Approved 2/27/91
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

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

9:00 a.m./~~p.m.~~ on MONDAY, FEBRUARY 25, 1991 in room 529-S of the Capitol.

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

Senators Anderson, Francisco, Kerr, McClure, Moran, Parrish, Reilly, Salisbury and Strick.

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

Conferees appearing before the committee:
Glenda Cafer, American Insurance Association
Jim Maag, Kansas Bankers Association
Barkley Clark, Shook, Hardy & Bacon
Henry Schwaller, University of Kansas
Gary Sherrer, Fourth Financial Corporation

Chairman Bond called the meeting to order at 9:08 a.m.

Glenda Cafer, American Insurance Association, addressed the committee requesting the introduction of a bill which would allow casualty companies to follow the same statutes for filing of rates that pertain to the making of rates for fire companies. (Attachment 1)

Senator Anderson made to a motion to allow the introduction of this bill. Senator Strick seconded the motion. The motion carried.

HB 2059 - Interstate banking - Proponents

Jim Maag, Kansas Bankers Association, appeared before the committee in support of this bill. Mr. Maag also advised the committee that he had passed out written testimony by Murray Lull, President of the Smith County Bank, Smith Center, and that Mr. Lull states that he and many other rural bankers think that interstate banking would be a very positive move for Kansas. (Attachment 2)

Mr. Maag also presented the committee with written testimony by Samuel P. Baird, President of the Farmers State Bank in Superior, Nebraska, and the Jewell County Bank, Mankato, Kansas. Mr. Baird states that Nebraska has interstate banking and it has not caused a flurry of interstate applications. He feels that bankers in rural America need to expand in order to serve the credit needs of the area farmers. (Attachment 3)

Mr. Maag continued his remarks by informing the committee that every Kansas banker had had the opportunity to have input on the interstate issue through membership polls, discussions and debates. He said that of 82% who responded to a poll, 54% were in favor of interstate banking. Mr. Maag stated that no other industry had the tight restrictions on it that the banking industry did. He reminded the members that the several changes in the law during the past decade had resulted in improved services for the consumer and had not caused the problems so feared by some groups. (Attachment 4)

Barkley Clark, Shook, Hardy & Bacon, pointed out to the members that Kansas banks already operate in an interstate environment. Mr. Clark also emphasized that interstate banking increases the services available to the public, that interstate banking would cause capital to flow into Kansas and make more loans available for local businesses. Mr. Clark also stressed that all fifty states have some form of interstate banking and that the passage of laws permitting multibank holding companies and unlimited intrastate branch banking had made for a stronger, more flexible banking system in Kansas. (Attachment 5)

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,

room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on MONDAY, FEBRUARY 25, 1991.

Henry Schwaller, University of Kansas, informed the committee that there was little evidence to support the fear that interstate banking will cause small, community banks to suffer or disappear. He also stated that Kansas could benefit from interstate banking because of: (1) improved access to capital, (2) diversified services, (3) easier customer access to facilities, and (4) more competitive prices and rates. Mr. Schwaller concluded his remarks by stating that this could lead to greater economic growth and a more globally competitive banking climate. (Attachment 6)

Gary Sherrer, Fourth Financial Corporation, was the final conferee to appear in support of HB 2059. Mr. Sherrer informed the committee that this issue was not new and that this was a very conservative bill. He stressed that Bank IV was very involved in the communities in which they are located as evidenced by the multihours of community involvement by their employees. He said that they had dispelled the myth that Bank IV was not interested in agriculture or Western Kansas by making agricultural loans and working with agricultural clients and their lending needs. Mr. Sherrer also informed the committee that this was not a "Bank IV" bill and that his company had no plans to "sell out" to a larger corporation. (Attachment 7)

Minutes of the Wednesday, February 20, and Thursday, February 21, meetings were approved on a motion by Senator Strick with Senator Moran seconding the motion. The motion carried.

Chairman Bond adjourned the meeting at 10:00 a.m.

GUEST LIST

COMMITTEE: FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE DATE: Mon. Feb. 25, 1991

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Jim Maag	Topeka	KBA
Chuck Stones	"	"
Kathy Taylor	"	"
Sue Anderson	Topeka	CBA
Jeri Steppat	Topeka	CBA
[illegible]	Alma	First Natl Bk
[illegible] McGuire	Topeka	CBA
K. Peterson	"	"
Henry Schwaller	Lawrence	IPPBR/KU
Ken Baker	Topeka	4th Financial Corp.
[illegible]	Burlingame	1st State Bank
Glenda [illegible]	Topeka	AIA
Gary [illegible]	Wichita	Fourth Financial Corp
Barkley Clark	Kansas City, OP	Shook, Hardy & Bacon
Harold Stones	Topeka	KBA
Tim [illegible]	Topeka	Sen [illegible] Kass

LAW OFFICES
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MARK L. BENNETT, JR.
WILBURN DILLON, JR.
LORI M. CALLAHAN

GLENDA L. CAFER

FAX (913) 267-2652

TO: Senate Financial Institutions and Insurance Committee

FROM: Glenda L. Cafer
American Insurance Association

SUBJECT: Bill Request

DATE: February 25, 1991

The American Insurance Association, an association of over 240 property and casualty insurance companies, respectfully requests introduction of legislation which would modify the provisions of K.S.A. 40-1113, which pertains to the filing of rates by casualty companies to reflect the similar provision of K.S.A. 40-928(f), which pertains to the making of rates for fire companies. Copies of the statutes are attached.

