

Approved: March 7, 1997
Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS.

The meeting was called to order by Chairperson Les Donovan at 3:30 p.m. on February 19, 1997 in Room 527-S of the Capitol.

All members were present except: Representative Welshimer

Committee staff present: Bill Wolff, Legislative Research Department
Dennis Hodgins, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Maggie Breen, Committee Secretary

Conferees appearing before the committee: Jim Needham, Community Bankers Association
Frank Sullentrop, Community Bankers Association
Hal Hudson, National Federation of Independent Business
Leslie Kaufman, Kansas Farm Bureau
Tom Page, Emprise Bank
Kent McKinney, Community National Bank
Bob Wightman, Bank IV

Others attending: See attached list

The chairman opened the hearing on:

HB 2281 - Relating to banks and banking; providing for a prohibition on merger transactions involving out-of-state banks and interstate branching by merger or acquisition

Proponents speaking in favor of **HB 2281**:

Jim Needham, Troy State Bank, President-elect Community Bankers Association, requested the committee vote to opt-out because to opt-in would mean the loss of jobs, higher cost of fees, loss of control of local deposits, and would eliminate competition in the future because there would be fewer banks to compete. He also expressed concern that out-of-state banks wouldn't be interested in handling mortgages and agriculture loans when people needed them. (Attachment 1)

Frank Sullentrop, State Bank of Colwich, Past President Community Bankers Association, said the bill is not a competition issue, it's a state's rights issue. Every financial institution doing business in the State of Kansas will be required to hold a Kansas Charter. It opens the doors to foreign banks. Currently, Kansas law prohibits a foreign bank from purchasing a charter in the state. However, the Riegle-Neal Act states that foreign branches must be allowed to operate in the state if interstate branching is permitted. Also, the tax formula differs for chartered banks and branching only banks, the bankers association believes the state will lose revenues. He asked for the committee's vote in favor of **HB 2281**. (Attachment 2)

Hal Hudson, State Director, National Federation of Independent Business, spoke in support of **HB 2281**. Sixty-three percent of the 8,000 membership in Kansas, believe Kansas should enact legislation to opt-out. Their biggest concern is that out-of-state firms will control the Kansas banking industry to the detriment of the small business owner. (Attachment 3)

Leslie Kaufman, Assistant Director Public Affairs Division, Kansas Farm Bureau, asked the committee to vote in favor of **HB 2281**. She cited four concerns her organization has if interstate branching is allowed, availability of credit; sensitivity of bankers in the community to the needs of production agriculture;

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS, Room 527-S
Statehouse, at 3:30 p.m. on February 19, 1997.

community involvement of banks and bankers; and concerns about the lack of community interest by a far distant owner, officer, or decision maker. (Attachment 4)

Proponents submitting written testimony in favor of HB 2281:

Ivan Wyatt, President, Kansas Farmers Union (Attachment 5)

Opponents speaking in opposition to HB 2281:

Tom Page, President, Emprise Bank - Wichita, encouraged the committee to not adopt HB 2281 or any similar legislation. He believes that to opt-out would be bad for consumers, bad for banking, and bad public policy for Kansas. Interstate banking is already the law in all 50 states and barring branching will do nothing to protect against any potential abuse of local markets. (Attachment 6)

Kent McKinney, President, Community National Bank, spoke in opposition to HB 2281. He views it as protectivism. He thinks bankers sell themselves short if they think they cannot compete with outsiders. He believes local banks do have advantages and will always have a place. Kansans should have a choice in their banking services and competition should flourish. (Attachment 7)

Bob Wightman, President Bank IV - Wichita, appeared in opposition to HB 2281. He assured the committee that as a nationally chartered bank operating branches in Kansas, they do not escape the responsibilities of the Community Reinvestment Act. He noted that Bank IV is the largest and most active lender in Kansas and they are committed to continue to be. He also pointed out that the Riegle-Neal act recognizes state's rights and that Kansas has already adopted interstate banking restrictions. (Attachment 8)

Opponents submitting written testimony in opposition to HB 2281:

Mary E. Yewell, President, First Bank Kansas (Attachment 9)

Gary W. Padgett, The Citizens National Bank (Attachment 10)

Robert L. Jones, J.O. Cattle Co., Inc. (Attachment 11)

The chairman closed the hearing on HB 2281.

Meeting Adjourned at 4:32 p.m.

The next meeting will be scheduled at a later date.

The minutes for this meeting were distributed to the committee members for review on March 6, 1997, with the understanding that minutes would be considered approved if no additions, deletions, or corrections were received by 5:00 p.m. on March 7, 1997. None were received.

HOUSE FINANCIAL INSTITUTIONS COMMITTEE GUEST LIST

DATE: February 19, 1997

Pg 1 of 2

NAME	REPRESENTING
Judi Stork	OSBC
W. Newton Male	"
James H. Fedkan	Community Bankers Assn
Sue Anderson	Community Bankers Assn of K.S.
Frank Sullertop	State Bank of Colwich
Alan Steppat	Pete McGinn & Associates
Kathy A. Lovelace	Community Bankers Assn of K.S.
David Fowler	1st State Bank - Burlington
Joe Renshaw	1ST NATL FRANKLIN
Pat Herschen	Freeport State Bank
Jim Meigs	KBA
John Peterson	Bank IV
Doug Woodruff	Bank IV
Sue Schmitt	BANK IV
Ken Alexander	"
Kent McKinney	Community Nat'l Bank, Topeka
Matt Goddard	HCBA
Clyde Charles	Governors Staff
Hope Francke	BANK IV



Date: February 19, 1997
To: House Committee on Financial Institutions
From: James A. Needham, President-elect, Community Bankers Association
Subject: Testimony on Bill HB 2281 Opt Kansas Out of Interstate Branching

On behalf of the Community Bankers Association of Kansas, I would like to thank this committee for the opportunity to appear before you today in support of House Bill 2281. The Community Bankers Association of Kansas is an association which represents exclusively community banks in Kansas. We have approximately 150 member banks from across the state. These banks range in asset size from approximately 8 million dollars to over 500 million dollars. Most of our member banks are locally owned and operated. It is my belief that our members strive to provide the banking needs of each and every community in which they are located.

