Approved: March 31, 1997
Date

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Don Steffes at 9:00 a.m. on March 24, 1997 in Room 529-S of the Capitol.

All members were present except:

Committee staff present: Dr. William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Larry Stutz, First National Bank of Alma
James A. Needham, Troy State Bank
Frank Sullentrop, State Bank of Colwich
Leslie Kaufman, Kansas Farm Bureau
Kent McKinney, Commerce National Bank of Topeka
Bob Wightman, Nations Bank

Others attending: See attached list

Hearing on SB 381 -- Banks and banking; prohibiting merger-transactions involving out-of-state banks

Larry Stutz, President and CEO of the First National Bank in Alma, Kansas, stated in his testimony that since Regional Interstate Banking was passed in 1992, approximately one-third of all Kansas banking assets are being controlled by Nebraska and Missouri banks. (Attachment 1) Only 2% of Kansas chartered banks have taken advantage of the interstate banking law. The result of interstate banking is fewer jobs due to consolidation, higher banking fees, less community involvement, and a reluctance to loan money for community reinvestment. The only winners in the interstate banking game are the out-of-state banks.

James A. Needham, President-elect of Community Bankers Association, spoke on behalf of their membership's support of opt-out legislation. (Attachment 2) Their philosophy is that competition in banking is beneficial to the customer and that concentration of control and monopolistic practices are harmful. Mr. Needham said by allowing total interstate bank branching in Kansas we will lose local control, have higher cost of service, lower interest on deposits, experience loss of jobs and loss of deposits which will go the benefit of states other than Kansas.

Frank Sullentrop, President of the State Bank of Colwich, testified that opt-out is not a competition issue--it's a state's right issue. (Attachment 3) By requiring banks doing business in Kansas to have a Kansas charter, the state will maintain some control of Kansas financial resources rather than transferring that control to other states. A significant reduction in revenue will be experienced due to loss in privilege tax. The consolidation and elimination of bank charters can adversely affect jobs at financial institutuions and lending to small business and agriculture.

Leslie Kaufman, Assistant Director of Public Affairs for Kansas Farm Bureau, stated their four concerns as (Attachment 4):

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

Kent McKinney, Community National Bank of Topeka, said this legislation would allow Kansas banks to pursue banking opportunities in other states as well experience banking growth within the state. (Attachment

CONTINUATION SHEET

MINUTES OF THE Senate Committee on Financial Institutions & Insurance, Room 529-S Statehouse, on March 24, 1997.

5) Opting-out is "protectionism," will stifle competition, and keep Kansas weaker and smaller in the banking industry.

Robert W. Wightman, President of NationsBank, N.A. (Mid-West), gave the history of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. (Attachment 6) This Act established nationwide, interstate banking throughout the United States effective September 29, 1995. Nationwide, interstate branching will be allowed unless a state chooses to opt-out before June 1, 1997. It would permit banks with common ownership to merge regardless of how many states they operate in. States would be allowed to opt-out before June 1, 1997. Forty-one states have voted to opt-in, Texas has requested to delay their effective date, and no states have opted-out at this point. NationsBank is the largest agricultural lending institution in Kansas and the 11th largest in the USA. Agriculture lending decisions are made at the local lending authority level. A new NationsBank in downtown Wichita will create 600 new jobs for Kansas.

Written testimony was received from :

Jennifer Unruh, Greater Kansas City Chamber of Commerce (Attachment 7)
Mary E. Yewell, President, First Bank Kansas, Emporia (Attachment 8)
Robert L. Jones, J.O. Cattle Company, Holcomb (Attachment 9)
Mark T. Lair, President, Bank of Commerce, Chanute (Attachment 10)
Gary W. Padgett, President and CEO, Citizens National Bank, Greenleaf (Attachment 11)

Senator Becker moved for the approval of the minutes of March 20, 1997. Motion was seconded by Senator Clark. Motion carried.

The meeting was adjourned at 10:05 a.m. The next meeting is scheduled for March 25, 1997.

SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: March 24, 1997

NAME	REPRESENTING
Kent McKinney	Community Nat'l Bk, Topeka
SueAnn V. Schultz	NationsBank
Mike Slack	NationsBank
Robert W Wightman	NationsBank
Roger Franzke	" "
Matt Goddard	HCBA
Jim Maag	KBA
Leslie Kaufman	Ks Farm Bureau
David Fowler	1st State Bank, Burlingame
Alan Steppat	Pete McGill & Associates
Sue Anderson	Community Bankers Assn
Kathy A. Lovelace	Community Bankers Assn
Joe Kennedy	1ST NATL BANK FRANKFORT
James A. [illegible]	The Troy State Bank, Troy, Ks.
Frank A. [illegible]	State Bank of Colwich, KS
Larry J. [illegible]	1st Nat'l Bank in Alma + CBA

STATE OF KANSAS SENATE HEARINGS
OPT OUT SB 381
TESTIMONY BY LARRY J. STUTZ

Chairman Steffes, and members of this committee. My name is Larry J. Stutz President and CEO of the First National Bank in Alma, Kansas. I am here to offer reasons why you should support SB 381, which would Opt Kansas out of interstate branching.

The opponents of this bill will tell you that they and Kansas banks need to have full branching powers so that they can be more efficient and competitive. The only banks to gain from interstate branching don't want to maintain a charter in Kansas. For any Kansas banks to benefit from interstate branching they must participate in that activity. This is the same story we were told in 1992 when the Regional Interstate Banking Bill passed.

So what has happened over the last five years? Less than 2% of all Kansas banks have taken advantage of the regional interstate banking law. However, seven Missouri banks and five Nebraska banks have purchased over 40 banks with assets in excess of $9,800,000,000, or about one/third of all Kansas banking assets. The only things Kansans' got was a lot of job layoffs. In fact, in a study by Deloitte & Touche of New York, it is estimated that nationwide, the adoption of interstate branching will cost the U.S. over 450,000 jobs over the next five years.

Furthermore, the Federal Reserve reported that it found "In most cases, average fees charged by out of state banks were higher than those charged by in-state banks." In the August 9, 1995 Wall Street Journal, Edmund Mierzwinski with the U.S. Public Interest

Senate FI&I
Attachment 1
3/24/97

Research Group reported, "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.

Last year our bank and two other community banks helped refinance a local businessman. His bank of fifteen years was acquired by a Missouri bank. He wanted to expand his operation and the Missouri bank had no interest in additional loans. Working together the three banks helped him expand and preserved over 70 jobs in two communities. Today, while the expansion is not totally complete he has added over thirty additional jobs. I talked to him last week and he is hoping that once the expansion is totally complete he will be able to triple his annual sales over the next three years and add many more employees. The Missouri bank that took over his bank of fifteen years was not interested in him anymore.

It should be apparent that the real winners in the interstate branching expansion are the shareholders of the out of state banks. Kansas businesses, agriculture and consumers will only see higher interest rates on loans, lower interest rates on savings and higher fees. The cost benefits that may be achieved by interstate branching will benefit those banks shareholders not the taxpayers, consumers and businessmen of Kansas.

When I was a banker in Norton, Kansas, the only branching that we had then was by

Savings and Loans. We had a branch of Peoples Heritage Savings & Loan and I was assigned the task of asking them to sponsor a little league boys team or a girls softball team. The manager told me they wouldn't sponsor the boys team for $125.00 nor the girls softball team for $50.00. In the IBAA Washington Weekly Report of October 20, 1995 the paper reported that "The Bank Marketing Association has released a study indicating that smaller banks allocate a far larger share of their budgets to local charities than do larger banks." It further states that "As home-town banks become branches of larger regionals, the decision makers reside further away from their customers, making such charitable contributions less likely. Going back to Norton, when Peoples Heritage failed it was not because of the few housing loans that they made in Kansas, but the millions of Kansans' dollars that they loaned for commercial property and condo's in Colorado, Arizona and Texas.

In the past we have had liquidity crunches and the next time money becomes tight, who will these out of state banks allocate their funds to? It would be hard to believe that Kansas would be anywhere close to the top of that list. In a liquidity crunch those banks will aggressively seek and acquire deposits. You can almost envision, the depositors coming in the front doors and a semi truck parked out back with ten guys shoveling the money in for its trip to North Carolina, California and even New York City. This isn't just a guess, it is based on logic and common sense. Where will the loyalty of these out of state banks be? Not to Kansas, but to their own home states and those that produce the larger and more profitable loans.