As a market broadens in Kansas for excess and umbrella lines of insurance, companies are finding it difficult to write such insurance since Kansas is a prior approval rating state. In other words, in Kansas, companies must receive approval prior to utilizing rates. While this is acceptable in other lines of insurance, in umbrella and excess insurance, which are called within the industry "A" rates, these rates are established based upon numerous financial factors and a rate often may only be good for a 24 hour period. While not identical, an analogy could be made to annuities where the various financial factors create a

Attachment 1
FI & I
2/25/91

situation wherein annuity rates are only valid for a very short time. Because of this situation regarding "A" rates, companies are reluctant to write such lines in Kansas due to the fines which can occur for violations of the prior approval rating statutes.

This legislation would allow the Kansas Insurance Department to promulgate rules and regulations for the filing of rates where the rates "cannot practicably be filed before they are used." It is our understanding that the Kansas Department of Insurance would find this legislation to be acceptable for their purposes. I therefore request introduction of this bill.

40-1113. Filing of rates and ra[illegible] in-formation; approval or disapproval [illegible]ice and hearings; orders. (a) Every insurer shall file with the commissioner every manual of classifications, rules and rates, every rating plan and every modification of any of the foregoing which it proposes to use. Every such filing shall indicate the character and extent of the coverage contemplated and shall be accompanied by the information upon which the insurer supports the filing. A filing and any supporting information shall be open to public inspection after it is filed with the commissioner.

(b) An insurer may satisfy its obligation to make such filings by authorizing the commissioner to accept on its behalf the filings made by a licensed rating organization or another insurer. Nothing contained in this act shall be construed as requiring any insurer to become a member of or a subscriber to any rating organization.

(c) Any filing made pursuant to this section shall be approved by the commissioner unless the commissioner finds that such filing does not meet the requirements of this act or establishes an unreasonable or excessive rate. As soon as reasonably possible after the filing has been made the commissioner shall in writing approve or disapprove the same, except that any filing shall be deemed approved unless disapproved within thirty (30) days.

(d) Any such filing with respect to a fidelity, surety or guaranty bond shall be deemed approved from the date of filing to the date of such formal approval or disapproval.

(e) In the event that the commissioner disapproves a filing, the commissioner shall specify in what respect he or she finds that such filing does not meet the requirements of this act.

(f) If at any time the commissioner finds that a filing so approved no longer meets the requirements of this act, the commissioner may, after a hearing held on not less than twenty (20) days' written notice, specifying the matters to be considered at such hearing, to every insurer and rating organization which made such filing, issue an order withdrawing his or her approval thereof. Said order shall specify in what respects the commissioner finds that such filing no longer meets the requirements of this act and shall be effective not less than thirty (30) days after its issuance. Copies of such order shall be sent to every such insurer and rating organization.

(g) Any person or organization aggrieved by the action of the commissioner with respect to any filing may, within thirty (30) days after such action, make written request to the commissioner for a hearing thereon. This section shall not apply to any insurer or rating organization with respect to a withdrawal of a filing made by it. The commissioner shall hear such aggrieved party within thirty (30) days after receipt of such request and shall give not less than ten (10) days' written notice of the time and place of the hearing to the insurer or rating organization which made the filing and to any other aggrieved party. Within thirty (30) days after such hearing the commissioner shall affirm, reverse or modify his or her previous action specifying the reasons therefor. Pending such hearing and decision thereon the commissioner may suspend or postpone the effective date of his or her previous action.

(h) No insurer shall make or issue a contract or policy except in accordance with filings which have been approved for said insurer as provided in this act.

(i) Under rules and regulations adopted by the Commissioner, the Commissioner may suspend or modify the requirement of filing as to any kind of insurance, subdivision or combination thereof, or as to classes of risks, the rates for which cannot practicably be filed before they are used. Such rules and regulations shall be made known to insurers and rating organizations effected thereby.

History: L. 1945, ch. 215, § 3; L. 1978, ch. 177, § 2; L. 1979, ch. 141, § 2; July 1.

Source or prior law:
40-1106.

40-929. Same; disapproval of filings; notice; hearing upon application. (a) If within the waiting period or any extension thereof as provided in subsection (d) of K.S.A. 40-928, the commissioner finds that a filing does not meet the requirements of this act, he shall send to the insurer or rating organization which made such filing, written notice of disapproval of such filing specifying therein in what respects he finds such filing fails to meet the requirements of this act and stating that such filing shall not become effective.

(b) If within thirty (30) days after a specific inland marine rate on a risk specially rated by a rating organization, subject to subsection (e) of K.S.A. 40-928, has become effective, the commissioner finds that such filing does not meet the requirements of this act, he shall send to the rating organization which made such filing written notice of disapproval of such filing specifying therein in what respects he finds that such filing fails to meet the requirements of this act and stating when, within a reasonable period thereafter, such filing shall be deemed no longer effective. Said disapproval shall not affect any contract made, issued and effective prior to the expiration of the period set forth in said notice.

(c) If at any time subsequent to the applicable review period provided for in subsection (a) or (b) of this section, the commissioner finds that a filing does not meet the requirements of this act, he shall, after a hearing held upon not less than ten (10) days' written notice, specifying the matters to be considered at such hearing to every insurer and rating organization which made such filing, issue an order specifying in what respects he finds that such filing fails to meet the requirements of this act, and stating when, within a reasonable period thereafter, such filing shall be deemed no longer effective. Copies of said order shall be sent to every such insurer and rating organization. Said order shall not affect any contract or policy made, issued and effective prior to the expiration of the period set forth in said order.