Our Association was founded on the principals that competition in banking is beneficial to the customer. CBA believes that the concentration of control of banking and other forms of monopolistic practices are harmful to the customer. Therefore we support the dual banking system which is the promotion of both state and nationally chartered banks. Because of this principal we believe it is important to protect the right of states to determine the type of banking structure best suited to their varying economies.

House Financial Institutions
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Attachment 1

Directed By The Members We Serve

It is because of this philosophy that the Community Bankers Association asks you to make the decision to opt Kansas out of nationwide interstate bank branching. For two years in a row we have polled our members, and for two years in a row, a majority of our membership supports opt our legislation.

There was a considerable amount of testimony last year concerning the interstate branching issue in the state of Kansas. Opponents of Opt Out legislation stated many times that community banks are afraid of competition and wish to eliminate this competition by opting out of interstate bank branching. This is simply not true. By the very meaning of consolidation, there will be a fewer number of banks, thus reducing competition.

Of the issues I wish to address today, I will speak about the loss of jobs resulting from large bank mergers, and the higher cost of banking fees which are brought about by consolidation. Further, I will address how interstate bank branching will result in a loss of local control of the deposits which are generated within our state, its impact on local lending, and finally how consolidation actually eliminates the competition for the future.

In discussing the impact on local lending, I can speak from personal experience. I live in Troy, Kansas, a community of approximately 1,100 people located in Doniphan County. The county has a population of 7,800 people.

In the city of Troy, we have two locally owned banks. There is also a savings and loan branch of World Savings and Loan Association headquartered in Oakland, California. According to the FDIC, on 06-30-95, World Savings and Loan had local deposits of \$27,940.

In researching the real estate filings at our county register of deeds office, I found

that the World Savings branch has made only two real estate mortgages this decade. Further research shows that only three real estate mortgages have been filed since August of 1985. In that same period of time, August of 1985 to the present, the 1st Bank of Troy filed 115 mortgages and the Troy State Bank filed 271 mortgages. As you can see, three real estate loans in the last twelve years is certainly an indication that this organization is not serving the community in which it is located, especially in light of the number of mortgages filed by both local community banks.

In 1984 my correspondent bank, what was then Bank IV of Topeka, informed us, they were no longer accepting agriculture over lines. This was during the ag crisis, when we needed help to keep farmers in business. Some time after agriculture became healthy, they wanted to get back into ag lending. My question is, where were they when we needed them? Its this type of business practice, moving deposits making loans in areas most appealing, rather than customer needs which will hurt the Kansas economy even more.

It is the belief of the Community Bankers Association of Kansas, and my personal belief, that to allow interstate bank branching in Kansas would serve only as a funnel for out of state banks to transfer Kansas deposits to other states making larger more profitable loans.

According to an article in the Bank News publication, July, 1995, economist William Keeton of the Federal Reserve Bank of Kansas City analyzed data from banks in Kansas and other states in the 10th Federal Reserve district. He found that branch banks, and banks owned by out-of-state holding companies all tend to lend a smaller portion of their funds to small businesses than community banks do. One has to believe that those Kansas deposits will be used in whichever state can provide the highest return of interest on the loan. Branches established under the nationwide bank branching laws are only required maintain a loan to deposit ratio that is one half of the state's average. From personal

experience, I can tell you that most of the deposits from out of state branches don't stay within the state.

Some contend establishing multiple branches increased the economy of scale for bank operations, thus allowing banks to cut costs to customers. However, we find this is just the opposite in most instances. In the September 4, 1995, article in the Wichita Eagle reported, and I quote, "Experience tells us that the trend toward bigger banks is a trend toward lower-cost banking for the banks and higher-cost banking for the retail customers."

Many other studies show the same findings. From the Wall Street Journal (August 1995) Edmond Mierzwinski with the U.S. Public Interest Research Group stated, "All of the recent merger activity is a problem because consolidation means there will be fewer institutions and our studies show it's the biggest banks that charge the highest fees."

There is also an erroneous assumption that larger banks pay higher rates on deposits. As of Monday, February 10, 1997, the Troy State Bank, Troy, Kansas, was paying an interest rate of 2.75% and 3.00% on interest bearing checking accounts. I had heard that some of the larger banks in the western part of the state were reducing the interest rate that they were paying on interest bearing checking accounts. In making several calls, I was informed that the Bank IV branch in Hays, Kansas, offered an interest bearing checking account with a yield of 1.01%.

This is a trend I think we can expect in every state that becomes a host state such as Kansas has show signs of becoming. For instance the four largest banks in Florida, all of which are owned by out of state holding companies, control 70% of the banking deposits. In that state, banking fees are higher than in most other states, savings interest rates are

lower, and loan rates are higher. This is taken directly from an article printed in the USA Today in September of 1995.

One of the most important issues concerning the opt in/opt out issue in the state of Kansas is that of Kansas jobs. As larger banks come into our state or mass consolidation comes about, there always seems to be a loss of jobs. Suddenly those jobs which were being performed within our state are now sent back to a home office in Missouri or some other state. The August 29, 1995, issue of the Wichita Eagle reported on the purchase of Union National Bank by Commerce Bancshares of Kansas City, Missouri. At the first of the year, Union National Bank had over 400 employees. By March 31 of that same year, Commerce Bancshares of Kansas City, Missouri, had trimmed the total number of employees to 275. I think you will see this same thing happening all over our state of Kansas should you allow the opting in of interstate banks.

The last issue I will address today is the loss of local control that could come about if we should allow full interstate bank branching within our state. In today's banking environment the majority of our Kansas banks are owned, operated, and controlled by local people. Local officers, local directors, local employees, and local owners make up the banks of Kansas today. This same local control lends money for small businesses, for farming operations, for homes, and for just about any need that should arise in our cities and towns throughout the state of Kansas. By allowing full interstate bank branching within the borders of Kansas, we will effectively take this financial decision making from the board rooms of Kansas banks to the board rooms of large mega-banks all across this country.

Ladies and gentlemen, I summarize by telling you that if we encourage and allow

large branch banking nationwide with other states, we will have higher cost of service, lower interest on deposits, loss of jobs, and loss of deposits which will go to the benefit of states other than Kansas. If you wish to represent large banks, out of state interests, and those who promise economic growth of the state of Kansas while at the same time cutting jobs, increasing fees, and transferring Kansas deposits to foreign states, then I suggest vote against opt out, because that is what will truly happen. If you truly wish to represent the people of Kansas, and if you truly want the state of Kansas to be an economically viable state, then you will vote for opt out.

