Approved [signature] 2-7-91
Date

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS.

The meeting was called to order by Delbert L. Gross, Chairperson, at

3:30 ~~a.m.~~/p.m. on January 30, 1991 in room 527-S of the Capitol.

All members were present except: Representatives Herman Dillon, 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: Senator Frank Gaines
Richard Diamond, President, Community Bankers Association of Kansas
Pete McGill, McGill Associates
Linda McGill, McGill Associates
Clark Young, Treasurer ofthe Community Bankers Association of Kansas
Larry Stutz, Executive Vice President, First Bank of Alma, Kansas
Howard Tice, Kansas Association of Wheat Growers

The Chairperson called the meeting to order at 3:30 and stated again the meetings would start on time -- 3:30 P.M.

The Chairperson announced the hearings would be for the opponents on HB 2059. The Chairperson further stated this will be brought up for vote on February 7 if it is believed there are enough votes to carry the bill.

Senator Frank Gaines was the first conferee, stating this issue keeps coming back. The same group is at the well again.

There are problems now with the FDIC and they say banks will pay for it which will be approximately 1% of the deposits. This assessment is more than ½ if the net earnings in Kansas in a year. Many banks cannot pay for it. FDIC's assessment is more than the net of one month's earnings of the bank. The people in Kansas will pay for this bill. Banks will look at the service charge and pass this charge on to the customers. In 1991 the assessment will be 19½ of 1% -- in previous years this was 12 of 1%. If we do this what will it do for the state of Kansas and its charges passed on to the consumer. If this bill is passed it will be for the Fourth National Bank of Wichita. There are problems with big banks in Nebraska. Yesterday testimony was given that interstate banking would help Kansas, but this is not so. Interstate banking is not in the best interest of the Kansas people and I oppose it.

The next conferee was Pete McGill of Pete McGill & Associates stating they represent the Community Bankers Association and they oppose HB 2059.

Most of the members of CBA belong to the Kansas Bankers Association as well, but have a completely different philosophy on bank structure issues.

This is an industry dispute. In a survey 21% of the people of Kansas favor interstate banking, while 52% oppose, and 27% are undecided.

Interstate banking will be paid for by the people of Kansas. (See Attachment #1)

Richard Diamond, President of the Community Bankers Association of Kansas was the next conferee stating that he owns and manages a $17 million bank in Mankato, which is located in north central Kansas, with a population of approximately 1,100 persons. There are a number of national and state issues discussed at the CBA annual meeting each year. For the past two years, one of the resolutions approved by the membership has been opposition to interstate banking. DBA believes that a concentration of economic power and political power placed into the hands of a few financial institutions is contrary to the best interest of this state and the nation. It is felt the concept of interstate banking will not serve the credit needs of Kansas, and will encourage out-of-state banks to gain access to Kansas deposits for use in other states.

In states of similar size and economic structure as Kansas which have permitted interstate banking, the results have shown an outflow of capital from the state which leaves less loanable funds available for local use. Interstate banking is not in the best interest of Kansas, nor her citizens, in order to maintain a strong Kansas economy through the current banking systems now at work in the state. (See Attachment #2)

Linda McGill, McGill and Associates, was the next conferee testifying for John Turner, President of Development Concepts, Inc. of Auburn, Maine, sharing the views of Maine's experience with interstate banking.

Interstate banking became law in Maine when passed by the Maine Legislature and signed into law in 1975. The law became effective in 1979 and Maine saw its first bank acquisition in 1982. In 1983 the Maine Legislature approved a reciprocal agreement with the other New England states.

Many colleagues and I supported Interstate Banking. It was our opinion the law would move Maine's economic development efforts along at a much quicker pace. As economic development practitioners we were impatient with the ability of Maine banks to fund the capital needs of our businesses and industries. We thought interstate banking would:

Create a method for the large regional banks to provide capital necessary to fund the expanding Maine economy.

Bring new banking programs to Maine.

Increase the level of sophisication within the Maine banking community.

Bring new bankers with new ideas into our banking industry. For the first several years Maine benefitted from interstate banking. Four of the largest commercial banks were purchased by regional institutions, which now, for all practical purposes, control a great deal of the flow of capital into and out of our state. Maine's capital formation needs to fund economic growth are being dictated by bank holding companies in Boston, Providence and Albany. Maine, like the rest of New England is in the throws of a deep and prolonged recession.

It is our belief the recession started with the passage of the 1986 Tax Reform Act and that banks, because they totally misjudged the full impact of the law, caused the recession to accelerate. Because out of state banks owned Maine banks, the tougher credit policies began to impact our state, causing disruption in our market.

Credit decisions are made in big cities in other states and those decisions are raising havoc within Maine's economy. Interstate banking did stimulate the Maine economy during the mid 1980s. The decision to allow large banks to purchase commercial banks appeared to be the best thing for Maine. The bottom line to you, the Kansas lawmaker, is simply, how much control are you willing to give up over your economy in the hopes that additional capital will be injected by large banks? He who holds the purse strings will soon dictate control. (See Attachment #3)

Clark Young, Treasurer of the Bankers Association of Kansas was the next conferee stating banks primarily deal with other people's money. The management of the bank has the responsibility to decide how best to manage the peoples money, both conservatively and efficiently. To improve our local trade area from where we receive our deposits. The banks of Kansas are safe and sound and 1990 closed with only one bank closing in Kansas.

The current system in Kansas in no way restricts the flow of commerce or money in and out of the state of Kansas. Kansas banks can make loans outside the state of Kansas and do so. Nothing keeps any of the banks into Kansas. Kansas banks through their holding companies own and control banks located out of state and do. Out of state banks can loan money into Kansas and do so. Nothing keeps any of the banks in the United States from loaning money into Kansas. (See Attachment #4)

Larry Stutz, Executive Vice President of the First Bank of Alma, Kansas, testified 4 good reasons not to pass interstate banking:

1. While the main benefit of this legislation is to bring new capital into the state, at least three (3) of the proponents indicated you shouldn't worry about any negative effects of this legislation because it is not likely to be used. Kansas banks have stronger capital than average U. S. Banks.

2. The proponents cited the benefits in Texas. That has now been questioned.

3. To protect our consumers, borrowers and communities the proponents give you CRA. Examiners are now looking at CRA. It is felt the regulators will be slow to use enforcement actions--therefore, the damage will already be done. Will primarily use enforcement actions such as denial of new branch application or ATM applications rather than cease and desist orders or monetary penalties.

4. The proponents indicate we should rush out and pass this legislation before the U.S. Congress passes their own law. Why spend the time and money to enact an unpopular bill now that, according to the proponents, will b be meaningless if and when the U.S. Congress passes nationwide branch banking. (See Attachment #5).

Howard Tice, Kansas Association of Wheat Growers, testified on behalf of the members of the Association which is in opposition of multi-bank holding companies and unlimited branch banking because of the negative effect they tend to have on agricultural credit. Banking laws are enacted to protect depositors, not to restrict trade. Since the depositors are the owners of the money entrusted to the banks we feel this is highly appropriate.

We don't need to change the law to allow interstate banking. This is just another way for big banks to become even bigger and more powerful and for Kansas deposits to be controlled by bankers from other states. (See Attachment #6)

After discussion the meeting was adjourned at 5:00 P.M.

Date: January 30, 1991

GUEST REGISTER

NAME	ORGANIZATION	ADDRESS
Sue Anderson	Community Bankers Assn	Topeka
Dave Cleveland	Dept. Of Commerce	TOPEKA
Howard W. Tice	K. A. W. G.	Hutchinson
Michelle Peaters	John Peterson & Associates	Topeka
Ken Bahr	6th Financial Corp.	Topeka
[illegible]	Citizens State Bank (CBA)	Hiawatha
Jeff Sonnich	KNLSI	TOPEKA
Richard Desmond	State Exchange - Mankato CBA	Mankato
[illegible]	1st Natl Bank in ALMA, Ks	ALMA Ks
[illegible]	State Treasurer's Office	201 N LSOB
Kathy Lovelace	Community Bankers Assn	Topeka
Jerie Sleppy	CBA	Topeka
Judi Stork	Kansas Banking Dept	Topeka
W. Newton Male	" " "	"
BRAD SMOOT	BANK IV	"

Date: January 30, 1994

GUEST REGISTER

NAME	ORGANIZATION	ADDRESS
[illegible]	Topeka	[illegible]
[illegible]	KBA	Topeka

TESTIMONY

OF

PETE MCGILL

OF

PETE MCGILL & ASSOCIATES

BEFORE THE

HOUSE COMMITTEE
ON
FINANCIAL AND COMMERCIAL INSTITUTIONS

JANUARY 30, 1991

RE: HOUSE BILL 2059

1-30-91

Mr. Chairman and Members of the Committee:

My name is Pete McGill of Pete McGill & Associates. We have had the privilege of representing the Community Bankers Association for the past 12 years, and we appear here today in opposition to H.B. 2059.

I have with me today, Mr. Richard Diamond, President of the Community Bankers Association from Mankato, along with other members of the association that will be addressing you a little bit later.

Most of the members of CBA belong to the Kansas Bankers Association as well, but have a completely different philosophy on bank structure issues.

Even with one hour and fifteen minutes of testimony yesterday, not one witness stated any concerns for the people -- the depositors in our Kansas banks.

The original Kansas banking statutes were enacted in the 1930's to protect the people of Kansas, not the bankers, and for many years they were not modified or changed unless it was in the public interest, not the banks. Now that has changed and we continue to consider legislation for a minority of bankers, contrary to the desires of the people.

Yesterday, when you had the question and answer period, I was hoping someone would ask the question, "Why is the Kansas Legislature even debating this issue?"

Have you thought about that? You are being asked to referee an industry dispute. Not more than one or two people on the committee even want to consider this issue. Not many more than that want to see it on the floor of the House of Representatives.

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I have been around the legislative process for a number of years, and I can tell you in any other committee on any other issue relating to any other industry, the committee would say, "Don't come to us until the industry settles its own differences."

And who represents the people in this issue? You don't see any parade of citizens before this committee asking for this legislation. You haven't been contacted by one single person that doesn't have banking connections regarding this subject.

That is one of the reasons Pete McGill & Associates commissioned a survey last November to see what the people thought about interstate banking.

I sent a copy of that survey to each of you before the session started, but in case you have misplaced it, there is another copy attached to my testimony. I have always said, "If this issue is to be before the Legislature, it should be to consider the legitimate concerns of the people, not the bankers." I'd like to take just a minute to review what that survey tells me.

Keep in mind, this was a thousand vote sampling, conducted statewide, sampling about 200 people in each Congressional District. This is what the survey people call an extremely large sampling and contend the margin of error is not more than three percent.

You will note only twenty-one percent (21%) of the people of Kansas favor interstate banking, while fifty-two percent (52%) oppose, and twenty-seven percent (27%) are undecided.

It is important to note the people in every Congressional district oppose interstate banking.

In the Fifth Congressional District in southeast Kansas, only fourteen percent (14%) of the people favored interstate banking, only sixteen percent (16%) in the First District, and in the Fourth District where Bank IV's home office is located, only twenty-three percent (23%) of the people favor it. Isn't it interesting that even the KBA's own poll shows the majority of the banks in that area are also opposed.

I call your attention to a copy of an article in the *Wichita Business Journal* (attached) where some of the larger banks in Wichita either have no position or are opposed to interstate banking.

Mr. Chairman, yesterday there was much emphasis placed on the fact this is only regional interstate banking. I would like to quote from Sam Forrer's testimony last year. Sam is a banker from Ulysses, Kansas.

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

One final comment -- interstate banking is not inevitable. It is only inevitable if you vote for it. And keep in mind, once you get it, you can never get rid of it. It is irreversible!

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CENTRAL RESEARCH CORPORATION
RESEARCH AND CONSULTING

November 3, 1990

HOW THE POLL WAS CONDUCTED

The statewide poll was a professionally conducted, scientific survey of Kansas residents who are registered and planning to vote. One thousand respondents from throughout the state were interviewed by telephone between October 29 and November 1 for this edition of the poll.

The statewide sample was made up of proportional numbers of respondents from each of the state's five congressional districts. Each district subsample consisted of proportional numbers of rural and urban residents. Individual respondents were selected by means of a computer-assisted random selection process.

Statewide results are based on the total sample of 1000, with about 200 from each congressional district. According to accepted standards of statistical inference, estimates based on the statewide sample of 1000 should rarely vary by as much as 3 percentage points from the results that would pertain if everyone in the target pouplation had been polled instead of just the representative sample.

Estimates based on smaller subsamples (such as a single congressional district) are subject to larger estimating errors.

Throughout, all percentage values have been rounded and reported to the nearest whole percent.

The poll was designed and conducted for The Topeka Capital-Journal by Central Research Corporation of Topeka, a well-respected market research and consulting firm.

900 BANK IV TOWER • TOPEKA, KANSAS 66603 • PHONE (913) 233-8948 • FAX (913) 233-8956

"Would you favor or oppose changing Kansas law to allow "Interstate Banking"...which would allow out-of-state banks and bank holding companies to own banks in Kansas?"

	StateWide ALL	By Congressional District... 1st	2nd	3rd	4th	5th	Those who consider themselves... Rep	Dem	Ind	Age 18-29	Age 30-44	Age 45-64	Age 65 +	Males	Females
	(n=1000)	(196)	(198)	(204)	(200)	(202)	(446)	(304)	(245)	(130)	(303)	(334)	(230)	(493)	(507)
Favor	21%	16%	21%	32%	23%	14%	22%	18%	25%	27%	27%	19%	12%	27%	15%
Oppose	52%	61%	41%	37%	57%	62%	54%	53%	45%	53%	48%	55%	50%	51%	52%
[Don't Know]	27%	23%	38%	31%	21%	24%	24%	29%	30%	19%	24%	26%	37%	22%	32%

Interstate Banking: Who Will Bear the Cost and At What Price?

WHAT ABOUT THE PUBLIC . . . . YOUR CONSTITUENTS?

"Policies that determine the bank's direction are made by the central office. There is no question you lose some local autonomy and management freedom when you are dealing with a large holding company. The current trend in the banking industry is for large holding companies ... to buy smaller banks and exert control over those banks."
--*Augusta* (Maine) *Journal*, August 25, 1989.

Banking services will cost more. Interstate banking will increase the outflow of local funds which would bring higher rates to small customers. --*New England Economic Review*, March/April, 1986.