(d) Any person or organization aggrieved with respect to any filing which is in effect may make written application to the commissioner for a hearing thereon: *Provided, however,* That the insurer that made the filing shall not be authorized to proceed under this subsection. Such application shall specify the grounds to be relied upon by the applicant and such application must show that the person or organization making such application has a specific economic interest affected by the filing. If the commissioner shall find that the application is made in good faith, that the applicant has a specific economic interest, that the applicant would be so aggrieved if his grounds are established, and that such grounds otherwise justify holding such a hearing, he shall, within thirty (30) days after receipt of such application, hold a hearing upon not less than ten (10) days' written notice to the applicant and to every insurer and rating organization which made such filing. No rating or advisory organization shall have any status under this act to make application for a hearing on any filing made by an insurer with the commissioner.

If, after such hearing, the commissioner finds that the filing does not meet the requirements of this act, he shall issue an order specifying in what respects he finds that such filing fails to meet the requirements of this act, and stating when, within a reasonable period thereafter, such filing shall be deemed no longer effective. Copies of said order shall be sent to the applicant and to every such insurer and rating organization. Said order shall not affect any contract or policy made or issued prior to the expiration of the period set forth in said order.

(e) No manual, minimum, or class rate, rating schedule, rating plan, rating rule or any modification of any of the foregoing which has been filed pursuant to the requirements of K.S.A. 40-928, shall be disapproved if the rates thereby produced meet the requirements of this act.

History: L. 1947, ch. 278, § 5; L. 1965, ch. 303, § 2; June 30.

TO: Senate Committee on Financial Institutions & Insurance

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

Mr. Chairman and Members of the Committee:

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

I am currently a member of the ABA's Agriculture and Rural Development Credit Task Force and also presently serve as one of ten American Bankers Association's Banking Advisors. As a spokesman for the ABA, I travel across the United States talking about consumer issues in banking through interviews on television, radio, and in newspapers. I've found out a lot about banking laws and practices across the United States, and when I talk about interstate banking, being a Kansas banker, I have regrettable advantage in remembering that Kansas is one of the last remaining states that does not allow interstate banking in any form.

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

The unfairness of the current Kansas prohibition of interstate banking is best illustrated by comparison with other financial services providers that have no such restriction. First Federal Lincoln advertises for my customers' deposits in our local newspaper. First Federal Lincoln is a Nebraska savings and loan with branches in Kansas communities such as Stockton and Plainville. By virtue of the ads they put in our local paper, they're also in Smith Center, Kansas. Interstate savings and loan activity in Kansas is a fact of life. And so are the interstate financial activities of insurance brokers, investment firms, even Sears, none of whose business opportunities are restricted by State boundaries.

Attachment 2
FI & I
2/25/91

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

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

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

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

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

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

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

Just as there have been many excellent combinations of banks as a result of your allowing branch banking in Kansas, there will be some very beneficial combinations of banking service as a result of interstate banking. The winners will be Kansans, who need and deserve every oppportunity for financial service.

I can assure you that I and many, many rural Kansas bankers I know do not fear interstate banking. We must all remember interstate banking is truly a consumer issue. As Kansans choose the provider of financial services that best suits their needs, I have every confidence that well-managed community and rural banks will continue to thrive in such a marketplace environment.

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

COMMUNITY REINVESTMENT ACT

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

Mr. Chairman and Members of the Committee:

My name is Samuel P. Baird and I wish to express my support of HB 2059.

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

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

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

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

Attachment 3
FI & I 2/25/91

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

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

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

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

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

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

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

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 25, 1991

TO: Senate Committee on Financial Institutions & Insurance

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

Mr. Chairman and Members of the Committee:

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

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

82% responded 54% in favor

During the past decade, you, the members of the Kansas Legislature, have enacted several major bank structure laws which have significantly improved the state banking system to the benefit of the citizens of Kansas. Due to these positive changes, we have stronger banks, more banking facilities in towns which did not previously have banks, and more services available at bank branches which make banking more convenient for customers. It would be difficult to find any bank customer today who would want to give up the positive changes in banking structure which the Legislature has enacted. And yet every one of those changes was strongly opposed by some groups who predicted that great problems would arise if these changes were made and, of course, none of the problems ever came.

Attachment 4
FI + I
2/25/91

Office of Executive Vice President • 1500 Merchants National Building
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-3444
FAX (913) 232-3484

Now you must analyze how our banking system can best meet the challenges of this new decade as Kansas business, agriculture, and industry expand their various roles in what is rapidly becoming a global economy. The KBA believes it will be necessary for our industry to have maximum flexibility if we are going to adequately serve our customers. Our banks will need the opportunity to become part of national and regional banking networks which are being, and will continue to be, forged during the 1990s. Therefore, we believe the granting of authority for interstate acquisition of banks is the next logical step in creating a safer and stronger banking system for Kansas and the nation.

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

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

The time has come to give Kansas banking the opportunity to plan for the decade ahead. No other industry in this state has the statutory chains binding it like those which prohibit the interstate activity of banking. Why should it be that while our competitors in the marketplace are allowed to come and go across state lines and grow as they please, we are subject to restrictions on expansion which supress competition and which have no rational reason for existing?

The fact that changes in the banking industry are occurring at an ever increasing pace is reflected in such events as the recent enactment of federal legislation (FIRREA) which has overridden many state restrictions to interstate activity by banks and bank holding companies. Expansion into the banking industry by other types of corporations, i.e., Sears, American Express, J. C. Penney, Ford Motor Company, continues at a rapid rate which further accentuates the need for giving the Kansas banking industry maximum flexibility in meeting this competition. In addition, several out-of-state S&Ls have established interstate operations in Kansas. Since S&Ls have now acquired essentially the same powers as banks it is just another example of the competitive inequalities facing the Kansas banking industry.

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

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

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

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

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

We certainly hope the material presented to you by the KBA staff has been of assistance as you ponder your decision on the interstate issue. As always, the staff and members of the Association stand ready and willing to discuss the issue with you and provide any additional information which might be needed. Thank you again for the opportunity to appear before the committee and I will be most happy to answer any questions the committee might have.