Thank you very much for your time and consideration today.

(n\user\HB228-N.08)

TESTIMONY BY:

FRANK SUELLENTROP, PRES.
STATE BANK OF COLWICH

IN SUPPORT OF HB 2281

Chairman Donovan, and members of the House Financial Institutions Committee, I come before you today to present testimony in support of opt-out legislation, House Bill 2281.

My name is Frank Suellentrop. I am President of the State Bank of Colwich, a \$70MM bank in Sedgwick County.

First and most importantly it is necessary that everyone understands what HB 2281 will mean to Kansans. Quite simply it means every financial institution doing business in the State of Kansas will be required to hold a Kansas Charter. That's it! In other words it does not restrict a financial institution from providing any financial service from any location throughout the entire state. Opt out is not a competition issue - it's a states rights issue! By requiring a Kansas Charter the State will maintain some control of Kansas financial resources rather than transferring that control to other states such as Missouri or North Carolina.

Requiring a Kansas Charter is important in other ways too, especially to the state of Kansas. I am referring to the way in which Kansas chartered banks are currently taxed in this state. Currently Kansas chartered banks pay a tax for the privilege of doing business in the state. This Privilege Tax produced nearly 42 million dollars for the state in 1994.

This tax is based on income. Last year the legislature passed a tax law for banks who only wanted to have a branching presence in this state. It is based on payroll, property and receipts. With this formula, the state of Kansas will begin to experience what we believe will be a significant reduction in revenue for the state. For instance, over the last 2 - 3 years since banking consolidation has a lot of activity, the Privilege Tax revenue has already decreased almost 10%. Allowing interstate bank branching will magnify this loss of revenue.

With the elimination of a Kansas charter and consolidation, there are less jobs, therefore, payroll will be down. With consolidation, back room operations are moved to the headquarters of the bank therefore, smaller buildings are needed for the branch operations. Additionally, there could be a great temptation for banks to shift income to states with the most favorable tax rates.

Some would say Kansas will be in the minority by passing opt-out legislation. However, if being in the minority meant Kansas would retain some control over the financial assets in our state, then lets take the lead by passing this legislation. If being in the minority means that a Kansas chartered financial institution could be held accountable to the area it serves, then I believe your constituencies would prefer to be in the minority of states to pass opt-out legislation to interstate bank branching.

It has been well documented how consolidation and elimination of bank charters can adversely effect jobs at financial institutions and lending to small business and agriculture. In the handbook distributed earlier this week by the Community Bankers Association, under section 8, there are numerous newspaper articles about layoffs and Federal Reserve articles about the negative impact reduced lending had to small business, agriculture and rural communities. It seems those consequences are being accepted as

today's method of doing business. Opt-out will not eliminate job losses or guarantee credit availability but it would certainly enhance the prospects in the future for accountability to the communities served by a Kansas chartered financial institution.

There is also one aspect regarding whether a state opts in or out of interstate bank branching which has received little notice. Currently, Kansas law prohibits a foreign bank from purchasing a charter in the state. However, the Riegle-Neal Act states that foreign branches must be allowed to operate in the state if interstate branching is permitted.

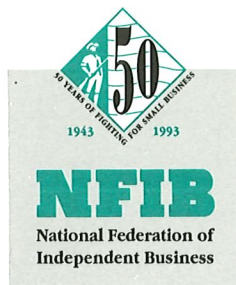
House Bill 2281 allows for legislative review of it's provisions in July 2000. I would suggest that this option will give Kansas the opportunity to view the impact of interstate branching and to make a more informed decision at that time.

I ask each of you on this committee - are you willing to transfer control of this vital segment of the Kansas economy to other states? I hope not. I ask you to keep Kansas and Kansans in control of our financial resources. Please vote in favor of House Bill 2281.

Thank you for the opportunity to comment. I'll be happy to answer any question you may have.

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LEGISLATIVE



The Voice of Small Business

TESTIMONY

**Testimony of Hal Hudson, State Director
Kansas Chapter, National Federation of Independent Business
Before the House Financial Institutions & Insurance Committee
on House Bill 2281
Wednesday, February 19, 1997**

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to speak to you in support of House Bill 2281.

My name is Hal Hudson, and I am the State Director for the 8,000-member Kansas Chapter of the National Federation of Independent Business. Our membership covers a broad spectrum of all types of businesses, who have one thing in common -- they are small. While collectively they employ over 95,000 Kansans, over 80 percent of our members employ 15 or fewer persons.

As you may know, positions taken by NFIB on legislative issues are determined by direct ballot surveys of our members. In December 1995, we asked: "Should legislation be enacted to allow the state of Kansas to 'opt out' of the new federal branch banking laws.?"

Of those responding, **63.6% said yes**, 21.6% said no, and 14.8% were undecided.

The concern most often expressed is fear that interstate branch banking will result in out-of-state firms controlling the Kansas banking industry, to the detriment of the small business owner.

Small business owners often rely on relationships with their hometown banker, built over a number of years. They rely on banking and financial decisions that go beyond the current P&L statement, balance sheet, or credit worthiness determined by these paper documents. They often look to their hometown banker for advice based on his/her knowledge of economic conditions in their community. Local bankers also may weigh the small business owner's personal standing in the community, and their knowledge of the business's history in making a decision or offering advice.

We believe that such personal relationships have been lost, and are being lost in the wave of bank mergers that already has swept across Kansas. You have the power to prevent this movement from becoming a tidal wave. But it is now or never.

The best time to have had legislative action on this measure was last year. Next year it won't matter. Kansas will have been "opted in" by default, and the future of every small town bank and every small town business will be faced with the "bigger is better" syndrome that is sweeping through the banking industry.

Kansas is very dependent upon small business to provide job opportunities, and to maintain stability of the State's economy. At a time when large businesses are downsizing and laying off workers, we urge you NOT to make staying in business more difficult for these small firms.

We urge you to report H.B. 2281 favorably, and to support its enactment by the full House.