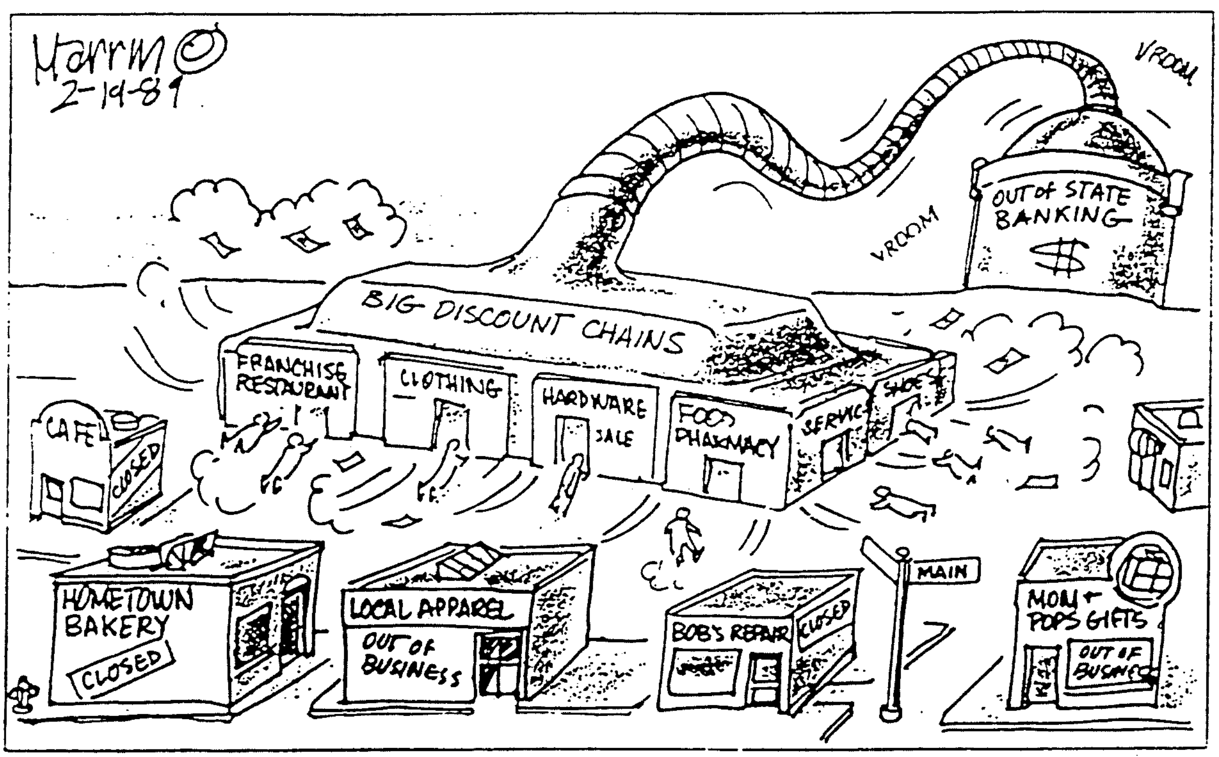
"I believe the net result of allowing control of funds to leave the community will be higher prices and less service, not to mention a drastically reduced ability of the local financial institutions to provide funds during periods of growth and expansion." --Larry Adams, Executive Vice President, Pioneer Bank & Trust, Ponca City, Oklahoma, December 1988

"The huge banks, with their bureaucracies, are usually in no position to cope with the financial needs of smaller businesses." --Arthur Burck, business consultant who specializes in business mergers, as printed in the *Palm Beach Post*, August 1987.

". . . individuals and very small businesses, no longer the sole commercial focus of these banks, may be hurt." --*New England Economic Review*, March/April, 1986.

The data collected in a 1988 survey by the American Bankers newspaper on benefits and problems associated with bank mergers suggests that after a merger, banks focus on large customers they presumably deem more important to retain.

"If Kansas City's small business community thinks that it's hard to get a bank loan now, just wait until (full nationwide) interstate banking arrives." --*Kansas City Times*, December 1988.



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What's Hai ed in Other States That pted Interstate Bankinc

Arizona
As of 1989, four banks control 88% of the states banking business. Three out of the four largest banks are owned and controlled by out-of-state corporations. --Arizona State Banking Department.

Florida
"We have lost control of our banking industry." --Arnoid A. Heggestad, Professor of Finance and Banking, University of Florida.

Florida lost 12 of its 15 biggest bank companies to outside buyers in the 1980's.

"Within six months of the time the regional compact went into effect, four major mergers either had been announced or consummated. In every instance, the headquarters of the resulting company were in Charlotte (Alabama) or Atlanta (Georgia)." --*Florida Trends,* October 1989.

Illinois
It's true that the outside ownership of any more of Chicago's major banks would be a blow to the city and its status in financial circles. Soon three of Chicago's top five banking firms will have foreign ownership. --*Chicago Tribune,* November 6, 1989.

Illinois interstate banking law went into effect 7-1-86, and by May 1987 there were 16 out-of-state application to buy out 37 Illinois banks worth $4.3 billion. There was only 1 Illinois application to buy an out-of-state bank. --*American Banker,* July 15, 1987.

Indiana
The state of Indiana passed interstate banking on January 1, 1986. Fourteen out-of-state corporations purchased in excess of $9.8 billion dollars of Indiana deposits as of June 16, 1989 and removed control of these resources from Indiana.

"There have been very few acquisitions made by Indiana Bank Holding Companies. The few acquisitions that have been made have involved Indiana Bank Holding Companies located near the state lines, acquiring banks in the near proximity of their Indiana offices." --Department of Financial Institutions of the State of Indiana, 1989.

Maine
. . . a trend has developed toward control by out-of-state organizations of banking in states with relatively low deposits and relatively small banking organizations. Maine illustrates this development.

"(The out-of-state) Banks that have entered that state (Maine) own its five largest commercial banking organizations and control 83 percent of its commercial banking assets." --*Federal Reserve Bulletin,* February 1987.

Minnesota
". . . we believe that many small towns today can be more effectively served by a local community bank that does not have the substantial overhead of a multi-state banking system." --DeWalt Ankeny, chair, First Bank Systems, Inc.

"First Bank Systems said when it bought these (rural banks) that the purchase was good news for our communities because the size and flexibility of the bigger system would make for more secure and aggressive local banking. We suspect buying and selling both had more to do with the prospect for profits than any particular concern for the quality of the banking . . . ." --*Worthington Daily Globe,* August 20, 1985.

Texas
"Deposits generated in such places as Lufkin are being used to refinance shaky real estate and energy loans in Dallas and Houston. And with the little banks left with little money to lend, local business are being squeezed -- some right out of business. The big banks are choking the entire state." --Wall Street Journal, May 25, 1988.

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

Kansas . . . .
Legislators will be doing their constituents a disfavor if they don't pay heed to the results of research on interstate banking in other states.

Your Help
In Defeating Interstate Bank Ownership Legislation
Is Appreciated!

DISPELLING TI IYTHS OF INTERSTATE BANI ....

MYTH #1: IT WILL INCREASE COMPETITION.

WRONG!

"... what will actually happen? We will see more interstate mergers of existing banking institutions. Instead of more banks we will have fewer banks. It is difficult to see how fewer banks will result in more competition." –Former Senator William Proxmire.

Affiliation increases the extent to which funds collected by small banks are brought under the investment control of large banks. –*New England Economic Review,* March/April, 1986.

MYTH #2: IT'S ALREADY IN PRACTICE.

WRONG!

This is a misconception. Interstate commerce–the exchange of financial services across state lines is being confused with interstate banking. Interstate commerce is very much in practice today and has been since before Kansas statehood. But interstate banking deals with bank ownership. The question is do you want to permit out-of-state bank holding companies to purchase and control Kansas bank capital?

The legislative policies of the United States have opposed interstate ownership of banks for more than fifty years. These policies were legitimate responses to unrestrained business activities that were a significant contributing cause of the devastating economic conditions known as the Great Depression. "Government controls are both not at the whim of captious congress, but in the aftermath of some great public harm." –Jane Bryant Quinn, "The Banking Free-For-All," *Newsweek* magazine, Feb. 13, 1984.

MYTH #3: IT WILL AID ECONOMIC DEVELOPMENT.

WRONG!

"It is our belief that left to its own course, interstate banking and the entry of banks into ever increasing lines of commerce will lead to undue concentration of economic resources in large money-center and regional banks and a concurrent drying up of available capital in smaller towns and communities." –William J. Dennis, Research Director, National Federation of Independent Business, Statement to the United States Senate Banking Committee, June, 1983.

MYTH #4: IT'S INEVITABLE.

WRONG!

An issue as significant as this must be able to stand on its own merits. The rationale that just because other states have enacted this, does not mean it would be necessarily beneficial to the citizens and economy of Kansas.

MYTH #5: IT GUARANTEES ADDITIONAL CAPITAL FOR KANSAS.

WRONG!

The proponents of interstate bank ownership have suggested that such legislation will bring capital into Kansas. But the time established rule is money flows to where the demand is greatest and to those who are willing to pay the price.

The fact is, capital is available to any credit worthy Kansas who needs it, and is not dependent on bank size. A bank of any size can, through its correspondent banks and through participation with other banks, procure funds to satisfy the needs of Kansas borrowers. Recently, the newly formed Bankers' Bank of Kansas, chartered by community banks in the state, has been increasingly active in this area.

Community Bankers Association of Kansas • 5605 SW Barrington Ct., Ste. 100 • Topeka, KS 66614

THE WALL STREET JOURNAL.

FRIDAY, JULY 26, 1985

Branching Out

Two Minnesota Banks Illustrate the Pitfalls Of Interstate Networks

Norwest, First Bank System Find Central Operations Can Stir Local Discontent

Divergent Plans for Growth

By JEFF BAILEY
And RICHARD GIBSON
Staff Reporters of THE WALL STREET JOURNAL

WAHPETON, N.D.—Back in the 1950s, First Bank Wahpeton staked Ed Shorma to a start in the shoe-repair business, lending him $1,500.

As his company turned to making canvas, farm-equipment parts and other products, the bank financed his growth and its bond with him grew stronger. The bankers basked in reflected glory in 1982, when Mr. Shorma was named Man of the Year by the Small Business Administration.

Recently, though, Mr. Shorma's bankers told him that they could no longer approve his loan applications without first calling Minneapolis, home of parent company First Bank System Inc. "They lost the personal contact we needed," Mr. Shorma says. They lost Mr. Shorma, too. He moved his banking to a Fargo, N.D., institution.

Name Changes

Unhappy, too, were some customers of Norwest Bank Wahpeton, which is owned by the other big Minneapolis banking company, Norwest Corp. Before 1983, when Northwest Bancorp. changed its name and the names of its affiliate banks to Norwest, some customers hadn't even realized that their bank wasn't locally owned. Now, though, their checks are sent to a regional processing center 50 miles away, and customers can no longer get as much on-the-spot account information.

The discontent in Wahpeton, a Red River Valley town of 9,064, illustrates the pitfalls that First Bank and Norwest have encountered trying to capitalize on a head-start they enjoy over most other big banks. They long ago were grandfathered into the sort of interstate banking franchises—First Bank in five states, Norwest in seven—that others are still only seeking.

Many banks will probably be following soon, though. A recent Supreme Court decision approved of regional interstate banking agreements like those passed by state legislatures in New England and the Southeast. Other regions are expected to follow. Already, several big mergers across state lines have been announced by banks that hope to survive the coming national onslaught by such institutions as Citicorp and Sears, Roebuck & Co.

No Easy Answer

But the early experience of First Bank and Norwest indicates it won't be easy. "Some banks seem to think that just acquiring another bank in another state will solve their problems," says Joseph J. Pinola, the chief executive of First Interstate Bancorp, a Los Angeles-based company with banks in 11 Western states. "That's fallacious."

At a time when banking faces widespread loan problems and confusion over deregulation, First Bank and Norwest have had a difficult time marshaling their far-flung resources to become national players.

Until recently, entertaining such ambitions and going their own strategic ways would have been unthinkable. First Bank and Norwest were so similar in size and nature that they were known as the Minnesota Twins. Each was born of a Depression-era need of scores of upper-Midwest banks to band together to avert failure. Each gathered cheap rural deposits and made sound farm loans. And each grew quietly to a healthy size, with First Bank becoming the nation's 14th biggest banking concern and Norwest the 20th largest.

First Bank System Inc.

Assets as of June 30, 1985	$24.4 billion
as of June 30, 1984	$21.4 billion
Net income for six months ended June 30, 1985	$79.0 million
ended June 30, 1984	$64.2 million
Net income for year ended Dec. 31, 1984	$131.1 million
ended Dec. 31, 1983	$129.7 million

Norwest Corp.

Assets as of June 30, 1985	$19.9 billion
as of June 30, 1984	$21.4 billion
Net income for six months ended June 30, 1985	$58.6 million
ended June 30, 1984	$66.2 million
Net income for year ended Dec. 31, 1984	$09.5 million
ended Dec. 31, 1983	$125.2 million

But since 1981 the farm economy has been in a tailspin. And with deposits made more costly by deregulation, the banks had to look elsewhere for growth and profit. "It's hard to prosper when your customers aren't," says Darrell G. Knudson, First Bank's vice chairman in charge of banks outside the Twin Cities.

First Bank decided anything fancier than old-fashioned lending would be too dicey in these turbulent times. Its chairman and chief executive, George H. Dixon, simply directed his bankers to do more lending. The bankers did, and First Bank had the fastest loan-growth rate—26% in 1984—of all top-20 banks during the last two years.

The money for all those loans is coming from excess deposits at First Bank's small-town banks. But that is causing some controversy. State officials worry that First Bank's push to make big corporate loans may lead it to neglect some of the communities its 74 banks were chartered to serve. And some banking analysts have expressed concern that such rapid loan growth could expose the company and all its little banks to big losses.

Norwest decided to cast its lot with consumer financial services and has already stumbled badly. Dial Corp., a nationwide finance company that Norwest bought in 1981, has contributed steadily rising profits. But the rapid expansion of Norwest's mortgage-banking business into the nation's second largest backfired. The unit lost nearly $100 million last summer on an experimental—and unsuccessful—effort to hedge its mounting interest-rate risk on adjustable-rate mortgages. Today, the mortgage unit is all but dismantled, and most of it has been sold to General Motors Acceptance Corp.

Interstate banking squeezes Maine

Tight money blamed on big owners out-of-state

By Jeff Smith
Staff Writer

The mergers of Maine banks with out-of-state holding companies helped fuel the state's economy during the boom of the mid-1980s, but there is growing fear that those interstate connections could now damage Maine as the Northeast's economy falters.

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

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

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

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

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

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

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

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

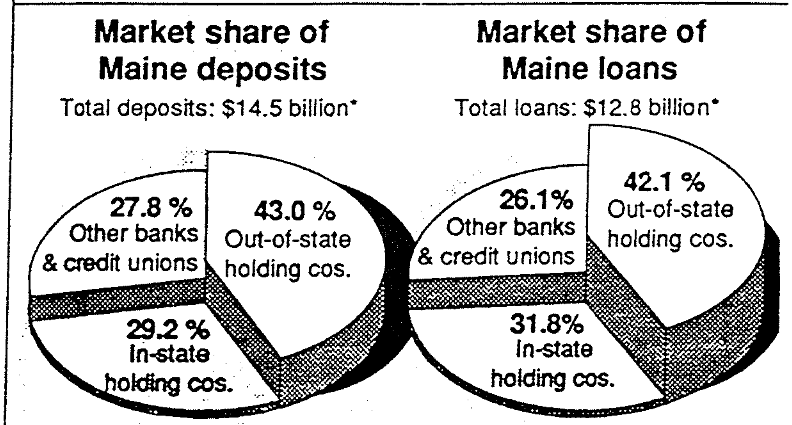
While there is no clear evidence of an out-flow of capital from Maine, reports and interviews with regulators, bank executives, borrowers, analysts and other experts show the following:

- Loan growth has slowed dramatically in Maine. Gallaudet acknowledged that Casco Northern, for example, decided not to renew at least $50 million worth of credit lines, but he noted that number is a small percentage of the bank's $900 million commercial loan portfolio.
- Borrowers with longtime relationships with certain banks are being forced to seek financing elsewhere.
- Maine's banking system, whose total assets are $17 billion, has lost the autonomy it enjoyed in the past. Out-of-state banks control 43 percent of Maine deposits and 42 percent of total loans. More than 80 percent of the traditional commercial banking market is controlled by interstate banks.
- Most of the Maine banks that have reported losses are out-of-state owned, and the most troubled in-state-owned bank — The One Bancorp — is hurting partly because it tried too aggressively to become a regional player.
- Independent banks, many of

See BANKING
Back Page This Section

Maine's banking market

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



* As of June 30, 1989

Source: Maine Bureau of Banking

Telegram/ Tom Peyton

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Banking

Continued from first page this section

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

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

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

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

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

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

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

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

Until recently, loan-to-deposit ratios, a key indicator of the amount of money re-invested in the community, ran at a staggering 85 percent and more at most Maine banks. The figure was well above historical averages of 50 to 70 percent.

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

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

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

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

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

Feeling the problems

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

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

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

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

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

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

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

Consultant Turner said he started to realize there was a change in lending practices in the spring of 1989, when he received an unusual number of inquiries from companies with credit lines being threatened.

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

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

Some Casco Northern customers agree.

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

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

Borrowers sue

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interstate bank ownership

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

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

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

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

Source: Maine Bureau of Banking

Telegram/Tom Peyton

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The Wichita Eagle

BUSINESS & FARM

TUESDAY January 29, 1991

FDIC fading fast, officials admit

Associated Press

WASHINGTON — The Bush administration is projecting that the government fund insuring bank deposits will run out of money next year unless banks shore it up with billions of dollars.