James S. Maag

James S. Maag
Senior Vice President

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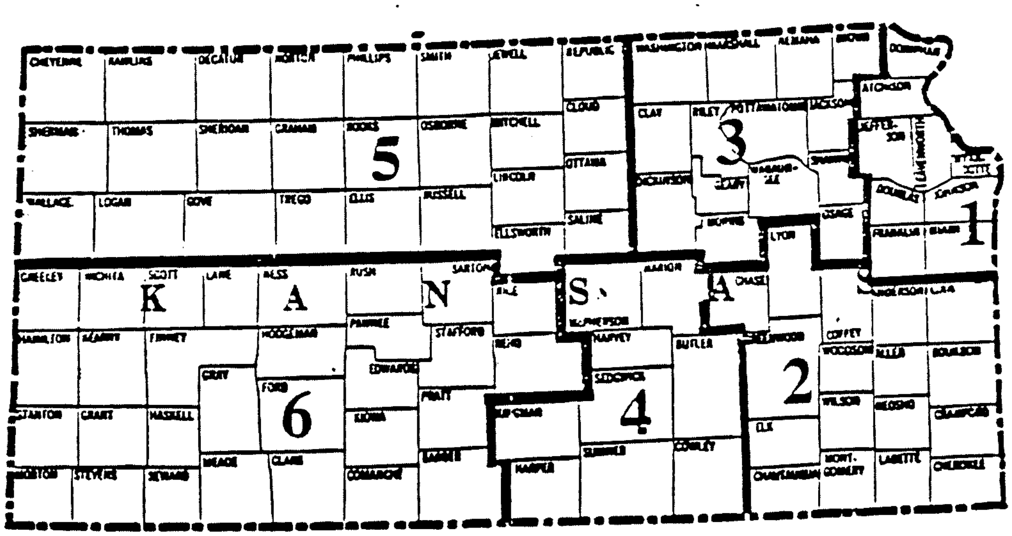
1	Kansas Bankers Association----October 20, 1989							
2								
3	RESULTS OF KANSAS BANK OWNERS SURVEY ON INTERSTATE BANKING LEGISLATION							
4								
5	(Response was 469 of 575 Kansas banks for 82%)							
6								
7	Question: Do you favor or oppose changing Kansas statutes to authorize interstate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

Counties in Each Region of Kansas Bankers Association



January 31, 1991

TO: House Committee on Commercial and Financial Institutions
RE: Opponents testimony on HB 2059 relating to the state of Maine

Since much of the testimony in opposition to **HB 2059** yesterday centered around events in the state of Maine, I think it is important for committee members to have a more comprehensive picture of what has occurred and is occurring in that state.

First of all, to compare banking in Maine with banking in Kansas is very unrealistic. Maine has less than one-half the population of Kansas (1.1 million vs. 2.3 million). Maine has only 21 commercial banks (Kansas has 551). Maine has 15 state-chartered savings banks which control a significant percentage of the state's deposits (Kansas has no such institutions). Maine has 121 credit unions (Kansas has 199).

Fifteen of the 21 commercial banks are community banks (locally owned) - 2 of which have been chartered in the past 2 years - so it is apparent that community banks are alive and well and competing quite nicely with those banks controlled by the out-of-state holding companies thus destroying the argument that interstate banking will eliminate competitiveness in the banking industry.

Secondly, Maine has the second-highest concentration of out-of-state ownership of banking assets in the nation (84%), whereas the nationwide average for out-of-state ownership is 18%. A much more realistic state comparison for out-of-state ownership would be our neighboring states which have the following percentages of out-of-state ownership: Oklahoma (5%); Colorado (18%); Nebraska (9%); Missouri (0%). As you are well aware, Kansas law already prohibits a bank holding company from controlling more than 12% of the total statewide deposits of all banks and S&Ls. When you combine this restriction with the large number of community banks in Kansas (over 300 in towns of less than 5000 population) it is readily apparent the concentration out-of-state ownership present in Maine would be very unlikely.

Third, the gentleman from Maine, John Turner, whose testimony was read to the committee even admitted in that testimony that interstate banking had been good for the Maine economy for several years! Now that the economy in the entire New England region has gone sour he and others would like to place the blame on interstate banking when, in fact, the main problem was an over-expanded commercial real estate market. In a discussion with a Maine banking official this morning, he emphasized that due to the economic downturn banks of all types - community, regional, and interstate - have been forced to reshape their lending practices.

That same official also noted that interstate banking had brought much-needed capital to Maine in the 1980s (just as Mr. Turner admitted) and had allowed the modernization of many banking services, the offering of more services, and the ability to use the secondary markets for loans. It would have been just as easy for CNN to do a story on the positive things interstate banking has brought to Maine, but then that wouldn't seem to them to be a dramatic news story, would it?

Jim
James S. Maag
Senior Vice President

4-6

COMMUNITY SAFEGUARDS
FOR
INTERSTATE BANKING

A question which is often asked about interstate banking is what impact it will have on a community when its bank or banks are purchased by an out-of-state bank holding company. Rest assured that **HB 2059** - which would allow interstate banking for Kansas - has strong safeguards for Kansas communities.

First, banks exist to make loans in the communities where they are located. No company is going to invest millions of dollars in a community and then ignore the credit needs of that community. That is a very basic economic fact of life.

Second, all bank holding companies in all states must meet rigid federal regulations relating to "community reinvestment". The Community Reinvestment Act was strengthened by Congress in the major financial institutions reform act of 1989 (FIRREA) and the new community reinvestment guidelines (CRA) which went into effect in the summer of 1990 now hold all banks and bank holding companies to higher and tougher standards which must be met before any additional bank aquisitions can be made.