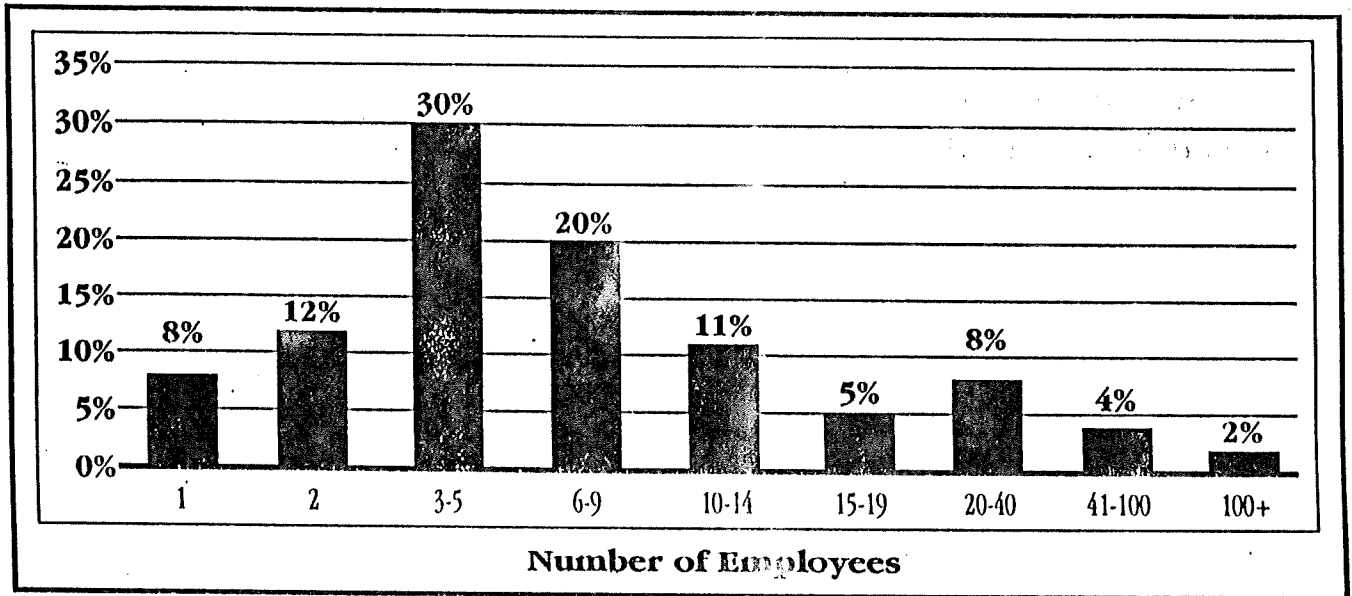
Thank you for your consideration of our concerns.

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Attachment 3

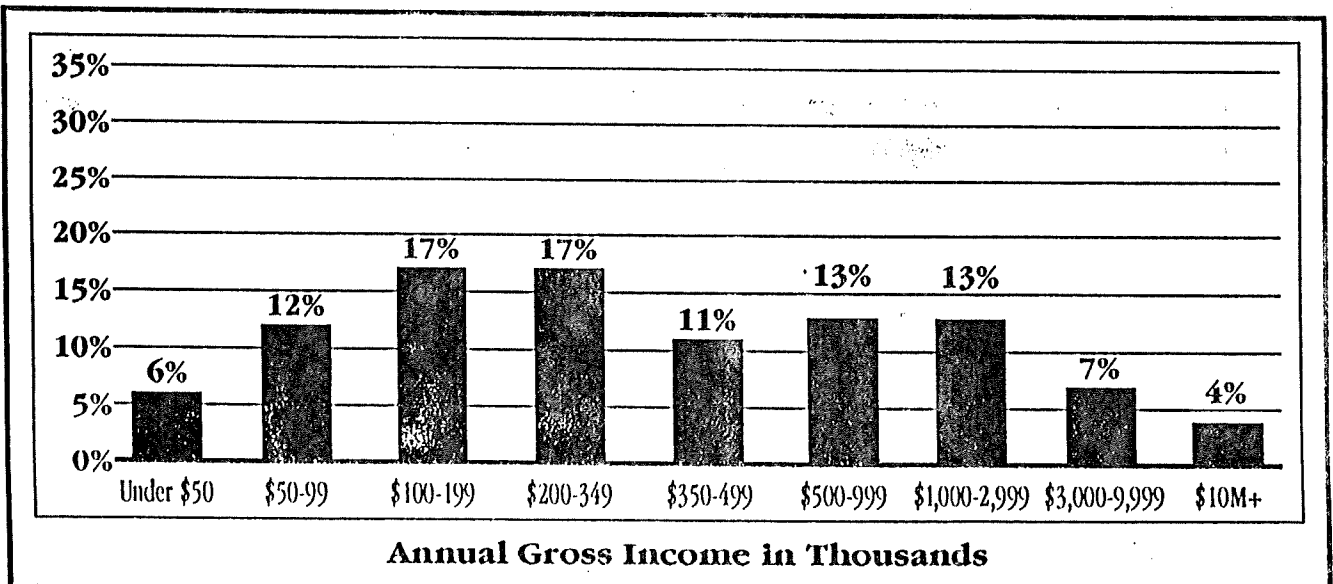
NFIB / Kansas Membership Profile

NFIB/Kansas represents the entire spectrum of independent business, from one-person home-based operations to enterprises employing more than 100 people. The typical NFIB/Kansas member is quite small, employing five workers and ringing up gross sales of about \$330,000 per year. Yet, in aggregate, the membership is a potent economic force, employing nearly 95,000 and earning more than \$8.5 billion (gross) annually.

NFIB / Kansas Membership by Number of Employees



NFIB / Kansas Membership by Annual Gross Receipts



National Federation of Independent Business
Kansas Chapter
Membership by County
January 1997