The forecast, to be included in the administration's budget due out Feb. 4, is the first official acknowledgment of a possibility that private economists have warned of for months.

By Sept. 30, 1992, according to the forecast, there will be a $4 billion deficit in the Federal Deposit Insurance Corp.'s bank fund, which stands behind $2.2 trillion in deposits. By the end of 1995, the Office of Management and Budget thinks the deficit will be $22.5 billion.

Those losses likely will occur even if the FDIC in several months increases the insurance premium paid by banks to 23 cents per $100 of deposits, the OMB projects. That's an 18 percent increase over the existing 19.5-cent premium and nearly double last year's 12-cent premium.

The forecast was presented last week to banking industry representatives who are struggling to agree on a mechanism for rebuilding the fund, according to industry sources, who spoke on condition of anonymity.

President Bush likely will mention efforts to strengthen the fund in his State of the Union speech tonight. It will be part of the administration's broader proposal for the biggest overhaul of the financial system since the Depression, which likely will be released next week.

The Treasury Department has proposed — but not decided — that banks provide an extra $5 billion a year for five years, roughly an extra 20 cents for every $100 in deposits, according to an industry source.

The money would go into a special trust fund within the FDIC and be spent in an "early intervention" program to strengthen weak banks before they fail.

FDIC bankruptcy projected

Another omininous warning issued

By Robert A. Rankin
Eagle Washington bureau

WASHINGTON — Spreading bank failures will bankrupt the nation's bank insurance fund as early as the end of this year and certainly in 1992, the Congressional Budget Office said Tuesday.

After months of assurances from federal bank regulators that the bank insurance fund was not facing insolvency even though it was "under stress," the office now projects the fund sinking into the red by $2.8 billion by Sept. 30, 1992, and possibly earlier.

Budget Office Director Robert Reischauer told the Senate Banking Committee that taxpayers probably would have to loan FDIC about $11 billion to shore up the fund. And if the recession is unexpectedly severe, a loan of up to $38 billion might be needed.

"At a minimum, some temporary financing seems to be needed immediately," Reischauer said. He said the banking industry should be able to repay the money by 1996.

The bank insurance fund should be down to about $1.4 billion by Sept. 30 — "and heading south" — because of bank losses stemming from the recession and plummeting real estate values nationwide, Reischauer said.

The Bush administration is expected to acknowledge that the bank fund is headed for insolvency for the first time next Monday when it unveils its fiscal 1992 budget.

The budget will project the insurance fund falling $4 billion into the red by Sept. 30, 1992, and $22.5 billion by Sept. 30, 1995, unless it gets a major infusion of new money, according to reports in the financial press that the administration refuses to confirm.

Members of the banking committee received the news somberly. "It's a rather stunning development," said Sen. Donald Riegle, D-Mich., chairman of the committee. He warned that given the government's history of estimating financial problems, the budget office was probably understating the need for more money.

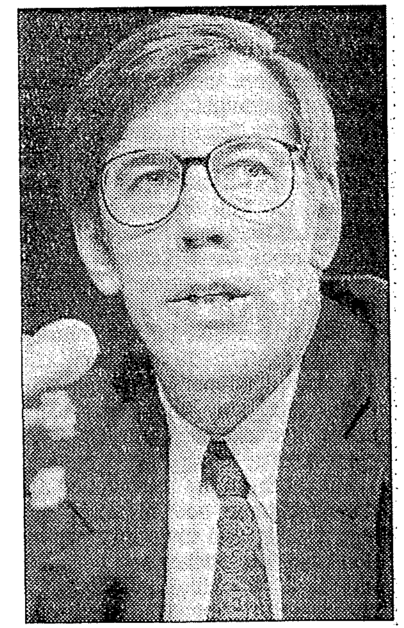
"My guess is that bank balance sheets are a lot worse than they appear at the present time," he said.

However, Reischauer stressed that a taxpayer bailout for banks probably can be avoided, saying that bank woes are nowhere near so bad as the thrift industry's.

"We are not here saying this is a black hole of the sort that developed in the 1980s in the S&L industry," Reischauer said.

Bank problems will be most intense between 1990 and 1993 — when a total of 596 banks are projected to fail — but then the industry should gradually recover its financial health and repay the borrowed billions, with interest, by 1996, he said.

But that forecast depends upon the economic recession being unusually short and mild, as the CBO projects it will be.



"We are not here saying this is a black hole of the sort that developed in the 1980s in the S&L industry."

Robert Reischauer

THE VICTORIA ADVOCATE

145TH YEAR—NO. 212 | VICTORIA, TEXAS, 77901, WEDNESDAY, DECEMBER 5, 1990 | 40 PAGES—35 CENTS

NCNB Texas Directors Resign in Protest

By KEN PRITCHARD
Advocate Staff Writer

The directors of Victoria's NCNB Texas bank have resigned to protest the firing of the bank's two top officers, with the group's chairman saying it is another injustice caused by out-of-state ownership of Texas banks.

In a statement issued Tuesday and endorsed by all seven former directors, the board members said it was the way in which bank President Richard Logan and Senior Vice President Joe Donelson were discharged Friday that angered them.

It stated that the NCNB's district office in Houston took the action without prior explanation or knowledge of the board and without giving the board a reason for the firings.

"It is felt we have no choice but to resign in protest," the statement concluded.

Samuel W. Baker, who started as the Victoria branch president Monday, said, "We regret that the advisers have resigned.

"However, NCNB is determined to go forward in a positive manner in Victoria, doing good things for our customers and our community."

> **"My main concern is what's happening to Texas banking. Ownership is being controlled by out-of-state banks."**
>
> —*Bill Noble*

Members of the dissolved board were chairman Bill Noble and directors Zac Lentz, W.S. Fly, W.J. Brannan, Albert Dick, Melvin Dusek and Carlisle Maxwell.

In comments separate from the board's statement, Noble said he has several concerns about the Victoria branch of NCNB and the ownership of Texas banks by out-of-state institutions:

- NCNB has a very low ratio of loans compared to deposits in Victoria.
- Profits from the Texas division of the North Carolina concern are being used to bolster corporate operations in the sagging East Coast economy.
- NCNB received between $4 billion and $5 billion in federal tax credits, allowing it to be more competitive with Texas banks.
- Lack of care for personnel, citing the discharge of Logan and Maxwell.
- The Victoria branch has had a dramatic reduction in staff and service since NCNB acquired the former First RepublicBank on Laurent Street in 1988.

A spokesperson for NCNB Texas in Dallas reached by phone Tuesday said bank officials had no comment concerning Noble's comments.

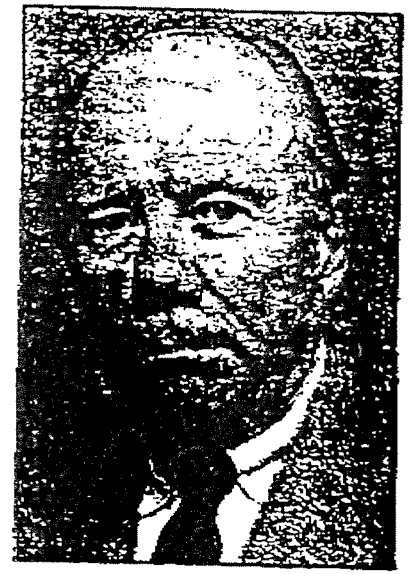
"My main concern is what's happening to Texas banking," Noble said. "Ownership is being controlled by out-of-state banks."

Noble said there is a lack of commitment to the community, claiming NCNB's Victoria branch has about $188 million in deposits — only $33 million of which is loaned out. He said the bank's ratio of loans to deposits of 17.5 percent is well below the industry average of 60-70 percent.

"Go out there and try to get a loan," he said. "It's almost impossible."

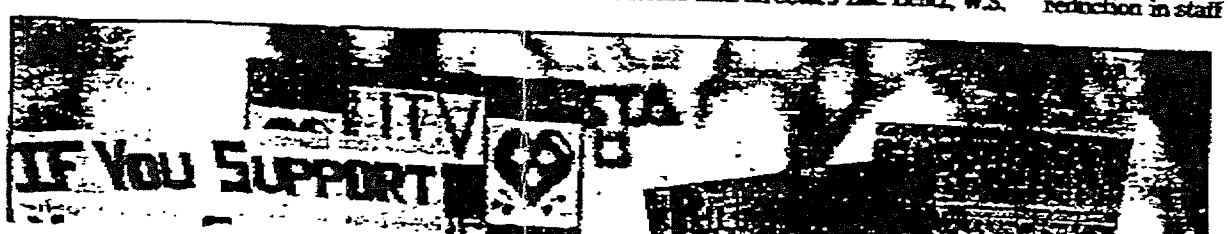
Maxwell said that as a member of the com-

(See DIRECTORS, Page 10A)



Advocate Photo by Roger Cortner

BILL NOBLE
. . . resigns NCNB post



Teachers Join Rally

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last month decided to send
14,000 troops to the gulf,
its troop total to 30,000.

til he ran out of food and was convinced his situation would be best if he gave up.

"The conditions are not as bad as they could be," he said of his imprisonment. "The biggest surprise for me was that Saddam (Hussein) picked me."

Asked for his feelings about the Iraqi leader, he replied: "I'd rather not answer that."

He said he was moved at least five times as part of the "human shield" at chemical and utility plants.

m ... he said.

... his wife, Margaret Jean, will celebrate their 39th wedding anniversary on Friday.

She said she had missed him "a bunch, a bunch, a bunch. It's been lonely. I hope we can get back together again and get to the way it was.

"It's hard to explain," Mrs. Smart said. "I just don't know what to say. It's just wonderful to have him coming home."

DIRECTORS

(Continued From Page 1A)

munity, he is concerned about the bank branch's low loan ratio.

"A community depends on its banks and they (NCNB) tend to ship the money out of the area," Maxwell said.

Noble said the company's profits from its Dallas-based Texas division are being funneled out of the state to help NCNB with Charlotte, N.C.-based NCNB Corp. operations. He said that during the third quarter ending in September, the NCNB Texas division had a net income of $82.2 million. During the same period, all corporate operations for NCNB showed a net income of $56.9 million. Without the income from the Texas division, the East Coast operations would have shown a $25 million loss, he said.

NCNB Texas has more than $35 billion in assets with nearly 300 banking offices in 79 Texas communities.

Noble, who is on contract as an outside consultant to NCNB for 30 more days, said, "The ownership of the outside banks clearly has a direct effect on our economy."

Noble said a $4 billion to $5 billion federal tax credit NCNB received in 1988 has allowed the bank to be more competitive in the markets it serves, because it allows the bank to offer higher interest rates on deposits. And that attracts depositors and their money.

"The banks have grown beyond their imagination," he said.

Noble said another incentive the federal government gave NCNB was taking over ownership of the former First RepublicBank building on Laurent Street and allowing NCNB to select the assets it desired from the failed bank. NCNB only leases the space it uses in the Laurent Street building.

Noble said NCNB has a corporate philosophy of keeping operational overhead low and interest rates for deposits high.

He said they operate like a major discount retail chain.

"As long as you're giving the best price, people will stand in line," Noble said. "Don't worry about the complaints of lack of tellers and people in the lobby."

Noble said that when NCNB acquired First RepublicBank, it had 136 employees. He said that today, there are 28 employees and the branch has a year-end mandate to cut back to 24½ full-time employee equivalents.

Noble said that he suspects the recent discharge of the two bank officers and the recent discharge of loan officer Bobby Taylor have been financially motivated. He said the bank will save $222,000 annually with the moves. Taylor was the highest paid loan officer and was two years away from early retirement from the bank.

Noble said management is from the top down, with no flexibility.

"It is management by intimidation — pass the word down," he said, adding that employees are afraid to stray from corporate policy.

Noble said the firing of the long-time employees for "personnel reasons" has sapped employee morale.

mble Resident Killed 3-Vehicle Collision

lvocate News Service

LAVACA — One man was
d two others injured in a
icle collision 2 miles north
Comfort on state Highway 35
ight.
ad man was identified as
James Fontenot Jr., 35, of
He was pronounced dead at
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Justice of the Peace Jack
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were Mark Anthony Webb,
Pasadena and John Ernest
, of Cuero.
sperson for Memorial Medi-
r in Port Lavaca said Tues-
rnoon that Webb was ad-
or observation and was in
ndition. She said Dukes was
and released following the

ing to a report by Texas De-
t of Public Safety Trooper

Richard Guzman, a small pickup driven by Fontenot was traveling north on Highway 35 and was seen weaving in the oncoming lane of traffic.

Fontenot collided with a truck-trailer rig driven by Webb. The head-on collision occurred in the southbound lane.

The truck-trailer rig veered off the highway into a pasture on the east side of the road.

Dukes also was traveling south when his vehicle struck the pickup, which was resting in the center of the road. His car knocked the pickup into the ditch in the center of the highway and stopped in the south-bound lane.

The report said the road condition was dry. Fontenot was not wearing a seat belt. Guzman and Trooper Brian Krall investigated the accident.

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Interstate banking, new regulations seen as top banking issues in '91

By JESSE MULLINS

Financial institutions locally and statewide are braced for a potentially tumultuous year in 1991, not so much because of pressures within Kansas, but because of possible nationwide banking changes.

Deposit insurance reform, capital standards, risk-taking regulations and real estate appraising guidelines are some of the issues that will confront all financial institutions in the coming year.

Jim Maag, senior vice president of the Kansas Bankers Association, said that for Kansas bankers the major focus of banking in 1991 would be in Washington.

"It will probably be the most important year for banking since 1933, the year when Congress restructured the banking industry, with its creation of the FDIC (Federal Deposit Insurance Corp.), and its restrictions on what banks could and couldn't do," said Maag.

Within the state, the most divisive issue — interstate banking — remains the biggest score to settle. Interstate banking died in a House committee last spring, but advocates have said they are resurrecting the issue in the 1991 session.

Interstate banking's biggest champion, the $4.2 billion Fourth Financial Corp., again is spearheading the movement to break down the prohibitions against interstate banking, but again few other bankers are pressing to climb onto that soapbox.

The Community Bankers Association of Kansas, which has always opposed interstate banking, will again lead the fight. Richard Diamond, president of the group, said he believed that proponents of interstate banking would get the issue re-entered onto the 1991 Legislative agenda, but that the measure would not win passage.

"I'm very optimistic," Diamond said, speaking of his organization's prospects for winning again in 1991. "I can't see why it would be any different than it was last year."

Jordan Haines, chairman of Fourth Financial Corp., said he finds it troubling that Kansas has resisted interstate banking.

"It's frustrating to me, it's confusing to me, it's mind-boggling that Kansas again finds itself at the end of the rope," Haines said on Dec. 11, the day he announced his approaching retirement. "We are the only state that has no form of, or exposure to, interstate banking. Now there might be some who think that being last is a sign of honor. I don't believe it is. It's a badge of being retrogressive, being recalcitrant, being negative. Being last has never appealed to me."

Haines said that although Montana, Iowa, North Dakota and Kansas are the four states that currently prohibit interstate banking from going forward, the other three states all essentially have interstate already, through "grandfather" clauses that exempt certain banking interests.

J. V. Lentell, chairman of Kansas State Bank and Trust, said his bank supports interstate banking, but has not worked aggressively toward its passage.

"The big concern we've all got right now is the increased cost to us of insurance — what insurance costs are going to be beginning in January of 1991 — an increase of 60 percent over what we're paying this year," said Lentell. Banks pay deposit insurance premiums to the FDIC for coverage by that agency.

Mike Michaelis, chairman of Emprise Bank, said he believed interstate banking would eventually come to Kansas. "Personally, I would like to see it held off for maybe four or five years," he said.

Michaelis said Emprise also is tackling the rising cost of FDIC insurance. "It's rising very quickly," said Michaelis. "And I think by and large banks in Kansas are in fairly good shape from the asset

Making '91 a Run at Banking

quality standpoint. It seems to me that basically what we're doing is paying into a fund to cover the cost of closing banks that are primarily on the East Coast."

From the Emprise banking group's perspective, insurance costs are already very, very expensive, he said. "Our FDIC premiums have tripled in three years' time."