In recent testimony before the House Committee on Commercial and Financial Institutions, the regional director of the Federal Deposit Insurance Corporation (FDIC) related to the committee how a bank holding company in Iowa wanted to consolidate several of its 20 branch operations. However, their request was denied by FDIC even though 19 of the 20 branch locations had fulfilled their CRA requirements. Why? Because one branch out of 20 did not have a satisfactory CRA rating. This shows how tough federal regulators have become in demanding that banks and bank holding companies serve the communities in which they are located.

Third, **HB 2059** includes provisions which create additional safeguards for Kansas communities. Under this act, any out-of-state holding company which applies to purchase a Kansas bank must show that they are operating their current banks in a "safe, sound, and prudent manner", that they are well capitalized, and that they are adequately fulfilling their CRA obligations. Only after it has been determined by the State Banking Board that the holding company has met these high standards will their application be considered favorably.

Once a Kansas bank is acquired by an out-of-state holding company then **HB 2059** requires the State Bank Commissioner to review the activities of the holding company and its Kansas banks to make sure they have done what they said they would do in their application. If the Bank Commissioner finds that they have not met their CRA and other obligations then the Commissioner must make this fact known publicly and also instruct the State Treasurer to remove that bank or banks from the list of eligible banks to receive any deposits of state monies.

Sections
6-7-9-10

These provisions of **HB 2059** give Kansas one of the toughest interstate CRA requirements in the country and assure that even if the United State Congress passes a federal law relating to interstate banking these state provisions will remain in effect as long as they are tougher than the federal law. Thus **HB 2059** gives Kansas the opportunity to shape at least part of its destiny on interstate banking in the years to come.

Kansans, therefore, should not fear loss of community involvement if **HB 2059** and interstate banking is approved. As you can see, there are plenty of safeguards to assure Kansas banks will continue to serve business, agriculture, industry, and the Kansas consumer no matter who might own the community bank.

The Wichita Eagle
Established 1872
Incorporating The Wichita Beacon

EDITORIALS

Banking
Time to tear down the financial Berlin Wall surrounding Kansas

Kansas isn't the only state that years ago barred out-of-state ownership of banks. Many states adopted such laws, to prevent financial interests from taking control of their banking and credit systems, and squeezing borrowers.

But the exploitative era that spawned such laws has passed into history. Every state but one — Kansas — has adopted laws allowing its banks to be owned by, and to own, out-of-state banks. Legislatures have come to understand that such laws can increase the amount of capital available to businesses and farmers for loans, and make domestic banks stronger.

It's time the Kansas Legislature also reached that understanding. As a witness told the House Commercial and Financial Institutions Committee last week, "In a world that is increasingly interdependent in the delivery of financial services, the continued existence of a Berlin Wall around Kansas seems more and more out of date."

The current law makes no sense. If a bank in Arkansas City, for example, wanted to pool resources with a bank in nearby Newkirk, Okla., to assure their mutual survival, it couldn't do it. Such pointless restrictions get in the way of capital formation and discourage economic growth.

The committee is considering a bill that would allow Kansas banks to own, and be owned by, banks in six states: Oklahoma, Arkansas, Nebraska, Iowa, Missouri and Colorado. That would allow Kansas banks to join forces with regional banks to solve some of their financial problems — especially the shortage of money for investment in construction projects.

When the Legislature, in 1985, allowed Kansas bank corportations to own more than one bank, the result was better banking services for many communities. There have been few ill effects from last year's banking reform, unlimited branch banking. The Legislature should approve interstate banking this year, and complete the modernization of state banking laws.

48

Courier views

136

Interstate banking on way

The Kansas Legislature is about to pass a regional interstate banking bill, which Gov. Joan Finney has said she will sign. Nothing could be better for the Kansas economy.

The bill would authorize reciprocal interstate banking. Only banks from nearby states with rules similar to ours could buy Kansas banks.

There would be a limit — perhaps 12 percent — on the share of all Kansas bank deposits that could be controlled by an out-of-state bank.

This legislation formally ends a long era of parochicalism in the Kansas banking industry. Our state is today one of two states in the nation without some form of interstate banking.

It might be nice if we could remain isolated from the realities of the financial marketplace for another generation. In fact, we are not isolated now.

Credit and investment opportunities come into Kansas by mail, phone and television every minute of the day every day. Our traditional small rural banks must compete in that environment for deposits.

