more competition and will give Kansans better access to capital. Studies have demonstrated that Kansas has more total banks and these banks contain less deposits than banks nationally. Kansas banks are also below the nation in the ratio of loans-to-deposits. The smaller the bank the more likely it will be lending at rates significantly lower than the national average.

Like it or not, interstate banking already exists and Kansas banks are at a competitive disadvantage. The passage of S&L bailout legislation made state lines obsolete. As of 1989, World Savings of California had 7.5 percent of the Kansas City area's deposits. Credit unions and financial service companies also have no geographic limits.

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H.B. 2059 is a modest proposal. It allows interstate banking in adjacent states and the states of Arkansas and Iowa. There are also safeguards in the bill which will ensure that a newly-acquired bank will continue to serve the needs of the local community.

In summary, the Greater Kansas City Chamber endorses this proposal and I am open to any questions you may have about this issue.