William Watson, president of Union National Bank, said his bank does not have a formal position on the interstate banking question. "We've always believed in a fair and open market for all businesses, including banking," said Watson. "I really feel as though banks do a pretty good job in serving the Kansas market." As long as the area's needs are being well supplied, Watson said, he did not believe interstate presented a big issue.

Clark Bastian, president of Wichita's largest S&L, Fidelity Savings Association of Kansas, said that one of the most talked-about issues in the thrift industry — changing thrifts to banks — will not play a big part in the thrifts' coming year.

"From my perspective, the regulators have made it so difficult to entertain the idea of a charter conversion from a thrift to a bank that I really don't think we'll see much of that going on unless it's mandated by Congress," Bastian said.

Bastian said that the idea of converting a charter does not have as much appeal to Fidelity Savings as it would to a thrift in more non-traditional savings and loan activities. Those thrifts that already operate like banks would find the idea more appealing, he said.

Bastian said that the biggest concern he sees in 1991 is what appears to be the attempt by regulatory bodies to eliminate risks in financial institutions.

"Financial institutions are risk-takers," Bastian said. "My concern is that, although they were proper to tighten up controls, they shouldn't do it to the point of its being detrimental to the financing industry. I would say that probably every sector of the economy is feeling the brunt of their attempts to control risks, though to what extent I couldn't say."

Pete,

F.Y.I.

Alan

-20

TESTIMONY

OF

RICHARD DIAMOND
PRESIDENT
OF THE
COMMUNITY BANKERS ASSOCIATION
OF KANSAS

BEFORE THE

HOUSE COMMITTEE
ON
FINANCIAL AND COMMERCIAL INSTITUTIONS

JANUARY 30, 1991

RE: HOUSE BILL 2059

1-30-91
CF&I
Atch 2

Mr. Chairman and Members of the Committee:

Good afternoon. As stated by Pete McGill in his introduction, I am Richard Diamond, the President of the Community Bankers Association of Kansas. I own and manage a $17 million bank in Mankato, which is located in north central Kansas, with a population of approximately 1,100 persons. My bank joined the membership of the Kansas Independent Bankers Association, now known as the Community Bankers Association, a number of years ago. Our reason for membership was because of what the association represents -- and who it serves. I feel that this is best pointed out in the CBA mission statement:

> "The Community Bankers Association is committed to assisting its members fulfill their responsibility to provide safe, dependable, and innovative financial services to the Kansas communities and customers each serves. This membership of CBA consists of banking companies and associated businesses that share the common goals of community banking. CBA is dedicated to providing professional leadership, education, and information with integrity and responsiveness to help its members successfully adapt to economic, regulatory, and competitive change."

At the annual meeting of CBA each year, there are a number of national and state issues discussed. From these issues, there are a number of resolutions which are drawn up and approved by its members. For the past two years, one of the resolutions approved by the membership has been opposition to interstate banking. The CBA members believe that a concentration of economic power and political power placed into the hands of a few financial institutions is contrary to the best interest of this state and the nation. We feel that the concept of interstate banking will not serve the credit needs of Kansas, and will encourage out-of -state banks to gain access to Kansas deposits for use in other states.

2-2

In states of similar size and economic structure as Kansas which have permitted interstate banking, the results have shown an outflow of capital from the state which leaves less loanable funds available for local use. Interstate banking is not in the best interest of Kansas, nor her citizens, in order to maintain a strong Kansas economy through the current banking systems now at work in the state.

In visiting with my bank customers, which by in large are surrounding area residents, I find that they are happiest when the credit decisions are made by local ownership.

With the current merger and branching mania in Kansas, I submit that interstate banking would not serve the public interest. Absentee ownership does not serve the local borrowing public with the same concern and accommodation as they currently have with the bank's owner living in the same town (community) as the farmer and businessman.

dci development concepts, inc.

January 29, 1991

Mr. Chairman, Members of the Committee on Commercial & Financial Institutions:

My name is John Turner, President of Development Concepts, Inc., of Auburn, Maine. I have been invited to submit testimony by the Community Bankers Association of Kansas and share my views of the Maine experience with Interstate Banking.

Development Concepts, Inc., was formed in 1983 as a company that assists private industry in their efforts to raise debt for expansion and/or refinancing projects. Our subsidiary DCI Realty Group, brokers commercial and industrial properties throughout Central and Southern Maine.

Prior to forming Development Concepts, Inc., I was Executive Director of the Lewiston-Auburn Economic Growth Council, a local full service, not for profit, Economic Development Corporation.

P.O. Box 708 / Auburn, Maine 04210 / 207-782-6104 / FAX (207) 782-2837
THE ENGINE HOUSE, CORNER OF COURT AND SPRING STREETS

1-30-91
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Between the two organizations, we have raised in excess of $300,000,000 for Maine business and industry. I might add the majority of funds were borrowed from banks purchased by out-of-state banks here in Maine.

I have served as President of the Economic Development Council of Maine, a 300 member trade organization dedicated to the economic well-being of the Maine economy. I am immediate past Chairman of the Board of the Lewiston-Auburn Area Chamber of Commerce, a 700 plus member organization.

I am also a graduate of the American Economic Development Council's Economic Development Institute, University of Oklahoma, Norman, Oklahoma.

Interstate Banking became law in Maine when passed by the Maine Legislature and signed into law in 1975. The law became effective in 1979 and Maine saw its first bank acquisition in 1982. In 1983 the Maine Legislature approved a reciprocal agreement with the other New England States.

Many of my colleagues and I supported Interstate Banking. It was our opinion the law would move Maine's economic development efforts along at a much quicker pace. As economic development practioners we were impatient with the ability of Maine banks to fund the capital needs of our businesses and industries.

We thought Interstate Banking would:

- Create a method for the large regional banks to provide capital necessary to fund the expanding Maine economy.
- Bring new banking programs to Maine.
- Increase the level of sophistication within the Maine banking community.
- Bring new bankers with new ideas into our banking industry.

Interstate Banking did in-fact accomplish those points, at least for the first several years of the law. The Maine economy, especially in the Southern, more urban centers of the State, benefited from Interstate Banking.

However, what my colleagues and I did not understand was the downside risk of Interstate Banking; the most notable of which is the tremendous dependency Maine now has on out-of-state banks located in the region's urban centers. Four of our largest commercial banks were purchased by regional institutions, which now, for all practical purposes, control a great deal of the flow of capital into and out of our State.

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The Maine economy can no longer be measured onto itself. The State's border with the rest of New England no longer exists as it relates to our economy. Maine's capital formation needs to fund economic growth are being dictated by bank holding companies in Boston, Providence and Albany.

And, the region's more urban centers dictate credit policies for Maine's business community, whether our economy is experiencing the same economic conditions of those cities or not.

Historically, Maine has not realized the economic good times, nor the bad, at the same level as other New England states.

Our home owned and home grown banks were conservative enough to insure stability, and yet did not have the capital necessary to fund tremendous upswings in our economy like we saw in the mid-1980's.

Our banking centers of Portland, Lewiston and Bangor were administered by local people with local ties who understood the market and made decisions based upon need, not on what the competition was, or was not doing.

Now, Maine, like the rest of New England is in the throws of a deep and prolonged recession. Many of us have spent a great deal of time trying to understand why.

- Interest rates have been stable for the past eight to ten years.

- Inflation has been manageable over the same period.

- Oil prices, until recently, have been stable.

- Maine's business climate, while not good, has not changed dramatically.

What changes were made to warrant such a dramatic turnaround within the Maine economy?

It is our belief the recession started with the passage of the 1986 Tax Reform Act and that banks, because they totally misjudged the full impact of the law, caused the recession to accelerate. As the wealthy moved away from investing in real estate because of provisions dictated in the 1986 Tax Reform Act, demand for real estate decreased rapidly followed by a decrease in values.

The full impact of the tax law changes were first realized in Massachusetts. As more and more real estate loans defaulted in Massachusetts, banks necessarily tightened credit policies. Because those banks owned Maine banks, the tougher credit policies began to impact our state, causing disruption in our market. Ultimately, Maine became a full fledged participant in the recession, whether we wanted to be a part or not.

As the regional banks began to lose more and more money, dramatic steps were taken in an apparent attempt to increase the liquidity ratios of their parent organization. They included:

- Reneging on previously made loan commitments.
- Failure to renew lines of credit needed by manufacturers.
- Called demand loans.
- Declared several companies in technical default and demanded payments of outstanding loans.
- Closed dozens of branch banking operations throughout rural parts of Maine.
- Stopped lending to new clients. In some cases financing proposals were sent back unopened. Loan officers called and asked that new loan proposals not be forwarded for consideration.
- Forced a high turnover of bank loan officers.
- Loan officers became little more than file clerks.
- The needs of Maine communities are no longer considered.
- Closed a check processing center in Lewiston, and moved it to Rhode Island; at the cost of 150 plus good jobs.

Let me give just two of dozens of examples of how our clients were impacted.

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We were retained by one client whose loans were being called despite the fact the loan payments were current, payments were never missed. This company is the largest employer and taxpayer in its small Maine community.

During one of several meetings, a local independent banker asked the bank representative if he cared about the employees of the company or town. His answer was simply, and I quote, "We could care less, they are not our problem".

Because of the dramatic turnover of loan officers, this company had no less than five loan officers over a four year period, none of whom really understood our client's business.

A second example was a similar situation involving the town's largest employer and taxpayer. The company was forced to repay loans, again despite the fact it was current with payments.

The company found another lender at a cost of $180,000 non-productive dollars.

At the closing, the bank would not release liens until a $23,000 pre-payment penalty was paid despite the fact the bank called the loan.

The personal touch no longer exists. Credit decisions are made in big cities in other states and those decisions are raising havoc within Maine's economy. This is especially true with those companies dependent on our natural resources for raw materials.

Our unemployment rate is racing toward double digits, with no end in sight.

Our state government is projecting a $900,000,000 shortfall over the next two years.

Our current state budget is estimated to be $180,000,000 short of projections, causing layoffs and program cuts.

Capital formation is the name of the game in economic development.

The Maine Legislature and Governor has formed a "Commission of Investment Capital" to do "an analysis of the obstacles to capital investments in the State".

The Commission is currently conducting hearings throughout Maine in an effort to better understand our current "capital crunch", as it is now being called.

Take the time to study what has happened in New England. Our experience should help guide you. As lawmakers of the State of Kansas, I believe it is imperative you do due diligence before making your decision.

Because of Maine's inability to access capital to stimulate our economy, that negative economic trend will continue.

Already we have seen the failure of one of New England's largest banks, the Bank of New England. That bank is the owner of the Maine National Bank, historically one of the best, and most profitable banks in Maine. That bank has not been a factor for two years in our State, as it relates to meeting the credit needs of the private sector.

Let me be completely honest with you. Interstate Banking did stimulate the Maine economy during the mid-1980's. The decision to allow large banks to purchase our commercial banks appeared to be the best thing for Maine.

These regional institutions did not, and I repeat, did not, intend to initiate policies that would so severely impact our State. They were forced to react as they did, and are, because of factors unforeseen at the time our in-state banks were purchased.

3-9

Maine, like Kansas, is a rural State dependent on our natural resources such as wood, textiles, fish and food.

Those that make decisions for the larger banks have little knowledge of how our economy works. Maine is apparently a very low priority, not even a blip in the computer screen, in relative terms, when looking at the New England region.

In retrospect, Maine should have guarded against the temptations of Interstate Banking and worked harder to assure the long-term stability of our own, locally owned and operated banks.

In no way do I wish my testimony here today to be construed as being critical of the people who operate the in-state banks which now are owned by the larger regional banks.

They are good people, good bankers, caught in the middle of a terrible situation.

Proponents will argue no state has considered repealing the Interstate Banking legislation. What are we going to do; tell those banks they must give back our banks they purchased?

Secondly, proponents will certainly say the law is reciprocal, yet reality dictates that Maine banks are not strong enough to purchase out-of-state banks, with a few exceptions.

The bottom line to you, the Kansas lawmaker, is simply, how much control are you willing to give up over your economy in the hopes that additional capital will be injected by large banks? He who holds the purse strings will soon dictate control.

Thank You!

3-11

TESTIMONY

OF

CLARK P. YOUNG

TREASURER
OF THE
COMMUNITY BANKERS ASSOCIATION
OF KANSAS

BEFORE THE

HOUSE COMMITTEE
ON
FINANCIAL AND COMMERCIAL INSTITUTIONS

JANUARY 30, 1991

RE: HOUSE BILL 2059

1-30-91
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TESTIMONY BEFORE THE HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS

HB 2059: INTERSTATE BANKING

BY CLARK P. YOUNG

JANUARY 30, 1991

1. KANSAS BANKS ARE MADE UP OF 90-95% OF CUSTOMER'S DEPOSITS ENTRUSTED TO LOCAL BANK DIRECTORS.
2. KANSAS BANKS ARE DOING BETTER THAN AVERAGE, SAFE AND SOUND. THERE'S NO NEED FOR OUT OF STATE ASSISTANCE.
3. KANSAS BANKS MANAGEMENT AND BOARD ARE RUN BY KANSANS WHO ARE ACCESSIBLE AND ACCOUNTABLE TO THE LOCAL COMMUNITY.
4. KANSAS BANKS CAN LOAN MONEY OUT OF STATE AND DO.
5. OUT OF STATE BANKS CAN LOAN MONEY IN KANSAS AND DO.
6. KANSAS BANKS CAN OWN/CONTROL OUT OF STATE BANKS. THIS HAS ALREADY OCCURRED.
7. LARGE OUT OF STATE BANKS AREN'T AS CONCERNED ABOUT OUR STATE.
8. LARGE OUT OF STATE BANKS ARE IN FINANCIAL TROUBLES.
9. LARGE OUT OF STATE BANKS NEED OUR DEPOSITS FOR THEIR OWN BENEFIT.
10. 98% OF KANSAS BUSINESSES ARE SMALL - KANSAS BANKS CAN SERVE THEM BEST.

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TESTIMONY BEFORE THE HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS

HB 2059: INTERSTATE BANKING

BY CLARK P. YOUNG

JANUARY 30, 1991

CHAIRPERSON GROSS, MEMBERS OF THE COMMITTEE, IT IS AN HONOR TO APPEAR BEFORE YOU AND EXPRESS OPPOSITION TO THE "INTERSTATE BANKING" BILL. MY NAME IS CLARK P. YOUNG. I AM THE TREASURER OF THE STEVENS COUNTY ECONOMIC DEVELOPMENT BOARD, A LICENSED PRACTICING ATTORNEY IN THE STATE OF KANSAS, AND THE EXECUTIVE VICE PRESIDENT/LEGAL COUNSEL FOR THE CITIZENS STATE BANK OF HUGOTON IN SOUTHWEST KANSAS. OUR BANK IS A 65 MILLION DOLLAR BANK BUT DON'T LET OUR SIZE IMPRESS YOU. ONLY AROUND 5 MILLION DOLLARS IS ACTUALLY THE BANK'S CAPITAL. THE OTHER 60 MILLION IS MADE UP PRIMARILY OF DEPOSITS FROM THE HUGOTON AREA ENTRUSTED TO US BY LOCAL CITIZENS. IT IS OUR PRIMARY GOAL TO INVEST THIS MONEY LOCALLY TO IMPROVE THE ECONOMY FROM WHICH WE RECEIVE OUR DEPOSITS.

YOU SEE, BANKS DEAL PRIMARILY IN OTHER PEOPLE'S MONEY. THE MANAGEMENT OF THE BANK HAS THE RESPONSIBILITY TO DECIDE HOW BEST TO MANAGE YOUR MONEY, BOTH CONSERVATIVELY AND EFFICIENTLY, TO IMPROVE OUR LOCAL TRADE AREA FROM WHERE WE RECEIVE OUR DEPOSITS.

THIS SCENARIO HAS PROVEN TO WORK MOST EFFECTIVELY THROUGHOUT THE YEARS. NOW, WHEN MANY STATES HAVE DECIDED TO ENTRUST THEIR LOCAL MONEY TO REGIONAL MONEY CENTER BANKS VIA INTERSTATE BANKING, SOMETHING HAS GONE AWRY.