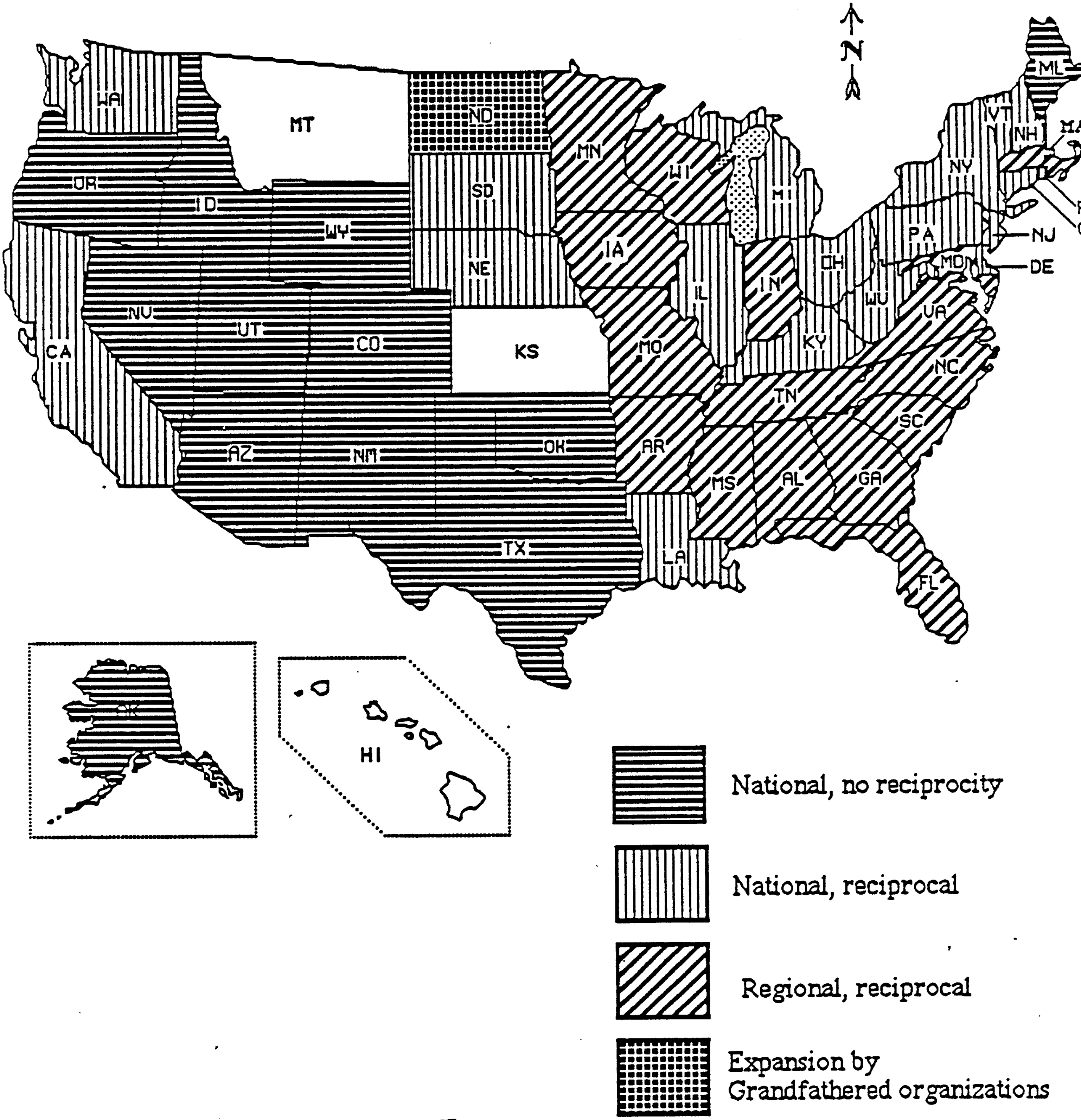
They do pretty well.

But they need the capital and modern management experience of larger, out-of-state banks to make it in the future. We as potential borrowers need those things, too.

Small, well-managed Kansas banks will not close as a result of this legislation. If they are worth owning — and they are — they are also worth keeping.

49

INTERSTATE BANKING LAWS



4-10

THE TIME HAS COME FOR

INTERSTATE BANKING IN KANSAS

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

Senate Committee on Financial Institutions and Insurance
February 25, 1991
Topeka, Kansas

Attachment 5
FI & I
2/25/91

THE TIME HAS COME FOR INTERSTATE BANKING IN KANSAS

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

To: Senate Committee on Financial Institutions and Insurance

As of 1991, Kansas stands as one of only three states without any interstate banking legislation. In fact, when you factor out various exceptions, Kansas remains as the only state without any legislation at all. In a world that is increasingly interdependent in the delivery of financial services, the continued existence of a Berlin wall around Kansas banking seems more and more out of date. For a state that looks with eagerness to the sale of its goods and commodities in national and international markets, the refusal to recognize a free market for financial services seems self-defeating.

Interstate Banking Is Already Here

Opponents of interstate banking should recognize that, in many respects, it is already here. Consider the following elements of interstate banking that are presently in place:

* Nearly all 50 states have enacted some form of interstate banking legislation, either regional or unlimited. Virtually all of this activity has taken place in the last seven years.

* Correspondent banking networks abound.

* Loan production offices are found throughout Kansas.

* The farm credit system is an interstate operation.

* Credit unions and thrifts--the closest competitors of commercial banks--have no geographic limits on doing business. Other financial institutions like finance companies and mortgage bankers have no geographic limits. They can offer their services according to their natural markets, giving them a competitive edge over commercial banks in Kansas.

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

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

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

*Loan participations are made interstate.

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

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

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

Public Policy Considerations

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

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

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

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

In addition, the legislation before this committee has special safeguards to make sure that the acquisition of any Kansas bank is accompanied by assurances that it will adequately meet the convenience and and needs of the local community. This is a restatement of the Community Reinvestment Act at the state level.

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

*<u>Viability of Community Banks</u>. Another argument against interstate banking is that it poses a threat to smaller community banks. There is no evidence at all to support this assertion. In fact, the evidence suggests that smaller banks are not hurt by interstate banking because they have no significant scale size disadvantages. when a state drops its Berlin Wall, community banks comfortably maintain their market nitch. Small banks tend to outperform larger banks in return on assets and equity, and there is no indication that this performance will be dampened by interstate banking.

In today's financial services market, there is room for a great variety of players--money center giants, regional banks, mid-sized banks, and community banks. If Kansas adopts interstate banking in 1991, it is very unlikely that many acquisitions from out of state will occur in smaller communities; interstate acquisitions in other states have generally been limited to banks of at least $100 million in footings, which is by definition beyond the size of Kansas community banks. In fact, for the typical community bank, interstate banking will be a "nonevent," just like multibank holding companies and state-wide branching. Most activity will probably occur in places like Johnson County. With or without interstate banking, Kansas will continue to have a large number of strong community banks, although we can expect some continuing consolidation.