Allen	57	Greely	8	Osborne	9
Anderson	21	Greenwood	17	Ottawa	17
Atchison	54	Hamilton	22	Pawnee	19
Barber	15	Harper	15	Phillips	41
Barton	103	Harvey	88	Pottawatomie	70
Bourbon	52	Haskell	7	Pratt	25
Brown	68	Hodgeman	5	Rawlins	34
Butler	66	Jackson	38	Reno	153
Chase	8	Jefferson	56	Republic	22
Chautauqua	10	Jewell	17	Rice	30
Cherokee	30	Johnson	1,299	Riley	152
Cheyenne	56	Kearney	13	Rooks	52
Clark	9	Kingman	47	Rush	8
Clay	34	Kiowa	10	Russell	23
Cloud	54	Labette	40	Saline	156
Coffey	17	Lane	7	Scott	128
Comanche	13	Leavenworth	133	Sedgwick	695
Cowley	73	Lincoln	14	Seward	97
Crawford	102	Linn	19	Shawnee	420
Decatur	46	Logan	48	Sheridan	42
Dickinson	75	Lyon	113	Sherman	82
Doniphan	18	Marion	32	Smith	27
Douglas	258	Marshall	85	Stafford	6
Edwards	8	McPherson	80	Stanton	14
Elk	7	Meade	13	Stevens	14
Ellis	132	Miami	123	Sumner	38
Ellsworth	21	Mitchell	43	Thomas	94
Finney	80	Montgomery	111	Trego	23
Ford	74	Morris	14	Wabaunsee	11
Franklin	84	Morton	15	Wallace	25
Geary	58	Nemaha	86	Washington	32
Gove	68	Neosho	70	Wichita	6
Graham	26	Ness	11	Wilson	26
Grant	53	Norton	90	Woodson	7
Gray	27	Osage	72	Wyandotte	201



PUBLIC POLICY STATEMENT

HOUSE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE

**Re: HB 2281 - Prohibition on merger transactions with out-of-state banks
and on interstate branching by merger or acquisition**

**February 19, 1997
Topeka, Kansas**

**Presented by
Leslie Kaufman
Assistant Director
Public Affairs Division**

Chairman Donovan and members of the Committee, thank you for the opportunity to appear before you today in support of HB 2281. I am Leslie Kaufman. I serve as the Assistant Director of Public Affairs for Kansas Farm Bureau.

Access to a variety of credit facilities is an essential element in today's Kansas farming and ranching operations, but access to dollars is just one concern our members have regarding banking. When it comes to decision making, a local banker that is sensitive to the unique needs of production agriculture, and the communities that derive their economic base from agriculture and agriculture-related activities, is vital to farmers, ranchers, small business persons, and communities all across Kansas. We do

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Attachment 4*

not believe these needs can be best served by a remote decision maker, in a mega-bank, that has little or no direct contact with agriculture or rural communities.

Kansas Farm Bureau, through action by our voting delegates, adopted policy in November 1995 that expresses our desire to see a strong link between banks and Kansas, the state in which they do business. This policy was re-affirmed this past November at our 1996 Annual Meeting.

“Farmers and ranchers need a variety of credit facilities to finance operating and ownership expenses . . . In order to help maintain the viability of production agriculture and of rural communities in Kansas, we support legislation to prohibit banks located outside Kansas from operating only branches in Kansas unless those out-of-state banks own and operate a Kansas chartered bank.”

Discussion was held at our annual meeting in November 1995 regarding the opt-in/opt-out provisions of the Reigle-Neal Act. The discussion centered on four basic concerns:

- 1) Availability of credit;
- 2) Sensitivity of bankers in the community to the needs of production agriculture;
- 3) Community involvement of banks and bankers; and
- 4) Concern about the lack of community interest by a far distant bank owner, officer, or decision maker.

Maintaining a direct connection between bankers and the customers they serve is vital to all Kansans, but especially to the state's agriculture professionals. We urge you to keep banks that operate in Kansas tightly linked to the communities and state they serve by voting in favor of HB 2281.

Agricultural Credit

AG-4

Farmers and ranchers need a variety of credit facilities to finance operating and ownership expenses.

Banking laws and regulations should allow lending institutions the opportunity to amortize loan losses over a 10-year period of time, flexibility in restructuring agricultural loans and use of flexibility in restructuring existing distressed loans.

We support legislation to prohibit banks located outside Kansas from operating branches in Kansas unless those out-of-state banks own and operate a Kansas chartered bank.

Special programs should be designed at federal and state levels to specifically deal with credit and financial problems of young farmers and ranchers who are trying to get established.

STATEMENT
OF
IVAN W. WYATT, PRESIDENT
KANSAS FARMERS UNION
ON
HB-2281
(RELATING TO PROHIBITION ON MERGERS INVOLVING OUT-OF-STATE
AND INTERSTATE BRANCHING)

BEFORE

THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I AM IVAN WYATT, PRESIDENT OF THE KANSAS FARMERS UNION. THE KANSAS FARMERS UNION REPRESENTS ALL FACETS OF KANSAS AGRICULTURE, GRAIN FARMERS, RANCHERS, CATTLE FEEDERS, AND RELATED RURAL BUSINESSES.

OVER THE PAST TWO DECADES I HAVE WITNESSED LEGISLATION BEING PASSED TO PRESERVE A VIABLE BANKING INDUSTRY IN KANSAS, ONLY TO SEE THE LAW CHANGED WHEN THAT LAW EFFECTS A PARTICULAR BANK. I BELIEVE THIS TYPE OF LEGISLATIVE ACTION IS ONE OF THE MAJOR CAUSES OF THE VOTING PUBLIC'S GROWING LOSS OF CONFIDENCE IN ELECTED OFFICIALS.

WE CONTINUALLY HEAR THE GENERAL PUBLIC AND ELECTED POLITICIANS CLAIM WE NEED LESS BIG GOVERNMENT, WE NEED THOSE WHO RUN OUR AFFAIRS TO BE CLOSER TO THE PEOPLE.

IT AMAZES PEOPLE WHEN THEY HEAR KANSAS IS CONSIDERING TURNING MORE AND MORE OF THE CONTROL OF OUR BANKING INDUSTRY OVER TO MANAGEMENT LOCATED HALF WAY ACROSS THE NATION, TODAY NORTH CAROLINA, TOMORROW JAPAN, SWITZERLAND, ONE-WORLD BANKING?

BIG "EAST COAST" BANKING WILL MAKE NO MORE SENSE FOR THE

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Attachment 5

MIDWEST THAN BIG "EAST COAST" GOVERNMENT DOES.

JUST AS IT IS IMPORTANT TO HAVE REPRESENTATIVE GOVERNMENT THAT IS CLOSEST TO THE PEOPLE, IT IS EQUALLY IMPORTANT TO HAVE THE INPUT OF BOARD OF DIRECTORS OF BANKS CLOSEST TO THE PEOPLE.