DOES KANSAS NEED THESE REGIONAL MONEY CENTER BANKS? NO.

IN A RECENT ARTICLE DATED JANUARY 10, 1991, APPEARING IN THE TOPEKA CAPITAL-JOURNAL, THE SAFETY AND SOUNDNESS OF KANSAS BANKS WAS EXPRESSED BY SEVERAL AUTHORITIES (SEE ATTACHED ARTICLE). 1990 ENDED WITH ONLY ONE BANK CLOSING IN KANSAS. EVEN IN THE FEDERAL RESERVE'S 10TH DISTRICT COMPRISED OF SEVEN MIDWESTERN STATES, THE ROA OF THE ENTIRE DISTRICT FOR THE FIRST HALF OF 1990 WAS .71 WHILE KANSAS BANKS BEAT THE AVERAGE WITH AN ROA OF .87 (SEE ATTACHED).

EACH OF YOU REPRESENTATIVES ARE MORE THAN LIKELY AWARE OF WHO MAKES THE DECISIONS IN THE LOCAL BANKS WITHIN YOUR DISTRICT. EACH OF YOU HAVE ACCESS TO THAT PERSON OR PERSONS. AND EACH OF THESE DIRECTORS OF THE LOCAL BANKS ARE ACCOUNTABLE TO THEIR LOCAL COMMUNITY.

THAT'S WHAT COMMUNITY BANKING IS ALL ABOUT. ACCESSIBILITY TO VOTING DIRECTORS AND ACCOUNTABILITY TO THE COMMUNITIES BY THE VOTING DIRECTORS. IT'S A CHECKS AND BALANCES SYSTEM THAT WORKS VERY WELL. A LOCAL VOTING DIRECTOR CAN EXPEDITIOUSLY CHANGE AND ADAPT TO LOCAL NEEDS.

TAKE AWAY THE CHECKS AND BALANCES AND THE SYSTEM IS LESS THAN SATISFACTORY. REMOVE THE ACCESSIBILITY BY THE PEOPLE AND ACCOUNTABILITY TO THE PEOPLE BY THE DIRECTORS AND MANAGEMENT OF THE BANK AND YOU HAVE SIMPLY, INTERSTATE BANKING OR BANKING WHERE BIG BROTHER FROM SOME OTHER STATE OR REGION CALLS THE SHOTS.

PLEASE UNDERSTAND ME. OUR CURRENT SYSTEM IN KANSAS IN NO WAY RESTRICTS THE FLOW OF COMMERCE OR MONEY IN AND OUT OF THE STATE OF KANSAS. KANSAS BANKS CAN MAKE LOANS OUTSIDE THE STATE OF KANSAS AND DO SO. LIKEWISE, OUT OF STATE BANKS CAN LOAN MONEY INTO KANSAS AND DO SO. NOTHING KEEPS ANY OF THE BANKS IN THE UNITED STATES FROM LOANING MONEY INTO KANSAS.

IN FACT, KANSAS BANKS THROUGH THEIR HOLDING COMPANIES CAN OWN AND CONTROL BANKS LOCATED OUT OF STATE AND DO SO. CURRENTLY, KANSAS BANKS HAVE ACQUIRED .08% OF BANKS ASSETS OUTSIDE OF THEIR HOME STATE AND ARE ALLOWED TO DO THIS IN STATES THAT ALLOW NATIONWIDE INTERSTATE BANKING. THE ONLY REQUIREMENT THAT WE HAVE IN KANSAS IS THAT KANSAS BANKS BE DIRECTED BY KANSANS, THE VERY PEOPLE WHO ARE MOST CONCERNED WITH THE KANSAS ECONOMY AND THE FUTURE OF OUR FINE STATE.

WHY WOULD WE EVEN CONSIDER TURNING TO THE NATIONS LARGEST BANKS FOR HELP OR SUPPORT? IN A DECEMBER 15, 1990, ARTICLE APPEARING IN THE WICHITA EAGLE, THE ARTICLE STATES THAT

> "MOST OF THE NATIONS LARGEST BANKS ARE TEETERING ON THE BRINK OF INSOLVENCY...WARNS A CONGRESSIONAL REPORT.... THIS NATION FACES AN ALMOST

UNPRECEDENTED SITUATION IN HAVING MOST OF ITS LARGEST BANKS OPERATING ON - OR CONCEIVABLY OVER - THE EDGE OF INSOLVENCY."

DO YOU HONESTLY THINK THESE ARE THE KIND OF BANKS THAT ARE READY AND WILLING TO PROMOTE ECONOMIC GROWTH IN KANSAS? OR ARE THESE THE BANKS THAT ARE LOOKING FOR MORE DEPOSITS TO SHORE UP THEIR OWN FINANCIAL PROBLEMS? IT IS APPARENT TO ME THAT THE NATIONS LARGEST BANKS ARE MORE INTERESTED AND CONCERNED ABOUT THEIR OWN PROBLEMS THAN THE THIRTY-FOURTH STATE IN THE UNION.

I NEED ONLY LOOK AT OUR BANK'S FDIC INSURANCE PREMIUM ASSESSMENTS AND COMPARE OUR 1989 PREMIUM OF APPROXIMATELY $40,000 WITH THIS YEAR'S PREMIUM OF OVER $100,000 TO ASSESS THE CURRENT AND RECENT PAST CONDITIONS OF OUR LARGEST BANKS. SOMEBODY'S GOING TO PAY THE BILL AND KANSAS BANKS ARE DEFINITELY DOING THEIR PART.

FINALLY, I TURN TO THE MOST RECENT ISSUE OF THE KANSAS BUSINESS REVIEW WHERE ON PAGE 22, IN AN ARTICLE ENTITLED "FAMILY-OWNED FIRMS IN KANSAS: RESULTS OF A SURVEY", WHERE I READ, "IN A PREDOMINATELY RURAL STATE LIKE KANSAS, SMALL FIRMS ARE A MAJOR CONTRIBUTOR TO, AND INFLUENCE ON, THE STATE'S ECONOMY: OVER 98% OF FIRMS IN KANSAS FALL WITHIN THE SBA'S GUIDELINES FOR SMALL BUSINESSES." OVER 98%! WHOSE GOING TO BE AROUND IN THE '90'S AND BEYOND TO SERVICE THESE FIRMS NEEDS? SUBSTANTIAL EVIDENCE HAS SHOWN THAT COMMUNITY BANKS ASSIST SMALL BUSINESS FAR MORE OFTEN AND MORE EFFECTIVELY THAN REGIONAL MONEY CENTER BANKS (SEE ATTACHED).

WHO'S GOING TO SERVICE OUR 98% OF FIRMS IN KANSAS? KANSAS BANKS WITH THEIR LOCAL OWNERSHIP AND CONTROL WILL SERVICE THIS NEED MUCH MORE ADEQUATELY.

I URGE YOU TO KEEP KANSAS BANKS AND KANSAS MONEY IN THE HANDS OF THOSE WHO ARE CONCERNED THE MOST ABOUT THE FUTURE OF KANSAS - A KANSAN. NO ONE ELSE CARES AS MUCH OR WILL WORK AS HARD FOR OUR STATE.

I RESPECTFULLY URGE YOU TO OPPOSE THIS OR ANY INTERSTATE BANKING BILL.

THANK YOU.

Chuck P. Young

Kansas banks, credit unions rebounding well

By GENE SMITH
The Capital-Journal

Far from facing the kinds of problems plaguing Boston bankers and Rhode Island regulators these days, Kansas lenders haven't been this healthy in a decade, private and government moneymen said this week.

"The Midwest economy is the bright spot in the nation, I guess," said Harold A. Stones, executive vice president of the Kansas Bankers Association.

Stones said plans for a new federal bailout of a Boston banking complex calls for an extra 1 percent Federal Deposit Insurance Corp. assessment on assets. That will add $23 billion to $25 billion to the FDIC fund, which currently is below $1 billion. It is expected to cost Kansas member banks $243.2 million.

The week began with federal seizure of banks in three states owned by the Boston-based Bank of New England Corp. The chairman of the FDIC estimated that saving the chain would cost $2.3 billion.

Meanwhile, the governor of Rhode Island was working on an acceptable insurance plan to unfreeze five banks and 11 credit unions with total assets of $1.3 billion, ordered closed last week for lack of just such a plan in that state.

But in Kansas, 1990 ended with the closure of only one bank, that in Bazine, and no serious problems reported among the state's 187 credit unions.

Association spokesmen for both the banks and credit unions joined with federal and state regulators to say the troubles in Texas and on the East Coast proved once again that it isn't smart for moneymen to get mired down in the high-risk commercial loan business.

Except for some occasional agricultural exceptions, that hasn't been a problem in Kansas since Dust Bowl days, they said.

Kansas lenders have recovered from their agricultural bath of the late 1970s and early '80s. Their 1990 performance, if a bit below 1989, matches '88 levels

Banks should earn about 99 cents on each $100 of assets and show a capital-to-assets ratio of 92 cents on the $100 — about average in the country.

Ninety-day delinquent loans are still small and show no significant increase. The income stream is steady and has strong capital behind it.

Charles Thacker, regional director of the FDIC, said banks in Missouri, Nebraska, Iowa and South Dakota also "are very sound and profitable and in a position to move forward and handle any challenges they might have."

Particularly "keeping in mind that in Kansas just a few years ago almost half the banks either had no earnings or had losses," said Thacker, "they're doing well."

Throughout the seven-state FDIC region, banks are earning up to a high of $1.10 per $100 of assets, while the national average is 97 or 98 cents.

Kansas credit unions have a current earnings ratio of 99.5 cents per $100 in assets, said Michael V. Culbertson, president of the Kansas Credit Union League.

Kansas City Federal Reserve spokesman Chuck Morris said real estate loans by Midwest banks have increased to 37 percent from 24 percent in the past five years. Business loans have declined to 24 percent from 30 percent over the same period.

"We didn't have a boom time in Kansas, like Boston," said Stones, but the state's economy didn't fall as far, either.

The cattle and hog markets have been excellent lately, he said. The only negative factor in Kansas is commercial real estate — mostly in Johnson County, but that isn't severe.

* On the security of Kansas banks in a volatile world, Stones said, "Banks simply are not loaning money out of territory, and we're not buying huge blocks of undeveloped land. We don't have the authority to do that. We're not exposed.

"We have always had tough, tough accountability and examination — and I think examination will show the S&Ls didn't have that."

The much-discussed FDIC program applies to troubled banks, while credit unions may opt either for a similar but wealthier federal program ($2.2 billion) or a private program headquartered in Chattanooga, Tenn. It likewise has more current reserves than FDIC.

John S. Ruffin, regional director of the National Credit Union Administration in Austin, said his NCUA regional office oversees the 41 federally chartered credit unions in Kansas and audits their $375 million in assets.

In addition to providing insurance for those accounts, NCUA insures 77 state-supervised credit unions with $1.016 billion. Finally, 69 Kansas credit unions are among 324 in the nation insured by the private Mutual Guarantee Corp. of Chattanooga.

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KC EAGLE 12/15/90

Congressional report warns of general bank collapse

Associated Press

WASHINGTON — Most of the nation's largest banks are teetering on the brink of insolvency and tax money must quickly be injected into the government fund insuring deposits, warns a congressional report due out Monday.

Bank failure costs could total $63 billi[illegible] severe recession, it said. Even th[illegible] downturn expected by most eco[illegible]ists would leave the fund short of cash, said the report, which was written by three economists at the request of a congressional subcommittee.

"This nation faces an almost unprecedented situation in having most of its largest banks operating on — or conceivably over — the edge of insolvency," said the study, prepared for the House Banking subcommittee on financial institutions.

The report was written by Robert Litan of the Brookings Institution, a Washington-based think tank; James Barth of Auburn University and R. Dan Brumbaugh of Stanford University. Barth and Brumbaugh are former chief economists of the Federal Home Loan Bank Board, the regulatory agency — since dismantled — of the savings and loan industry.

The report directly challenges Treasury Secretary Nicholas Brady, who has declared banks and savings institutions "as different as chalk and cheese." Brady has pledged that bankers, not taxpayers, will pay to bail out banks if necessary.

FDIC Chairman William Seidman has said the fund has enough money to handle the failures foreseen by the agency into mid-1991. He has recommended the adoption of a backup plan to inject more money into the fund, if needed.

"The report fundamentally deals with possible economic scenarios," he said. "It's a sort of 'what if' report. ... What we all don't know is which 'what if' is the right forecast and we'll never know until we get there."

Barth and Litan favor shoring up the Federal Deposit Insurance Corp. with a massive loan from the Treasury, as large as $50 billion. They recommend that banks repay the sum over an extended period, perhaps 10 years.

The report said, however, that Brumbaugh favors an unambiguous taxpayer bailout because he "believes that higher (deposit insurance) premiums now would send additional weak banks into insolvency."

Chart 1
Return on Assets
Tenth District Banks

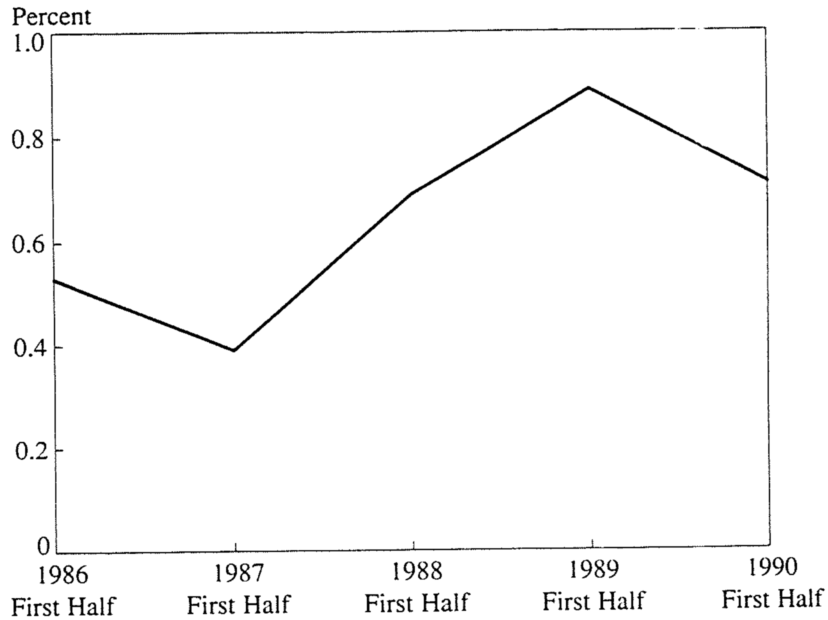
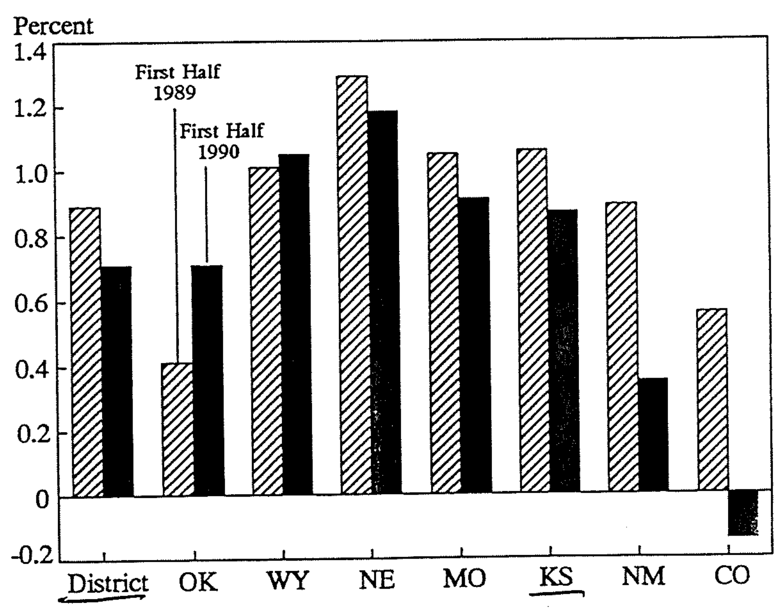