*Safety and Soundness. One of the factors that has led to bank failures in the last decade is geographic insularity. Banks too heavily dependent on the oil patch or agricultural lending can be hurt badly when that segment of the economy goes into the dumps. One of the beauties of interstate banking is the way it increases loan and investment diversification. It also serves as a mechanism for injecting capital into weak banks suffering under a bad economy. Asset diversification can also be achieved by loan participations, but the sad experiences of Continental Illinois and SeaFirst show that banks can be crushed by relying on participations when they do not have adequate knowledge about the lead bank originating the loans. Interstate banking lessens the dependency on participations and thereby increases safety and soundness.

*Competitive Equality: Toward an Even Playing Field. Commercial banking is just about the only business that is subject to a geographic Berlin Wall. Credit unions are not. Savings and loans are not. Finance companies are not. Mortgage bankers are not. Insurance companies are not. Securities firms are not. Manufacturing firms are not. In order to be put on an even playing field with other competitors in the financial services industry, commercial banks need to be able to operate according to their natural marketplaces. Why shouldn't Kansas commercial banks have the same opportunities to acquire and be acquired interstate as Kansas savings and loan associations or credit unions? Just as the Kansas legislature corrects the competitive inequality between national and state banks regarding unlimited branching, so should it correct the inequality between commercial banks and the rest of the financial services industry.

*The Free Market. Most Kansas bankers believe in a free market. This is the public policy behind the Commerce Clause of the United States Constitution. It is now our national policy for world trade. Those Kansas bankers who were hurt badly when their farm customers were unable to sell grain abroad as a result of the 1979 embargo should think twice about continuing an embargo against interstate banking. Kansas has a strong interest in tying itself more closely with banking organizations that are regional and national in scope. Only in this way will Kansas products and commodities get maximum penetration in global markets. Interstate banking will allow "importation" of additional banking and technical expertise.

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

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

10348708

INSTITUTE FOR PUBLIC POLICY AND BUSINESS RESEARCH
UNIVERSITY OF KANSAS

INTERSTATE BANKING: A REVIEW OF RESEARCH LITERATURE

Presented to

The Senate Financial Institutions and Insurance Committee

Presented by

Henry Schwaller, IV
Research Associate

February 25, 1991

Attachment 6
FI & I
2/25/91

INTRODUCTION

The Institute for Public Policy and Business Research initiated a review of research literature regarding the effects of the removal of geographic banking restrictions. The purpose of this review was to investigate the possible impact of interstate banking legislation on the Kansas economy. The search for current and relevant research literature determined the major issues and findings outlined in empirical studies.

The structure of the review focused on: (1) the present banking structure in Kansas, (2) national interstate banking activity, (3) arguments made against interstate banking, and (4) benefits derived from interstate banking. Because the majority of research has explored opposition to interstate banking, the greater part of the paper offers the results of research addressing those concerns.

MAJOR FINDINGS OF RESEARCH STUDIES

Research based on the present state and national banking structure and the possible effects of interstate banking shows that:

1. Most states with reciprocal or national interstate banking laws have benefitted from initially passing regional reciprocity legislation and then moving to full reciprocal/unrestricted interstate banking. This two-step approach has been influential in creating and strengthening regional banks, preserving the existing banking structure, increasing access to capital markets, and diversifying loan portfolios through additional lending opportunities.

6-2

2. Interstate banking may lead to a slight decrease in concentration in local markets, and both small and large banks will be able to coexist and compete by differentiating products and services. Furthermore, the threat of unfriendly takeovers is low if banks continue to remain competitive and profitable.

3. While the effect of interstate banking on small businesses has not been directly researched, other studies, taken together, suggest that the supply and cost of small business financing will not be harmed by interstate banking, and in fact, it may increase capital available to small businesses.

4. Interstate banking may lead to a more competitive banking system and, in turn, lead to economies of scale and scope, more uniform deposit rates, convenient and easily accessible delivery systems, and a greater array of products offered at competitive prices.

5. While the present state policy has avoided statewide concentration and control over the allocation of credit by outside institutions, it has created heavily concentrated and uncompetitive local markets. Moreover, it is worth noting that this banking structure may have a negative effect on economic growth within the state. According to the most recent study on the state's banking structure done by Kansas Inc., Kansas' banking industry is highly decentralized and unconcentrated statewide but is very concentrated at the local level, with 88 of the state's 105 counties exceeding the federal threshold of a highly concentrated market area and 306 communities being served by one bank.

6. Kansas Inc.'s study also found that Kansas' average loan to deposit ratio of 59.8 percent is significantly lower than the national average of 79.8 percent. When compared to its neighbors, Kansas' loan to deposit ratio is higher than Nebraska and Oklahoma and below Colorado and Missouri. Loan to deposit ratios were not found to be linked to community factors, such as population or the local economy. Instead, it could be seen that larger Kansas banks have a higher ratio than medium and small-sized banks. If Kansas banks loaned money at a mid-point between the state and national average (68 percent), an additional $2.4 billion in loans would be made.

CONCLUSION

Opposition to interstate banking continues in Kansas, even though most states have already passed regional or national reciprocity legislation. The primary focus of the interstate banking debate in Kansas has centered on the potential impact on small, community banks. There is little evidence to support the fears that small banks will suffer or disappear with interstate banking. In fact, research shows that small banks can remain competitive if they maintain: (1) a customer-based focus in offering services and loans and (2) profitable and efficient operations. Small businesses in Kansas may also see increasing financing opportunities as small and medium-sized banks increase their loan to deposit ratios in order to remain competitive and profitable.