IT DOESN'T TAKE A GENIUS TO RECOGNIZE THAT A BOARD OF DIRECTORS OF AN EAST COAST BANK OR EVENTUALLY A JAPANESE BANK, OR ELSEWHERE WILL GIVE A "HOOT IN HELL" ABOUT THE SURVIVAL OF A MAIN STREET BUSINESS IN A KANSAS CITY OR A WESTERN KANSAS CATTLE RANCHER.

A FEW YEARS AGO WHEN KANSAS BANKING LAWS WERE BEING "ADJUSTED" WE HEARD HOW KANSAS NEEDS A BIG BANK.

RECENTLY THAT BIG KANSAS BANK DISAPPEARED IN A CLOUD OF MERGER DUST FROM THE FOURTH, TO BOATMAN'S TO THE NORTH CAROLINA NATION'S BANK.

ALL THIS ACTIVITY BRINGS BACK THE MEMORIES OF THE "GO-GO BANKING" DAYS OF THE 80'S THAT SADLY TAXPAYERS WILL CONTINUE TO PAY FOR YEARS.

MEMBERS OF THE COMMITTEE, I DON'T WANT TO INSULT ANYONE'S INTELLIGENCE REPEATING MUCH OF THE INFORMATION YOU ALREADY HAVE BEFORE YOU ON THIS ISSUE WHY IT'S IMPORTANT TO SUPPORT THIS BILL HB-2281, AND CLOSE BY SAYING; THE ONLY PURPOSE I CAN SEE TO OPPOSE THIS LEGISLATION WOULD BE IF THE ONLY GOAL IS TO FIND THE FASTEST AND MOST EFFICIENT WAY TO SUCK MONEY OUT OF THE STATE OF KANSAS FOR CONDOS IN FLORIDA OR A CHILD LABOR FACTORY IN INDONESIA.

THANK YOU.

Statement to House Committee
On Financial Institutions
February 19, 1997

Chairman Donovan, ladies and gentlemen, thank you for the opportunity to share some thoughts with you today.

My name is Tom Page, and I am President of Emprise Bank - Wichita. Emprise Bank - Wichita has total assets of \$530 million dollars, and is the largest of 5 banks owned by Emprise Financial Corporation which is, in turn, owned by the Michaelis family of Wichita. All of Emprise Financial Corporation's business is conducted within Kansas and we have no plans that would involve interstate operations, as either a unit bank or as a branch.

My purpose for being here today is to encourage you not to adopt House Bill 2281 or any similar legislation to cause Kansas to opt-out of interstate branching.

I believe that to opt-out would be bad for consumers. The manner in which consumers seek out and buy financial services is determined by where they live, shop, and work. The legal boundaries of cities, counties, or states are simply not relevant to them in their daily routines. Kansas shares over 1,000 miles of borders with four other states. In many areas, the natural market overlaps state borders. Consumers move freely within these markets to purchase many types of goods and services. To erect, or maintain, an artificial barrier in these markets for financial services can only be an inconvenience and a disservice to consumers. Much has been made of the potential for abuse of local markets by regional banks, particularly by removing local deposits to fund loans elsewhere. Recent history would suggest that these concerns are not justified. There is absolutely no evidence to suggest that the ratio of Kansas loans to Kansas deposits is lower in regional banks in our state than for Kansas banks. Most of the branching in smaller markets has been done by community banks seeking to expand their markets. Virtually all of this branching was done in an effort to make more loans, not to find more deposits. To believe that regional banks would branch into areas for deposits, while community banks are branching into the same markets for loans seems illogical to me. Regardless of one's feelings about the potential for abuse, there is one absolute fact to remember: interstate banking is already the law in all 50 states and barring branching will do nothing to protect against any potential abuse of local markets. It will only be a disservice to consumers.

I believe that to opt-out would be bad for banking. No industry has ever preserved itself for very long through protectionist legislation. Only by facing and meeting the competitive threats in the marketplace will we insure our futures. The clear and present danger to Kansas banks is the host of non-bank competitors operating in the market place - and not a single one is burdened with the cost of maintaining a separate company for each state in which they do business. One of the frequently overlooked aspects of "opting-out" is the likelihood that Kansas banks will not receive any privilege from other states that we do not grant to banks from those states. In other words, we will not get more than we are willing to give. There are many Kansas banks who want, or may want in the future, to serve their customers in a market that overlaps state boundaries. To deny these banks this opportunity will accomplish nothing, but will stifle an innovative segment of our industry.

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I believe to opt-out would be bad public policy for Kansas. The whole concept of using legislation to protect one part of an industry to the detriment of another is not sound public policy in the long run. Access to financial services is essential in small communities. However, access to other services may be even more so. Are we prepared to require state farm to operate a separate subsidiary in Kansas to protect independent insurance agents? I doubt it. The captive finance companies of the automobile manufacturers are the primary competitors of banks for car loans. My guess is that they would discontinue doing business in Kansas before they would create a separate corporation for doing so. Consumers would suffer. The bottom line is, once this type of precedent is established, there is no logical place to stop.

Since we discussed this issue last year, the number of states which have decided this issue has grown to over 40. Still, only Texas has elected to opt-out. In addition, the largest financial institution in the state has merged into a charter in Missouri. In light of these events, I think "opting-out" has the potential to isolate Kansas economically and competitively, to the detriment of Kansas banks which may want to expand in the future, and to the benefit of no one.

In summary, I believe to opt-out would be bad for consumers, bad for banking, and bad public policy. Thank you for your time. I would be happy to answer any questions you may have.



**Community
National Bank**

P.O. Box 4876 ■ Topeka, Kansas 66604

February 19, 1997

Testimony before the House Committee on Financial Institutions

re: Interstate branching, HB 2281

Dear Chairman and Distinguished Members of the Committee:

Thank you for the opportunity to present my views today.

Kansas has been protective of its banking industry. We have in the past been slow to give up unit banking, to allow branching of our own banks and to allow multi-bank holding companies. It seems that we are hearing many of the same arguments today that we heard when these issues were addressed. Has this protection paid any dividends? Is Kansas in any better condition?

I would propose that we are not. Because we have been slow to adapt to the changes going on in the rest of the country, Kansas banks have not had the opportunity to expand and strengthen in the way out-of-state banks have. Kansas banks have been restricted in their ability to grow and strengthen and do not now have the capital strength to compete with the larger regional banks. In the end, the thing most feared, takeover of our commercial banking institutions by outsiders, is in process.