Chart 2
Return on Assets by State
Tenth District Banks



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FOURTH QUARTER 1990

REGIONAL ECONOMIC DIGEST, 10th FEDERAL RESERVE DISTRICT, KANSAS CITY

Table B

Interstate Expansion by Banking Organizations in Each State

*(Banking assets organizations have acquired outside of their home state as a percent of total domestic banking assets in the home state, with each organization's home state based on the location of its headquarters)**

Home state of the interstate organizations	All forms of expansion	State rank	Expansion through full service banks only**	State rank	Expansion solely under general state laws	State rank	Expansion conforming to recent state laws	State rank
Alabama	5.20%	20	5.20%	20	5.20%	17	5.20%	20
Alaska	.00	***	.00	***	.00	***	.00	***
Arizona	3.85	21	3.85	21	3.85	18	3.85	21
Arkansas	1.37	27	1.37	25	.47	30	1.37	25
California	22.44	12	22.49	11	8.19	15	20.88	11
Colorado	.25	37	.25	36	.25	34	.25	35
Connecticut	.00	***	.00	***	.00	***	.00	***
Delaware	.00	***	.00	***	.00	***	.00	***
District of Columbia	54.94	3	54.94	3	13.98	9	46.85	4
Florida	.86	28	.86	27	.86	25	.86	27
Georgia	51.51	4	52.50	4	52.50	2	52.50	3
Hawaii	.75	29	.75	28	.75	26	.75	28
Idaho	12.93	16	12.93	14	9.08	14	12.93	12
Illinois	2.64	22	.66	31	.26	33	.26	34
Indiana	1.93	24	1.93	23	1.93	22	1.93	23
Iowa	.00	***	.00	***	.00	***	.00	***
Kansas	.08	39	.08	38	.08	38	.08	38
Kentucky	.67	31	.67	30	.67	28	.67	30
Louisiana	.00	***	.00	***	.00	***	.00	***
Maine	.00	***	.00	***	.00	***	.00	***
Maryland	16.44	14	11.44	16	11.44	11	11.44	14
Massachusetts	32.12	5	39.47	5	39.47	4	39.47	5
Michigan	11.84	17	11.32	17	11.32	12	11.32	15
Minnesota	31.00	6	31.02	6	.13	36	9.58	17
Mississippi	1.86	25	1.36	26	1.36	24	1.36	26
Missouri	6.37	18	5.84	18	3.14	20	5.84	18
Montana	.36	35	.36	34	.36	32	.36	33
Nebraska	.73	30	.32	35	.11	37	.11	37
Nevada	.00	***	.00	***	.00	***	.00	***
New Hampshire	.57	33	.72	29	.72	27	.72	29
New Jersey	23.54	11	23.83	9	23.83	7	23.83	8
New Mexico	2.26	23	2.26	22	2.26	21	2.26	22
New York	24.49	9	14.29	13	9.62	13	10.19	16
North Carolina	97.47	2	97.24	2	47.90	3	97.24	2
North Dakota	.00	***	.00	***	.00	***	.00	***
Ohio	24.68	8	24.80	8	24.80	6	24.80	7
Oklahoma	.00	***	.00	***	.00	***	.00	***
Oregon	23.60	10	23.60	10	23.43	8	23.60	9
Pennsylvania	14.19	15	11.98	15	11.83	10	11.98	13
Rhode Island	119.52	1	104.11	1	104.11	1	104.11	1
South Carolina	.13	38	.13	37	.13	35	.13	36
South Dakota	.00	***	.00	***	.00	***	.00	***
Tennessee	1.42	26	1.42	24	1.42	23	1.42	24
Texas	.34	36	.00	***	.00	***	.00	***
Utah	20.69	13	20.92	12	3.28	19	20.92	10
Vermont	.00	***	.00	***	.00	***	.00	***
Virginia	29.00	7	28.62	7	28.62	5	28.62	6
Washington	.37	34	.37	33	.37	31	.37	32
West Virginia	.60	32	.60	32	.60	29	.60	31
Wisconsin	5.34	19	5.34	19	5.34	16	5.34	19
Wyoming	.00	***	.00	***	.00	***	.00	***
Median expansion rate	1.42%		1.36%		.75%		1.36%	
Interstate expansion nationwide****	16.46%		14.97%		10.65%		13.73%	

*The percentages listed in this table are based on domestic asset holdings as they appear on the December 31, 1988 Report of Condition. These percentages refer to the acquisition of banking assets in other states by banking organizations located in each state listed in the table. The column "All forms of expansion" is based on all domestic assets held in the state. The other columns exclude from this state asset base the assets held in limited service and nonbank banks. This table includes banks acquired on an interstate basis or approved for interstate acquisition as of April 15, 1989.

**Several states have slightly higher percentages for expansion categories based on full service banks than for the category for all forms of expansion. Nonbank banks owned by nonbanking organizations are located in all of these states. The assets of these nonbank banks are not included in the full service bank asset base used to construct the full service entry percentages. The nonbank bank assets, however, are part of the total domestic asset base used to construct the percentages for all forms of expansion.

***Banking organizations in these states had not made this type of interstate acquisition as of April 15, 1989.

****"Interstate expansion nationwide" compares total interstate expansion in each of the above categories to all U.S. domestic bank assets (column 1) or to all U.S. domestic assets in full service banks (the other three expansion columns).

FEDERAL RESERVE BANK OF KANSAS CITY

would secure employment in Kansas without a tax credit, the benefits and costs from such a policy requires careful evaluation. From a more general perspective, the efficacy of government entities competing to promote economic development within a state or region through intervention into labor and capital markets warrants empirical investigation.

Notes

1. U.S. Bureau of the Census, Current Population Reports, Series P-20, No. 430, *Geographic Mobility: March 1986 to March 1987* (Washington, DC: U.S. Government Printing Office, 1989), Table A, p. 2.

2. *Geographic Mobility*, Table B, p. 4.

3. *Geographic Mobility*, Table B, p. 5.

4. U.S. Bureau of the Census, Census of Population 1980, Vol.2, Subject Reports, PC80-202A, *Geographic Mobility for States and the Nation* (Washington, DC: U.S. Government Printing Office, 1985), Table 11, pp. 85-89.

5. *Geographic Mobility for States and the Nation*, Table 16, pp. 113-117.

6. The percentages indicate the number of times that state was cited as a migration preference as a percentage of total preferences cited.

7. The use of discriminant analysis rather than logit or probit analysis was predicated upon the relatively small sample size.

8. U.S. Bureau of Labor Statistics, *State and Regional Unemployment in 1988* (Washington, DC: U.S. Government Printing Office, 1989), Table 2, p.4.

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Family-owned Firms in Kansas: Results of a Survey

Bartlett J. Finney
Jacob R. Wambsganss

Bartlett J. Finney is associate professor of management, and Jacob W. Wambsganss is associate professor of accounting, at Emporia State University.

Introduction

During the past decade, small businesses were the largest national private sector creator of new jobs.[1] These jobs are just as critical for rural communities as they are for metropolitan areas.

In a predominantly rural state like Kansas, small firms are a major contributor to, and influence on, the state's economy: over 98 percent of firms in Kansas fall within the Small Business Administration's guidelines for small businesses.

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Statement of
William J. Dennis
Director of Research
National Federation of Independent Business

before

Senate Banking Committee
on
Deregulation of the Banking Industry
June 29, 1983

A Survey of Commercial Bank Lending to Small Business conducted by the Interagency Task Force on Small Business Finance provided data from the suppliers of credit and made many of the same points.

It indicated that about 75 percent of loans to small firms are made by small- and medium-sized banks. **Loans to small firms made up 95 percent of the loan portfolio at small banks and 77 percent at medium-sized banks. This contrasted sharply with large banks, where only 13 percent of the loan portfolio is held by small business.**

The same study indicated that small banks charged lower interest rates on small business loans than medium- and large-sized banks in three different categories. And smaller banks were more willing than large banks to make loans to small firms without personal endorsements of guarantees.

The Interagency Task Force study also produced results similar to the NFIB study with regard to interest rates: they tended to be lower the more restricted the branching and holding company activity is. And again, where statewide branching exists, less than half of bank loan portfolios consisted of small business loans as compared to close to two-thirds where limited branching or unit banking exists.

This kind of data contradicts the claims made by some that liberalized branching automatically increases competition, thereby increasing the availability of credit, reducing the cost of credit, and improving bank service to small borrowers. In fact, it implies just the opposite.

Given the better performance of smaller, local banks, it should be no surprise that NFIB members have voted heavily against interstate banking in policy deliberations.

Small businessmen and women are very concerned that as geographic restrictions are eliminated, the small banks on which they rely will be taken over by large banking conglomerates, whose focus will be on deposit taking and consumer lending rather than making commercial loans. They are afraid that their money will be channeled toward large corporations in money centers and toward international investments.

It is in the best interest of the bank to serve the community as well as it can. This probably would not be true if the bank were acquired by a large multinational company headquartered in one of the money centers. There would be some incentive to reap monopoly profits to the greatest extent possible and simply close operations when profits dried up.

STATEMENT OF

JOHN SLOAN JR.
PRESIDENT AND CEO
THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS

BEFORE
THE INDEPENDENT BANKERS ASSOCIATION OF AMERICA

LAS VEGAS, NEVADA
MARCH 12, 1986

SMALL FIRMS AND INDEPENDENT BANKS: A PROSPECTUS

Thank you for inviting me to speak to you today. I am especially grateful for this opportunity because of the close working relationship our organizations have enjoyed in the past, and because of the common challenges we face now and in the coming years.

I am particularly interested in talking about two issues of very great importance to small firms and independent banks: the changing nature of the financial services industry and the persistent problem of uncontrolled deficit spending. The first subject has implications for the availability and delivery of commercial credit, and the second has implications for its cost. I want to take a look at where we find ourselves today on these key issues and to suggest some directions we might take to ensure that the future is secure for small firms and independent banks alike.

First, however, let me spend just a minute telling you a bit about NFIB and its activities. One in every five of you is a member of NFIB, so many of you already know that we are a trade association of more than 500,000 independent business owners. Our membership is a cross-section

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of the small business c   nity, with firms in ever ̄IC code and i   ver part of the country. What makes NFIB unique is that it is run by its members; policy positions are decided by the membership through frequent surveys. Thus, polls of our members on critical issues such as interstate banking, deficit reduction, and tax reform determine NFIB's positions on those issues. Throughout my remarks I will make reference to these polls as they relate to our banking and budget policies.

Credit, Banks and Small Business

Before joining NFIB, I was a co-owner and President of an independent bank. I also spent some time as CEO of a holding company bank. These experiences have given me some interesting insights into the differences between these types of institutions--insights that are particularly relevant to my remarks today. While at First Tennessee Bank, I initiated a program aimed at small and medium-sized firms that were having difficulty affording credit during the sky-high interest rate year of 1980. We established a "small business base rate" that provided these customers with working capital at below prime. Through this and other aggressive pro small business efforts, I was able to keep and expand this customer base. However, many holding company banks have not seen the light in this market and are losing small and medium-sized business customers to their competitors: the independent banks.

In my view, knowing what small and medium-sized firms want and why they want it is the key to success for many banks. Independent banks have a natural advantage in this market, an advantage which (if exploited properly) will position them well as interstate banking spreads to more states and regions.

Small business is opposed to interstate banking, particularly as it manifests itself through the nonbank bank phenomenon. NFIB has been pleased to work very closely with IBAA on efforts to pass HR 20, a bill to close the nonbank bank loophole. We want this loophole closed not only because we oppose interstate, but because we are very concerned about the manner in which nonbank banks separate deposits from use as commercial credit--particularly in the form of small business loans. We are optimistic, however, that our concerted efforts will eventually move this legislation out of the House Rules Committee where it is currently lodged.

Understanding the small business perspective on interstate banking depends, in large part, upon understanding the nature of small business bank relationships. NFIB conducts a biennial study entitled "Credit, Banks, and Small Business" which provides useful insight into small business borrowing characteristics, the criteria small firms have for their banking relationships, and how well those criteria are being met.

Our "Credit, Banks" study shows that small firms are dependent upon commercial bank financing. While new business owners often use personal savings or loans from friends and relatives to meet their financing needs, owners of established firms rely on banks, with over 85% of their funds (and over 90% of their short-term funds) coming from this source. Our findings show that small firms are also frequent borrowers, with over 90% having borrowed at one time or another and over half borrowing at least once per year.

A 1982 survey of banks conducted by the Interagency Task Force on Small Business Finance found that three quarters of all bank loans to small firms were made b[illegible] all and medium-sized bar[illegible] Moreover, t[illegible] study showed that loans to small firms make up 95% o[illegible] the commercial loan portfolio at small banks and 77% at medium-sized banks, compared to just 13% at large banks. This recapitulates the importance of the relationship between small firms and small-to-medium-sized banks.

Why is it that small firms tend to rely on smaller banks? NFIB's banking studies seem to suggest that it is a matter of preference. In our "Credit, Banks" study, small firms were asked to characterize their desired banking relationship and to rate the actual performance of their primary bank against ten different criteria. The study found that small firms valued two standards far above the others: that the banker know the small business owner and his firm, and that the bank be a reliable source of credit. Low cost of borrowing was rated third in importance as a determinant of a good banking relationship, with other factors, such as convenience of location or availability of a wide range of banking services, being far less important. This demonstrates something very important to the interstate banking debate, at least from a small business perspective: small business owners are more interested in getting personal service from their banker than they are in getting the cheapest loan rate or having access to the frills of modern banking.

In summary, our studies show that small firms are dependent upon commercial banks, particularly smaller ones. They show that the small business sector of the economy is not applying merely economic criteria in evaluating banks, but is considering subjective factors as well. Delivery of personal service is the principal touchstone for small firms in evaluating their banks, and this is the guiding element in the small business position on interstate banking. This fact is also valuable to ose of you wh re developing strategies dealing with changes in the financial services industry--particularly geographic deregulation. By focusing on the small business preference for personal service, and capitalizing on your superior ability as independent banks to deliver that service, you can carve out a niche in the market that is both lasting and lucrative.

As mentioned before, our surveys show that small firms are in strong opposition to interstate banking. In three separate polls during the last five years, NFIB members have opposed interstate banking by overwhelming majorities. Our most recent national poll on this issue was conducted late last year. Our members voted against interstate by a 22 percentage-point margin, with 57% opposed, 35% in favor, and the remainder undecided.

* Why do small firms oppose interstate? Our "Credit, Banks" studies suggest that this opposition may be based on the belief that interstate brings with it a decline in personal banking and attention to small business needs. Small firms expect that interstate will eventually mean replacement of small, locally-oriented banks by branches of large, interstate banking chains. Julian E. Fant, Jr. (a Florida banker) wrote in the January, 1985 issue of "Economic Review" (a publication of the Atlanta Fed): "A personal relationship with customers is the characteristic of a community bank that is not much in evidence in the chain bank environment. The authors of In Search of Excellence stated that 'probably the most important management fundamental that is being ignored today is staying close to the customer to satisfy his needs and anticipate his wants.'" By definition, an interstate bank cannot stay "close to the customer" since management is hundreds, even thousands, of miles away.

Small firms also op interstate banking beca they believe will lead to the concentration of bank resources. Stephen A. Rhoades, Chief of the financial structure section at the Fed in Washington, has done a number of studies that point to bank resource concentration as the product of liberalized branching laws and elimination of state barriers in banking. In a recent article for a Fed publication, Mr. Rhoades wrote: "Based on the individual states' experience with geographic expansion opportunities, it is quite likely that interstate banking will signicantly increase the concentration of banking resources at the national level."

Mr. Rhoades stops short of applying this thesis to the local market, however. In his view, the local markets will retain the same level of concentration they now have. This finding is problematic, as separate studies show that the total number of all financial institutions in the United States is expected to decline dramatically, positing current trends in deregulation. Recent record numbers of bank failures provide evidence of this trend, and it is significant to note that the very largest banks (such as Continental Illinois) have not been allowed by the regulators to fail. This "too big to fail" theorem means that as big banks are getting bigger, the base of small banks is allowed to erode: this yields concentration at both the national and local levels.