Taking this information and the research findings of the literature into account, one can see that Kansas could benefit from interstate banking in the following ways: (1) improved access to capital, especially for small businesses as small and medium-sized banks increase their loan to deposit ratios in order to remain competitive and profitable; (2) more diversified banking institutions; (3) stronger regional banks; (4) easier consumer access to banking facilities; (5) greater array of services and products; and (6) more competitive prices and rates. The result could lead to greater statewide economic growth and a more globally competitive banking climate.

65

TESTIMONY

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

FEBRUARY 25, 1991

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

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

We are more than just loan ratios and bank services. We are also your neighbors. We sit on volunteer boards with you and we make significant financial and human

Attachment 1
FI & I
2/25/91

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

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

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

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

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

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

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

5. We have put an end to the myth that was talked about during the multi-bank holding company legislation hearings that BANK IV would not care about agriculture or the western part of our state. That was spoken over and over, and in fact was spoken in testimony before committees such as this. I point that out because you're going to hear a lot of accusations that just don't seem to find their way into the column that says "fact". Look for yourself at our acquisitions in Salina, McPherson, Garden City, Hays and Goodland, Kansas. We are committed

to the total state and our agricultural lending has demonstrated that as well as our acquisitions in agriculturally dominated communities. In addition, we recently worked with a large insurance company to begin assuming some of their agricultural loans and working with their agricultural clients in lending needs.

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

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

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

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

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

A couple of years ago at an economic conference at the University of Kansas, a senator from Indiana who is involved in agriculture, was on a panel. I bring this up because the opponents have always used Indiana to tell you how bad the system is. Senator Morris when asked what the impact on Indiana of interstate banking has been, made the following observations, "I think among the public in general, it's almost a non-event". "I have the feeling that good loans still have all the money they want and poor loans have a hard time getting it, and I guess that'll probably continue to be the case." On his own personal note, he pointed out that one of the banks formed out of state that came in was very aggressive in securing business and said, "In fact we just moved our major banking line to that company." He noted that they were very innovative in the kinds of loan arrangements they could make and his final comment was, " I think those are the kind of innovations that are going to create capital in our state." He went on to say that the banks in Indiana were stronger and that "there has been an improvement in services in many of our areas."

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

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

Kansas is beginning to look at the world for markets. It is beginning to find new places to sell its products and new ways in which to create business and industry in this state by finding the products and services those in other states and even other countries need. Kansas does not need to be locked out, to be isolated from those developments going on in banking because of an archaic and dogmatic philosophy. For nearly three decades in this state, those you will hear from tomorrow have opposed virtually all changes in our bank structure laws. It is with some irony that once the changes occur, they are some of the very first to use them. So while I wouldn't give them an "A" for consistency, I would for their pragmatic ability to see the value to their customer of these changes. Our appeal to you today is that competition is good and that of keeping banks out of Kansas and keeping Kansas banks from the opportunity to go to other states, is no longer necessary and is certainly counter productive. L. William Seidman, Chairman, Federal Deposit Insurance Corporation (FDIC) in testimony last summer before congress summarized it well when he said "geographic restrictions on bank expansion, need to be revisited. These restrictions have contributed to an overly regulated and inefficient system for our banks, as well as to greater risk in the banking system due to the lack of diversification." It is time to revisit this issue. It has been talked about and offered to this legislature for 3 years and I urge you to consider making 1991 the year that Kansas joins the union.

Thank You.

Chicken Little bankers

136

Too many of the state's bankers, especially rural bankers, are like Chicken Little. They fear the sky is falling.

Ruffling their feathers recently are efforts on two fronts to bring the banking industry into the 20th century. In Topeka, legislators are considering a bill that would allow limited interstate banking. The bill would allow Kansas banks to buy or be owned by banks in six neighboring states.

An interstate banking proposal at the federal level is more sweeping. The Bush administration is pushing a banking reform package that would allow unlimited interstate banking. It also would allow banks to be owned by non-bank companies.

Is the sky falling? Hardly.

The age of electronics and telecommunications has made the banking industry a global one. The flow of money isn't dictated by local or state boundaries. Yet in Kansas, banks are limited by geography.

Kansas is the only state with no form of interstate banking.

The law prohibits, for instance, a bank in Mankato, near the Nebraska border, from teaming up with a bank in nearby Superior, Neb., to better serve customers on both sides of the border.

Oddly, many bankers favor such restrictions. Their fear is new competition from out-of-state banks.

An organization of mostly small banks, the Community Bankers Association, warns that if out-of-state competition is allowed in Kansas our towns will suffer. The big, out-of-state banks, with their loan policies established in distant cities, won't meet the financial needs of Kansans, the group says.

That argument is illogical. Never mind that it's doubtful that the nation's giant banks will scramble to compete in rural Kansas.

If out-of-state banks can't meet our needs, those banks will fail in Kansas. They would fail just as a New York clothing firm would fail if it attempted to sell Fifth Avenue fashions from a shop in Herington, or Salina.

To be successful, banks must be responsive to the needs of their customers. If they fail, customers will go elsewhere. Kansas bankers aren't the only ones who understand that.

Banks also must be responsive to their communities. That's why you see so many bankers serving as community volunteers, or providing financial support for everything from youth softball teams to college fund drives.

There's certainly no evidence that the Salina banks held by out-of-town owners are shying away from community involvement.

The banking industry's Chicken Littles raised their concerns years ago in opposing efforts to allow Kansas bank corporations to own more than one bank. No calamity has befallen the state or its communities since that law was approved in 1985.

Likewise, there's been no fallout since the law was changed last year to allow unlimited branch banking within the state.

Interstate banking should not be feared. It should be regarded as a way to allow the state's aggressive banks to strengthen themselves, and in turn give themselves the ability to better serve their customers.

7-13