But this is not the time to continue this process. **I think we sell ourselves short if we think we cannot compete competitively with these outsiders.** Why should we continue to restrict our own banks' abilities to grow and prosper by restricting their ability to expand into other states? Why do we think we should try to keep banking influences all under local control when we have nationally owned grocery stores, drug stores, department stores etc.? Many industries are seeing this type of "nationalization." If Kansas is to be in the mainstream of business activity, it should allow its banks to play on a level playing field with other states' banks.

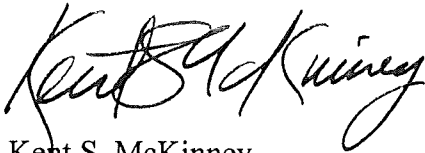
Now I am not going to tell you that every major bank that has or will enter Kansas will be a perfect corporate citizen. Nor will I tell you that every Kansas bank is a perfect corporate citizen. In fact, although I will admit that the regional and national banks have strengths, they do have their weaknesses. Because of their weaknesses, our bank was made possible. We believe so strongly in community ownership and management that we named our bank "Community." We feel local banks do have advantages. We feel that local banks will always have a place. The role may be different that in the past. But if the major banks are not doing their job, new charters like ours will fill the void.

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I am happy to report to you that so far our thinking appears to be correct. The community of Topeka has welcomed us by making us almost \$18,000,000 in asset size . We have more than \$9,000,000 in loans in less than 21 months. This is a solid growth achieved by a beginning staff of only six individuals and a very limited marketing budget. Nationwide, there is a resurgence in the chartering of new banks for just the same reason.

Kansans should have a choice in their banking services and competition should flourish. Kansas bankers should have a choice to pursue opportunities in other states. There are plenty of participants to keep the competition healthy.

Respectfully Submitted,



Kent S. McKinney
President

**Testimony of Robert W. Wightman
President, BANK IV
House Committee on Financial Institutions
House Bill 2281
February 19, 1997**

Mr. Chairman and Members of the Committee. My name is Bob Wightman and I'm President of BANK IV. Thank you for the opportunity to appear before you in opposition of House Bill 2281.

By way of a small measure of background, let me review a little history for you. Late in the 1994 session, Congress passed and the President signed the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Public Law 103-328). Riegle-Neal deals with many aspects of the nation's banking system, including two main issues:

- 1. It established nationwide, interstate banking throughout the United States effective September 29, 1995. This change allows banking companies to acquire banks anywhere in the country and eliminated a hodgepodge of different state and regional compacts which previously governed this issue.**
- 2. It establishes nationwide, interstate branching unless a state chooses to opt-out before June 1, 1997. This change gives banks the same branching privileges already available to savings and loans, brokerage firms, mutual funds and other financial service competitors by permitting banks with common ownership to merge regardless of how many states they operate in.**

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Riegle-Neal recognized the importance of states rights by empowering states with the opportunity to decide several aspects of the interstate banking provisions and accordingly, Kansas has already adopted the following interstate banking restrictions:

- 1. De Novo branching (establishing a branch in Kansas without a Kansas presence) is expressly prohibited; Out of state banks cannot enter Kansas by simply opening a new branch. They must acquire an existing bank.**
- 2. Out-of-State holding companies can only acquire Kansas banks that have been in existence more than five years. This has the effect of preventing a circumvention of the De Novo branch limitations.**
- 3. Foreign banks cannot establish any branch, agency office or other place of business in the state of Kansas;**
- 4. The 30% deposit cap contained in Riegle-Neal is limited to 15% in Kansas; Kansas has a limit on the market share of deposits which can be acquired by any one institution equal to 15%. Riegle-Neal clearly makes this the state prerogative but puts an upper limit of 30%.**

The final option Riegle-Neal made available to the states is to elect to make interstate branching effective earlier than June 1, 1997; or, to prevent it from occurring at all (to "opt out"). This last option is the subject of House Bill 2281. Because of the protections built in to Riegle-Neal and adopted by the Kansas legislature as part of Kansas' interstate banking legislation, the only additional impact this "opt out" bill would have would be to prohibit affiliate banks with charters in two states from merging those charters to achieve integrated

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and efficient banking operations. In other words, it would deny all banks, either in Kansas or outside of Kansas the opportunity to efficiently serve the markets they choose to serve. This is not just a big bank issue.

The banking industry has enjoyed successive years of record setting performance, creating a system that is safe, sound and supportive of commerce and industry. All banks, from the smallest community banks to the largest super-regional banks have worked hard to be successful in managing a business where profit margins continue to be under pressure and competitors of every size, shape and description vie for our customers' business. The evolution of banking to a fully branched environment has been a part of the solution.

The option to now consolidate across state lines is a natural and vitally important extension of the solution. So important that the U.S. Congress passed the enabling legislation. So important that 41 other states have already voted to permit interstate branching. So important that not one state has "opted out" and only Texas has taken action to delay its effective date.

The arguments supporting "opt out" legislation remain the same ones used against multi-bank holding company legislation and against regional interstate banking. Loss of small banks, lack of accountability, reduced credit availability and decreased tax revenue. Each of those arguments can be defeated by examining available data.

In those states that have had a long history of statewide branching (California, New York, Ohio and North Carolina), the vast majority of banks have assets of less than \$500 million, and almost 10% of those banks were established in the last five years. Such a proliferation of new banks also suggests that accountability can be best determined by the

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person with the ultimate decision-making power -- the Consumer! If the consumer is dissatisfied with the services and products available at his or her existing banking institution, whether its an interstate branch or a local community bank, that consumer can CHOOSE to move their banking relationship to an institution that he or she believes is responsive and accountable!

In the March 1996 Federal Reserve Current Issues study on Small Business Lending and Bank Consolidation, the conclusion of the statistical data finds that, contrary to expectations, the research provided no support for the idea that consolidation from bank mergers reduces the share of a bank's small business loans; in fact, the study indicated that mergers increased a bank' propensity to hold small business loans. Further, Riegle-Neal mandates that a branch cannot be used just to generate deposits. It must demonstrate its willingness to meet local lending needs by meeting a set loan to deposit ratio or risk losing that institution. In addition, separate Community Reinvestment Act reports must be generated for Kansas branches and for metropolitan and non-metropolitan areas within Kansas.