A study conducted by the Bank Administration Institute projects that over 40% of the nation's 14,000 banks will disappear by the year 1990. If this is correct--and there is a good case for the notion that interstate banking will be a major cause of this change--then it is difficult to imagine local bank markets not being significantly concentrated as a result. A key feature of the small business argument against interstate banking resides in the notion that the diffusion of capital resources is esponsible in large part for the vitality of our economy, especially the small business sector of the economy. This diffusion of capital is inhibited by the attrition of banks brought about by interstate mergers and acquisitions.

In many respects, the futures of independent banks and of small firms are tied together. As I have already mentioned, small firms prefer the small and medium-sized banks that comprise the world of independent banking. At the same time, these small firms are the biggest customers of independent banks, both in terms of numbers of loans and (in many cases) in terms of aggregate loan volume. Because of this symbiosis, strategies aimed at preserving and enhancing the traditional partnership of small firms and independent banks will benefit both sectors. NFIB believes that our organizations can work together to hold the line against interstate, to limit the concentration of capital resources through reasonable bank concentration limits, and to ensure that the right of the states to shape their own banking structures is preserved.

At this point, I would like to turn to some remarks on the federal deficit, its implications for the cost of capital, and what we can do to tackle this problem.

Small Business, Independent Banks, and the Deficit

While interest rates have showed an encouraging tendency downward in recent weeks, small firms remain concerned that in the long term high rates will return. Their concern in this regard is fueled by continued high deficits and a reluctance on the part of Congress to take concrete steps to reduce them. NFIB supported Gramm-Rudman-Hollings as a "better-than-nothing" approach to deficit reduction, but we recognize that 'ongress still must make hard choices necessary cut the red i and to begin reducing the pressure of the Public Debt on aggregate demand for credit. It is our sincere hope that IBAA will be an active player in this fight to get the deficit under control.

Deficit reduction is the leading concern of NFIB's membership. A survey conducted last year found that fully 86% of small firms surveyed indicated that this is the nation's highest priority. These firms favor immediate deficit reduction because they believe, by a margin of 70% to 30%, that high deficits cause high interst rates. How would these firms go about reducing the deficit? Make no mistake: they oppose any tax increase, except as a <u>last resort</u>; fully 77% feel that taxes are <u>already</u> too high.

The majority of NFIB members surveyed (62%) favor a comprehensive approach to deficit reduction involving cuts in all federal programs; a very large percentage (75%) would include a defense budget cut as well. In keeping with this mandate, NFIB has actively pursued a "comprehensive freeze plus" budget--one placing a real freeze on all federal spending (except those programs that cannot legally be frozen) and providing for additional cuts below the freeze baseline, where possible.

Savings estimates for a comprehensive freeze (allowing growth only for inflation) range around $25 billion for a single fiscal year. NFIB would support additional cuts in the nondefense discretionary accounts to achieve the FY 87 Gramm-Rudman-Hollings deficit reduction goal of S36 billion. One area for such cuts would be in the budget for the Small Business Administration (SBA).

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Last year NFIB played a critical role in saving the SBA from the budget axe. We came out of the box early on with an SBA reform proposal that would have preserved the worthwhile programs at the agency while saving nearly as much money as the President's elimination proposal. Eventually, I was able to meet with then-Director of OMB David Stockman and to work out a compromise that involved preserving the agency. While Congress followed up with authorization legislation that would have incorporated many NFIB reforms, this legislation (part of last year's Reconciliation bill) still has not passed.

This year, once again, the President's budget calls for elimination of the SBA, and once again we have responded with a reform proposal that would preserve it. We favor a package of program reforms, privatizations, and terminations that would reduce the SBA budget by over 60% and would save about $1 billion a year. It would:

--Eliminate all direct loans by SBA

--Shift SBIC, MESBIC, and 503 programs to private funding sources

--Reduce Management Assistance programs to a $15 million demonstration grant program

--Eliminate Regional Advocates and the special programs division

--Transfer pollution control bonds to EPA and consolidate minority programs in one agency

--Retain procurement assistance, surety bond, and SBIR programs

--Elevate the SBA Administrator to Cabinet-level status

Most importantly, the NFIB proposal would preserve the SBA loan guarantee program, but make it self sustaining. This would be accomplished by taking the existing assets of the Business Loan and Investment Fund and placing them in a tr the income from which would be used to sustain the guarantee program. The guarantee fee would be increased to 2% (as provided for in last year's Reconciliation package) and a fractional amount, perhaps 1/2%, would be levied annually on the remaining loan balance. This income stream, when added to increased reliance on the Preferred and Certified Lenders Programs, would sustain a guarantee program equivalent to current levels and would also cover the SBA's administrative costs for privatized finance programs (SBIC's, etc.).

NFIB believes this reform proposal represents a reasonable and workable alternative to termination of the agency. An independent voice for small business within the Executive Branch would be preserved, and loan guarantee operations would continue at no cost to the government and with an equitable burden on users. We solicit your support for this proposal as the budget process moves forward this year.

Conclusion

A stable economy capable of growth depends upon a ready supply of capital and ready access to that supply. Small firms, which are responsible for the majority of new jobs in America and a huge portion of its GNP, have prospered because of the diffusion of capital made possible through the proliferation of banks in this country. NFIB views geographic deregulation as essentially inimical to this process of capital diffusion, and (in the long run) inimical to a dynamic economy. At the same time, the huge government demand for credit (driven by the deficit) supplants legitimate private demand, driving up its cost and limiting its availability.

NFIB believes that improving availability and affordability of capital for small firms, and laying the foundation for a sound economy in the ɔming years, ɘnds upon addressing the key issues I have iden ed today: the erosion of our traditional banking structure and the growing burden of federal debt generated by annual deficits. In each case I believe there is room for more activism on the part of those who have the most at stake--small firms and independent banks. On behalf of the membership of NFIB, I look forward to working for solutions to these problems with you and your representatives in the coming years. Thank you.

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INDEPENDENT BANKERS ASSOCIATION OF AMERICA

MEMORANDUM

From... WASHINGTON OFFICE

TO: Executive Committee
State Executives

FROM: Jan Walton, Information Specialist

DATE: December 3, 1987

SUBJECT: ARE BIGGER BANKS BAD FOR SMALL BUSINESS?

The enclosed article, "Are bigger banks bad for small business?" by Jay Finnegan, Inc., December 1987, pp.161-166, contains several examples of small business owners who prefer to bank with independent banks rather than banks belonging to large multibank holding companies. Only one small business owner in the article is satisfied with service from a bank belonging to a large multibank holding company and that is because the bank is allowed to operate with relative autonomy. Bob McCormick (Stillwater National Bank & Trust Co., Oklahoma) and Bob MacDonald (State Bank of Chittenango, New York) are featured.

A sheet containing bank holding company statistics is also enclosed.

CC: 2-17-89
Roland Smith
WIBA

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CC: 7-84
R. d Smith, WIBA

ARE BIGGER BANKS BAD FOR SMALL BUSINESS?

Our man tests the waters in a place where mergers and consolidations are already a fact of life

BY JAY FINEGAN

THE OLD SIGNS HAVE JUST COME down from the 23 branch offices of the Syracuse Savings Bank, the oldest and most venerable financial institution in this upstate New York city of 643,000 souls. Since 1849, the bank has been a pillar of the Syracuse business establishment. But from now on, Syracuse Savings will be part of Norstar Bancorp Inc., the "Beast of the East," as it is known in the banking community—an $11-billion regional powerhouse based in Albany. And starting next month, Norstar itself is slated to lose its independence when it joins forces with Providence-based Fleet Financial Group to form a superregional bank with $25 billion in assets.

Welcome to the brave new world of big-bank banking. Thanks to computer technology, government deregulation, bank failures, and competition from other financial institutions, consolidation is the name of the game in banking these days. By one estimate, the number of U.S. banks could drop from about 15,000 to 5,000 by the end of this century. And the prospect raises some profound and disturbing questions for American business owners and Washington policymakers.

The common fear is that big banks and small business just don't mix very well. Loan authority becomes centralized in faraway headquarters where decisions are made by number-crunching young M.B.A.s who know nothing about you, your business, or your community. And as part of the culture of large institutions, loan officers rotate from place to place and job to job, so that just when you think you've got one trained, another takes his place.

"Lending to small business is very tough," explains Oklahoma banker Bob McCormick, "because the most important part of the underwriting process is the evaluation of management. It is subjective, it is personal, and it takes time and effort by an experienced person. But with consolidation, I think you'll see that kind of personal touch go by the boards."

McCormick is president of Stillwater National Bank & Trust Co. (see "Smart Money," January 1986) and a past president of the Independent Bankers Association of America. Over the years, he has made something of a crusade against what he calls, ominously, the "evils of bank consolidation." And he thinks the federal government should stop it before it threatens the very sector of the U.S. economy that lately has been producing all the new jobs and most of the new products.

"One reason small companies do so well in the United States is that we have thousands of small banks for them to work with," McCormick says. "And if those small banks disappear and you have to go into Bank of America, say, to find your loan, you are hurting."

Only time will tell if his gloomy predictions prove valid. In many areas, the first round of bank consolidation has only just begun. But it may be possible to take a glimpse further into the future in a place

PHOTOGRAPHS BOB MAHONEY

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like Syracuse, where the proximity of New York City's megabanks has already made bank consolidation a small-business reality.

It has been more than a decade since New York State ushered in the era of bank deregulation. In 1976 the state legislature, over the objections of independent bankers and business owners, abolished the banking districts that had made it difficult for the Manhattan megabanks to move upstate. Cities such as Syracuse seemed easy pickings for the likes of Citibank, Chase Manhattan, Chemical Bank, and Manufacturers Hanover. Local bankers braced themselves for the invasion.

"Those big banks came up thinking they were going to blow away the locals," says a Syracuse banker who lived through it. "They thought everyone would want to do business with them because of their size. And it was almost the reverse reaction. The people here were comfortable with their banks, they felt loyalty to them, and they didn't switch."

Manhattan bankers may be callous, but they aren't stupid, and before long most found themselves paring back their Syracuse plans. Chase, however, came up with a different strategy: if you can't beat 'em, buy 'em. Faced with lackluster performance in Syracuse under its own name, in 1984 Chase Manhattan Corp. purchased the Rochester-based Lincoln First Banks Inc., with its 25 or so branches in the Syracuse area alone. In deference to local sensibilities, the new operation was called Chase Lincoln First Bank, and bank officers were told to continue to answer to a regional headquarters in Rochester.

After eight years banking with KeyCorp, Jake Berdan has been unable to get a $200,000 loan to finance a new machine and a whole new line of business.

Even before the change in state law, however, the colonization of Syracuse had already begun. Irving Trust Co. used its holding company to buy up the 17-branch Merchants National Bank & Trust Co. of Syracuse, and The Bank of New York had taken over Metropolitan National Bank of Syracuse. From Albany, the old National Commercial Bank & Trust Co. snatched up the 30-branch First Trust & Deposit Co. in Syracuse in 1971, later renaming the combined organization KeyCorp. And Buffalo's giant Marine Midland Banks, which was most recently a subsidiary of Hongkong & Shanghai Banking, had been operating more than a dozen branches in Syracuse since the 1950s.

As a result of these buys, and Norstar's purchase of Syracuse Savings, the big-bank sweep is now virtually complete in Syracuse. Within a 50-mile radius of the city, only two small banks and a few savings institutions remain independent. "Things are pretty well picked over," says an attorney who handles KeyCorp's acquisitions.

But if small banking is dead in Syracuse, small business definitely is not. Although the city's start-ups are relatively few, the annual INC. survey of metropolitan areas shows a healthy percentage of fast-growth companies among them. And although many of the business owners I spoke with have had their troubles with the big banking outfits, they've found that, so far, there has been enough competition among the banks to provide for their needs eventually.

When Jake Berdan bought EDRO Business Forms Inc. 15 years ago, for example, his bank was First Trust & Deposit. After First Trust was bought by KeyCorp and renamed Key Bank, "we just stuck with them," he says. "The personnel was the same, and I could see no change in their operations for the first 8 or 10 years. I had a good loan officer, and he took a real personal interest in us."

Since then, EDRO, a printer of customized business forms, has grown to 29 employees and annual sales of $1.7 million. Now, with three sons in the business, Berdan sees this as a perfect time to expand into the printing of continuous computer-printout forms, which he now brokers out of state. His problem: after eight months of consideration, Key Bank still wouldn't lend him $200,000 for the new press.

"I just feel that he doesn't understand what I'm talking about," says Berdan. "He has no enthusiasm for this piece of equipment. So I may have to go elsewhere to arrange my financing."

Berdan looks back somewhat longingly to the good old days of First Trust & Deposit, when he thinks this loan request would have been a *pro forma* matter. And he can't help but think that the reason for the bank's indifference has to do with the fact that his company is small.

Martin Yenawine's Eastern Ambulance Service Inc. is also small—$2.7 million in sales last year. And because ambulances wear out every four years, banking is almost always on his mind. His bank is Norstar, and although he has been through three loan officers in seven years, he has few complaints.

"The thing is, we work at it," explains Yenawine. "As soon as we know we are getting a new banker, we ask the old banker to bring the new guy down to see us. A small firm that wants a successful relationship with a big bank has to constantly work at it—just as hard as the bankers do."

And, indeed, Syracuse's big banks have been working at it. For the most part, they quickly learned to adapt their procedures to the sensibilities of local business owners. Bank officials in each region are allowed to set their own policies, develop their own products, and make their own loans—as long as overall performance is in line.

"When Irving bought Merchants National, it promised that it would let Merchants

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run with relative autonomy," says Roger W. Eck. "A lot of bankers, myself included, were skeptical of that. But it turned out to be the case. We make our own loans up to about $4 million per customer. That's going to handle most small and midsize firms, and we compete for that market very aggressively—frankly, it's quite profitable."

As Eck speaks, he is sitting in the office of Mike Busse, president of Microwave Systems Inc., in East Syracuse. Busse listens and nods in agreement. Two years ago, when he bought Microwave in a leveraged buyout from a Virginia company, it was Merchants that saw him through.

"When I walked into the bank and sat down with a loan officer, I told him what I wanted to do with the company," Busse remembers. "I had no money. I said I needed at least $100,000, and I really needed $400,000 on top of that. And the bank didn't throw me out."

At the time, Microwave was in sorry shape—"essentially bankrupt," Busse admits. "Other than myself, there were three employees—the former president and his daughter, who were on their way out, and a foreign-born engineer who couldn't be cleared for defense work. How many banks would take a flyer on something like that?"

Merchants stood him $100,000 at a time when even the Small Business Administration thought him too risky. And the rest of the buyout was financed by the seller. "We didn't do it stupidly," explains Dave DiRoma, the banker who handled the deal. "We felt there were sufficient personal assets to cover our tails." Nonetheless, Busse so liked the way DiRoma finessed the package that he hired him away from the bank to be his chief financial officer.

The bank's gamble has paid off handsomely. Busse now has 30 employees making customized electronics components for everything from TV sets to navy antisubmarine aircraft. He expects to do $2 million this year and projects $9 million by 1989. Merchants has upped his line of bank credit from $100,000 to $200,000.

More money, more sophistication, more competition—these have always been the promises held out for a deregulated, big-bank environment. And yet for every Mike Busse you meet in Syracuse who's pleased with how things have turned out, you also meet someone like Tom Holmes.

T. A. Holmes Inc. fabricates the clear plastic bulk-food bins that you see in supermarkets. The company operates from a low, nondescript building on the east side of the city, and while its growth has not exactly set the world on fire—sales last year were $600,000—it has done well enough to provide its owner with a comfortable living.

Holmes used to bank with Key Bank but grew restless after it rejected his application for $50,000 in working capital. As it happened, Citibank was just opening up in Syracuse and was hungry for new business, and Holmes got his line of credit there. But several years later, he noticed a shift in Citibank's attitude.

"I think they decided that, hey, this small-business stuff isn't too attractive," he says. "So they handed their small-business customers to the same guy who handled used-car loans. I'd be in there to discuss what was to me a terribly important matter, and the phone would ring. He'd pick it up, and I'd hear him say, '. . . a '77 Chrysler—wait a minute. . . .' After that, I got out of Citibank fast."

Holmes ended up at the Bank of New York. He borrowed $70,000 to help finance his move to larger quarters and his switch from distribution to fabrication. When Syracuse's six Bank of New York outlets were bought by Norstar recently, Holmes saw few changes. Even his loan officer remained the same—"they just gave him a different sweatshirt to wear to the softball games."

But 1986 proved to be a dismal year for Holmes's firm. His best salesman suffered serious health problems; his son, his right-hand man, up and quit; and Holmes had to fire his bookkeeper. The company lost nearly $50,000 that year, and Holmes had to put in $40,000 of his own funds to tide things over. And although in five years he never missed a payment to the bank (a few were late, he concedes), Norstar apparently wasn't satisfied.

"They came in not long ago and wanted additional collateral—a mortgage on my house and my summer place," Holmes says. "And worse, they wanted me to pay the $1,000 to have the papers drawn up. That's what really galled me." But Holmes, for all his anger, is now complying with the bank's demands.

"My hunch is that Norstar laid out all this dough for acquisitions, then made the decision to really tighten up and get their risks as close to zero as possible," concludes Holmes. "I think that's the trouble when banks get out-of-sight bigger. Their disregard for individual situations becomes accentuated. They lose the feel for the man, the owner. You become just a number."

Holly Barlow Burns and Carroll Murray Palmer know the feeling. When their six-person advertising agency, Barlow Murray Advertising Inc., outgrew its offices, they shopped for a $200,000 loan to refurbish a large Victorian house, hard by the sprawling campus of Syracuse University. Key Bank was swift to offer the funds.

"Key was quick with a decision, but then they proceeded to give us a hard time as we progressed with the renovation—they just hassled us right down the line," says Burns. "We drew money as we went along, until we got down to the $20,000 to finish the top

Mike Busse (right) thought so much of Merchants National Bank that he hired his loan officer, Dave DiRoma, as Microwave Systems' chief financial officer.

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floor. And they refused to give it to us until we had a tenant for it. We told them we couldn't get a tenant until it was finished. And they said, 'Too bad.' It was absurd."

Instead of fighting, the two marched out to Skaneateles Savings Bank, one of the area's few remaining small independents, less than half an hour's drive from Syracuse. In less than a week, the bank agreed to lend them $210,000—enough to pay off the loan to Key Bank, complete the renovation, and help recoup some of the personal funds they had invested in the project. And things have been copacetic ever since.

Advertising execs Holly Barlow Burns (left) and Carroll Murray Palmer opted for an independent rather than suffer the indifference of Syracuse's giants.

Even today, Burns complains about the annual turnover in loan officers she experienced at Key Bank—a situation that had led to problems even before the renovation. "We had a $10,000 line of credit with Key, and our last lending officer—he was really a disaster—just let it slip through the cracks," she remembers. "We called to see if we could increase our line of credit to $50,000, so we could buy some equipment, and he said, 'Well, your line of credit is no longer in existence.' He said we hadn't updated our financial information. We suggested that he might have called to remind us. So we took a new line of credit from the bank in Skaneateles, and Key has never even bothered to call to see why we aren't doing business with them anymore."

Burns and Palmer are not the only Syracuse business owners I found to have opted for a nearby independent country bank. Out in Cazenovia, a picturesque lakeside village half an hour southeast of the city, Nicholas Christakos's Continental Cordage Corp. sells cords and braided-wire products for everything from venetian blinds to windshield-defogging systems. His customers include IBM, General Electric, 3M, General Dynamics, and Boeing. And his bank is the tiny State Bank of Chittenango.

Back in the early days, when Continental Cordage was based in a Quonset hut and funded by $85,000 of his own money, Christakos went to Key Bank for a modest loan. The local branch manager in Cazenovia said that all he could do was give him a $5,000 line of credit on his MasterCard. "That was my very first business loan, and I will never forgive them for the way they handled it," Christakos says.

Two years later, a stranger walked into the Quonset hut on Good Friday afternoon. His name was Bob MacDonald, and he was president of the State Bank of Chittenango. He wanted to do business with Continental Cordage. Christakos remembers being flattered by the call.

"We were very small then, and we needed $25,000 in a hurry to buy some machinery, and he loaned it to us virtually that same day," he recalls. "Then he said, 'Why don't I give you a line of credit?' So he gave us one for $75,000. The funny thing was, right after that, we learned of another machinery deal, for $95,000, down in Albany. We had to move on it or we'd lose it. I called him and he said, 'I'll have to run it by the board, but you guys go ahead with the deal; you'll end up with it.' So we went ahead with the negotiations, and we got the loan."

These days, now that he has annual sales of $7 million, all the big banks are knocking on Christakos's door wanting to loan him money. They point out that an independent such as State Bank of Chittenango, with only $35 million in assets, has limits on how much it can lend him, and possesses little sophistication when it comes to things like international letters of credit. The big banks also remind him that their loan rates can be as much as two percentage points below what State Bank of Chittenango is charging him. But Christakos isn't impressed. It would take a team of wild horses to drag him away.

Wild horses, that is, or an acquisition. For what worries Christakos most about his bank is that, sooner or later, some megabank will zero in on the profitable little Chittenango bank. President Bob MacDonald says so far there have been no formal offers. But some of the big boys have been around, he adds, "kind of kicking the tires."

Does big banking spell the end for small business? Probably not, if this unscientific sampling is any indication. In Syracuse today there are big banks that take risks, show loyalty to customers, and keep an eye on service, and there are big banks that don't.

Whether it is desirable or not, the trend toward ever bigger banks seems as inevitable as the changing seasons. The Reagan Administration is content to let the consolidation continue, while Congress has been reluctant to intervene. At the Federal Reserve Board, the idea of prohibiting mergers among the country's 10, 25, or 50 largest banks has been tossed around, but as yet there is no consensus on how much consolidation is too much.

Stillwater National Bank's Bob McCormick probably overstates the case when he warns that big banking threatens the viability of America's small-business economy. But in raising the issue, he expresses a common fear—a fear about excessive concentration of economic power—that has kept national banking at bay since the days of Andrew Jackson. There may now be some good reasons for setting aside some of those fears and proceeding with bank deregulation. But as we learned with telephones and airlines, deregulating an industry shouldn't be the same as ignoring it. Banking is too important to be left simply to the bankers. □

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WEDNESDAY January 30, 1991

The Wichita Eagle

6B

BUSINESS & FARM

FDIC bankruptcy projected

Another omininous warning issued

By Robert A. Rankin
Eagle Washington bureau

WASHINGTON — Spreading bank failures will bankrupt the nation's bank insurance fund as early as the end of this year and certainly in 1992, the Congressional Budget Office said Tuesday.

After months of assurances from federal bank regulators that the bank insurance fund was not facing insolvency even though it was "under stress," the office now projects the fund sinking into the red by $2.8 billion by Sept. 30, 1992, and possibly earlier.

Budget Office Director Robert Reischauer told the Senate Banking Committee that taxpayers probably would have to loan FDIC about $11 billion to shore up the fund. And if the recession is unexpectedly severe, a loan of up to $38 billion might be needed.

"At a minimum, some temporary financing seems to be needed immediately," Reischauer said. He said the banking industry should be able to repay the money by 1996.

The bank insurance fund should be down to about $1.4 billion by Sept. 30 — "and heading south" — because of bank losses stemming from the recession and plummeting real estate values nationwide, Reischauer said.

The Bush administration is expected to acknowledge that the bank fund is headed for insolvency for the first time next Monday when it unveils its fiscal 1992 budget.

The budget will project the insurance fund falling $4 billion into the red by Sept. 30, 1992, and $22.5 billion by Sept. 30, 1995, unless it gets a major infusion of new money, according to reports in the financial press that the administration refuses to confirm.

Members of the banking committee received the news somberly. "It's a rather stunning development," said Sen. Donald Riegle, D-Mich., chairman of the committee. He warned that given the government's history of estimating financial problems, the budget office was probably understating the need for more money.

"My guess is that bank balance sheets are a lot worse than they appear at the present time," he said.

However, Reischauer stressed that a taxpayer bailout for banks probably can be avoided, saying that bank woes are nowhere near so bad as the thrift industry's.

"We are not here saying this is a black hole of the sort that developed in the 1980s in the S&L industry," Reischauer said.

Bank problems will be most intense between 1990 and 1993 — when a total of 596 banks are projected to fail — but then the industry should gradually recover its financial health and repay the borrowed billions, with interest, by 1996, he said.

But that forecast depends upon the economic recession being unusually short and mild, as the CBO projects it will be.

"We are not here saying this is a black hole of the sort that developed in the 1980s in the S&L industry."

Robert Reischauer

TESTIMONY

OF

LARRY STATZ
EXECUTIVE VICE PRESIDENT
OF
FIRST NATIONAL BANK, ALMA, KANSAS

BEFORE THE

HOUSE COMMITTEE
ON
FINANCIAL AND COMMERCIAL INSTITUTIONS

JANUARY 30, 1991

RE: HOUSE BILL 2059

1-30-91
CF&I
Atch 5

Mr. Chairman, Ladies and Gentlemen:

I am Larry Stutz, Executive Vice President of First National Bank, Alma, Kansas, a $16 million bank which is 62% loaned out. I spent 5 1/2 years with the Comptroller of the Currency as a bank examiner and one year as a compliance examiner. I am here to speak in opposition to House Bill 2059. I had a very different speech in mind until I listened to the proponents yesterday. In their own testimony the proponent gave you at least four (4) very good reasons not to pass this bill.

1. While the main benefit of this legislation is to bring new capital into the state, at least three (3) of the proponents indicated you shouldn't worry about any negative effects of this legislation because it is not likely to be used! They cited Nebraska which has had its legislation since 1988 and only had one application. If it is so important to the state and we are to gain so much from this legislation, why won't it be used? How can we benefit by passing legislation that isn't likely to be used? Besides, Kansas banks have stronger capital than average U.S. banks.

2. The proponents cited the benefits of the NCNB experience in Texas. In 1990 the Treasurer, Victor Bennett, of the IBAA, at its annual convention questioned Texas bankers about the NCNB experience. He was told that those rural communities were saying NCNB means <u>NO CREDIT</u> for <u>NO BODY</u>. In a recent IBAA publication it was mentioned that one NCNB bank in Victoria, Texas, had $188 million in assets and only $35 million in loans, a ratio of 17.5%. The entire Board of Directors of that bank resigned in protest of the lending policies of NCNB. If this s a prime example of

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what Interstate Banking at work, do Kansas and Kansans want it or need it. Also, to the best of our knowledge, to date there have been no actions taken against NCNB concerning CRA.

3. To protect our consumers, borrowers and communities the proponents give you CRA. This has been the law of the land applicable to both banks and S&Ls since 1977. Where were these examiners in the 1980's when the S&Ls were branching everywhere? CRA is not **Preventative Medication**, but is **Reconstructive Surgery**. Examiners are just now beginning to look at CRA. We have no facts to rely on to show (#1). How effective they will apply this in branching situation? (#2) What enforcement powers they will be willing to use.

Having been a bank examiner for 5 1/2 years with the OCC, I believe that the regulators will:

1.) Be slow to use enforcement actions--therefore the damage will already be done.

2.) Will primarily use enforcement actions such as denial of new branch application or ATM applications rather than cease and desist orders or monetary penalities.

4. Last but not least, the proponents indicate we should rush out and pass this legislation before the U.S. Congress passes their own law. I submit to you that the passage of this law in Kansas is not going to stop the Federal Government from passing their legislation. And if it is such a certainty that the Feds are going to do it anyway, shouldn't we wait to see what they are going to propose before we react to it? Why spend the time and money to enact an unpopular bill now that, according to the proponents, will be meaningless if and when the U.S. Congress passes nationwide branch banking.

Kansas Association Of Wheat Growers

"ONE STRONG VOICE FOR WHEAT"

TESTIMONY

HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS
Representative Delbert Gross, Chairman

HB - 2059

Mr. Chairman and members of the committee, my name is **Howard Tice**, and I am **Executive Director** of the **Kansas Association of Wheat Growers.** On behalf of the members of our association, I appreciate the opportunity to appear today in opposition to **House Bill 2059.**

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

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

Proponents of interstate multi-bank ownership continually argue that agricultural credit will not suffer. They say that if the need is there, **Kansas** banks will service that need. Undoubtedly that is true in some communities, where even big banks recognize the importance of agriculture to our economy. However, that is not the case in many areas of the state. To follow up on this aspect of the question last year, I called two banks that were acquired under the state's multi-bank holding company laws. At one of those banks, located in a community which is heavily dependent on agriculture, farm loans had been greatly scaled back from the **70's** and early **80's**, despite the increased need for ag-credit. The other bank no longer had a farm loan officer, and reported that they participate in farm loans only through correspondent banks. I have no reason to expect improvement at either facility.

We have also been repeatedly told that we need not fear the loss of local loan control. We have been told that local facilities will still have loan officers to make decisions on local requests. However, these loan officers are often imported into an area, with no knowledge of the local people or their needs, and must look to the home office before making decisions. As a result, even with local loan officers, businessmen have had to drive to **Wichita** for loan approval, regardless of their good credit history. Under interstate ownership, will our farmers and main street businessmen have to fly to **St. Louis, Denver** or eventually, **New York** to negotiate their loans?

1-30-91
CF&I
Atch 6

We're told that banks must grow bigger and bigger in order to provide needed services. We've been asked to believe that this will result in more efficient handling of bank services. Usually economy of scale does lower the cost of providing services. Without going into detail, I can testify from personal experience that such has not been true with **Kansas'** largest banking operation, on more than one occasion.

Big banks often say they can't compete with savings and loan institutions under current law. Given the major problems with so many **S & L's**, caused by poor loan decisions, it would appear that depositors are better protected in **Kansas**, under current banking laws. Do we want to "bail out" big banks in next few years, just as we are now doing for **S & L's**?

Proponents of interstate multi-bank ownership claim it is good for economic development, yet a banker in **Great Bend**, told me he favored the idea because he wants to make construction loans in **Chicago** and **Philadelphia**. Ironically, such loans are permissible under current statutes. However, they don't qualify as economic development for **Kansas**.

With the state's present rail transportation problems, it would be appropriate to mention the difficulty encountered by the **Kyle Railroad** when they came into the state to take over some abandoned rail lines, and continue to service northwest **Kansas**. They thought they would need to work with a large multi-state banking corporation in order to finance their operation. However, they found that out of state banks were unwilling to provide funding for their operation in **Kansas**. Working with **Kansas** banks in five communities, they were able to arrange needed funding, and are currently meeting the needs of shippers in the area. The current **Kansas** banking structure provided funding for this necessary enterprise when out of state sources refused.

Kansas shippers face additional rail abandonment by major railroads in the very near future. Financing will be vital to the short line carriers who will be needed to keep products moving. If a large share of **Kansas** deposits are loaned out of state, that money won't be available to serve the needs of the **Kansas** economy.

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

In conclusion, proponents always argue that interstate ownership of **Kansas** banks is needed, and should be allowed. Basically, they represent big banks and non-agricultural business interests. On the other side of the issue are those of us who view these proposed changes as negative. Speaking for my organization, we represent depositors and loan customers, the people with the most to lose.

Banking laws are enacted to protect depositors, not to restrict trade. Since the depositors are the owners of the money entrusted to the banks, we feel this is highly appropriate.

We don't need to change the law to allow interstate banking. Out of state banks can loan money in **Kansas**, and **Kansas** banks can loan money in other states. Deposits can also cross state lines. **Kansas** banks can even be owned by persons who live in other states. You have to decide if interstate multi-bank holding company ownership of **Kansas** banks is positive for our state....or just another way for big banks to become even bigger and more powerful, and for **Kansas** deposits to be controlled by bankers from other states.

It appears that the big banks feel that if they keep bringing this issue up, the **Legislature** will finally give in out of desperation. We hope this committee will resist that tactic.

On behalf of those members of the state's number one industry, who produce the state's number one crop, I urge you to report **HB-2059** adversely.