Finally, the tax revenue issue was addressed by the Kansas legislature last year when an apportionment formula for calculating privilege taxes to be paid by financial institutions operating in a multi-state environment was adopted, thus assuring that all businesses (corporations, savings and loan associations, credit unions and banks) operating in a multi-state environment receive the same tax assessment treatment.

Kansas needs to establish and maintain a reputation as a forward looking, economically progressive state. If this "opt out" bill is adopted, you will be prohibiting

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Kansas banks from branching into neighboring states and inhibiting Kansas banks' opportunities for growth. Do not make Kansas an economic island and do NOT allow Kansas to be the only state in the Nation to take this action. Encourage open and equal competition for the betterment of Kansas -- defeat House Bill 2281.

Thank you for your time and attention. I would be happy to address any questions you may have.



715 Merchant
Emporia, KS 66801
316 342-1832
Fax 316 342-3359

February 19, 1997

House Financial Institutions Committee

Dear Committee Members,

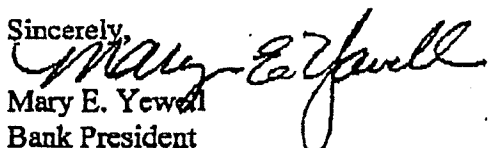
I am the President of First Bank Kansas Emporia. I understand that the House Committee on Financial Institutions is reviewing HB2281 regarding opting out of interstate branching. Last year a similar bill HB2716 was defeated with good reason. I am writing to ask that you vote against any "opt out" language in this bill. I support opting in for the following reasons:

1. Kansas should join the 42 states that have opted in to the national banking system. Opting in would be an indication of a positive business environment in Kansas.
2. Opting in is in the best interest of all Kansas banks. In the last twenty years, banks have lost approximately one-half of their market share--much of that loss to mutual funds, brokerage houses, and finance companies. Opting in will free banks of an artificial barrier and allow them to compete on a more equal basis.
3. Kansas business and individual Kansas bank customers will benefit from the more efficient competition produces by opting in to interstate branching.
4. Opt in will allow any bank headquartered in Kansas to branch into other states and bring business into Kansas.
5. Opting in will increase the franchise value of many Kansas banks.
6. Opting in will not affect well managed community banks that provide their communities with good personal banking relationships.

Opt in will benefit Kansas, Kansas customers, Kansas banks and Kansas business.

Thank you for considering my views.

Sincerely,


Mary E. Yewell
Bank President

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Member FDIC

THE CITIZENS NATIONAL BANK

P.O. Box 228
Lansing, KS 66043
(913) 727-3266

P.O. Box 68
Leavenworth, KS 66048
(913) 651-3266

Remarks of: Gary W. Padgett
President & CEO
The Citizens National Bank
Corporate Office
P O Box 309
Greenleaf, Kansas 66943

Introduction: National Charter
Facilities:
Belleville Pop 2,521
Concordia Pop 6,133
Greenleaf Pop 353
Lansing Pop 6,778
Leavenworth Pop 40,636
Two facilities located within 30 miles
of two separate state borders

SUBJECT: Remarks against House Bill 2281 which would prohibit interstate branching by commercial banks in Kansas.

This is yet another piece of proposed legislation that is extremely parochial, extremely reactive, extremely regressive that serves no public policy purpose. This proposed legislation holds no purposeful objective or mission that is good for the State of Kansas or the whole body of citizens that the legislative bodies represent. For that matter, it holds no purposeful mission for the small independent banks residing in local communities across the state of Kansas.

Market forces are in place to offer citizens "choices". This bill does not offer choices. It only muddies already murky waters that exist for what has "traditionally" been named a bank. If this piece of legislation were passed, it would definitely condemn small independent banks residing in local communities, dependent upon the local economies, to "second class" franchises.

Market forces are in place and consensus is emerging, on widening choices for consumer and on increasing competition within and between elements of the banking, securities, and insurance industries. The Kansas legislative bodies, in my view, should be developing sound, visionary public policy in these arenas rather than focusing on prohibiting existing bank franchises from issues such as "flexibility, adaptability, and mobility," which by now are history. The issues which proponents offer to support the need for this legislation can be addressed in different legislation which might develop sound public policy.

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MEMORANDUM

TO: The Honorable Les Donovan, Chairman
House Financial Institutions Committee

FROM: Robert L. Jones
J.O. Cattle Co., Inc.

DATE: February 19, 1997

RE: House Bill 2281

Mr. Chairman and members of the Committee. My name is Robert Jones. I live in Holcomb, Kansas. I am a rancher, a farmer, and a Finney County Commissioner. I have been in the cattle business most of my life.

One of the primary tools of my industry is the availability of credit. People supporting HB 2281 say "opting in" would have a negative influence on my industry. I disagree. Many cattlemen in my area are already getting financing from out-of-state financial institutions. One of the primary needs of my industry is the availability of credit at a competitive rate from a financial institution of sufficient size to handle the credit with ease. The "opt-out" proponents suggest scenarios that are not happening in the real world.

"Opt-out" proponents are worried about loan to deposit ratios and local lending. In western Kansas there is a larger borrowing base than deposit base. We need and depend on other banks with a low loan demand and high deposit base. Ernie Yake, President of BANK IV Garden City, says one of his goals is to have loans exceed deposits. He can do this as part of BANK IV but not as a separately chartered bank.

My company and I are customers of BANK IV and we are proud of how BANK IV serves our community and industry. I know the borrowing needs of many cattlemen are large enough and complicated enough that they would place a small independent bank in an unsafe

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concentration of credit. These large borrowers need to bank with institutions that can manage these credits in a large diverse portfolio. If our banking laws become even more restrictive, it may be more difficult to get credit and the cost to me as a consumer could be higher. The same holds true for the other services that a bank can offer if it has the opportunity to spread the cost over a large customer base. So the actual record of what is happening today is more relevant than a bunch of doomsday predictions. The choice of services and providers should remain mine and it's something I want to preserve whether I bank down the street or down the road.

Finally, I will have to admit my frustration that bankers are even fussing about "opt-in; opt-out". In the age of fewer regulations and down-sizing of government, this should be a non-issue. Banks should be more concerned about other businesses that are performing banking functions. Those businesses have neither the government regulations or penalties that banks do. The real challenge is for banks to be able to meet this competition on a level playing field.

I urge you not to support House Bill 2281 and more restrictions.

Thank you and please feel free to contact me if I can be of any further assistance.

Sincerely yours,

Robert L. Jones