The Reigle-Neale legislation of 1994 gives us no second chance, if we do not pass Opt-Out legislation now, interstate branching will automatically be the law in Kansas as of July 1, this year. If we choose to Opt-Out now we can Opt-in latter after further study of if this is what we really want for Kansas. We have already allowed a few banks special privileges by not passing opt-out last year as they have already used the OCC thirty mile rule. According to the American Banker of March 20, 1997 and I quote "Nearly 2,200 branches operated by the nation's largest banks are exempt from a government plan to impose community reinvestment-like standards on institution branching across state lines. The article further states " While the 1994 interstate banking law requires this rule, it exempted out-of-state branches authorized under different laws or rules. Slipping through this loophole are 40 national banks including First Union Corp. and NationsBank Corp. - that got a jump on interstate branching under the so-called 30-mile rule."

Ladies and Gentlemen of this committee I would like to conclude by asking "Who benefits from interstate branching? Kansas businesses, consumers and taxpayers, or is the real benefit only to those out of state banks' and their shareholders? I will leave you with a quote from Hugh McCall, Chairman of Nations Bank, as his bank entered the Texas market in the 1980's, "We are going to make a lot of money in Texas and we will keep it all for ourselves." I would now ask you to vote yes on SB 381, in support of Kansas businesses, consumers, farmers and taxpayers.

Community Bankers Association of Kansas

Date: March 24, 1997

To: Senate Financial Institutions and Insurance Committee

From: James A. Needham, President-elect
Community Bankers Association

Subject: Testimony on SB 381
to 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 Senate Bill 381. 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.

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.

Senate FI&I
Attachment 2
Mar. 24, 1997

Directed By The Members We Serve

5605 SW Barrington Court S • Suite 100 • Topeka, Kansas 66614-2489 • Phone (913) 271-1404 • FAX (913) 271-1508

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 $27,940,000.

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. Vote yes on SB 381.

Thank you very much for your time and consideration today.

(n\sue\SB381.jim)

Community Bankers Association of Kansas

TESTIMONY BY:

FRANK SUELLENTROP, PRES.
STATE BANK OF COLWICH

IN SUPPORT OF SB 381

Chairman Steffes, and members of the Senate Financial Institutions and Insurance Committee, I come before you today on behalf of the Community Bankers Association of Kansas, to present testimony in support of opt-out legislation, Senate Bill 381.

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.

Senate FI&I
Attachment 3
March 24, 1997

Directed By The Members We Serve

5605 SW Barrington Court S • Suite 100 • Topeka, Kansas 66614-2489 • Phone (913) 271-1404 • FAX (913) 271-1508

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.

Revenue is being transferred from one state to another

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.

safety issue - separate

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. There have been 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.

Senate Bill 381 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 Senate Bill 381.

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

(S\POLITICS.ST\OPT-OUT\HB2281.FS)

Kansas Farm Bureau

PUBLIC POLICY STATEMENT

SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE

Re: SB 381 - Prohibition on merger transactions with out-of-state banks and on interstate branching by merger or acquisition

March 24, 1997
Topeka, Kansas

Presented by
Leslie Kaufman
Assistant Director
Public Affairs Division

Chairman Steffes and members of the Committee, thank you for the opportunity to appear before you today in support of SB 381. 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

Senate FI&I
Attachment 4
March 24, 1997

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 SB 381.

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 financing problems of young farmers and ranchers who are trying to get established.

Community National Bank
P.O. Box 4876 ■ Topeka, Kansas 66604

March 24, 1997

Testimony before the Senate Committee on Financial Institutions and Insurance

re: Interstate branching

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.

Senate FI&I
Attachment 5
March 24, 1997

5431 S.W. 29th ■ Phone 913-271-6696 ■ Fax 913-271-6623

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 more than $18,000,000 in asset size . We have almost $10,000,000 in loans in 22 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

Kent S. McKinney
President

5431 S.W. 29th ■ Phone 913-271-6696 ■ Fax 913-271-6623

Testimony of Robert W. Wightman
President, NationsBank, N.A. (Mid-West)

Senate Financial Institutions and Insurance Committee

Senate Bill 381

March 24, 1997

Mr. Chairman and Members of the Committee. My name is Bob Wightman and I'm President of NationsBank, N.A. (Mid-West). Thank you for the opportunity to appear before you in opposition of Senate Bill 381.

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.

Senate F I & I
Attachment 6
3/24/97

Riegle-Neal recognized 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 Senate Bill 381. 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 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 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's 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 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 Kansans -- defeat Senate Bill 381.

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

S:\legal\sas\rwwtest1.opt
3-21-97.10:15am

GREATER KANSAS CITY
CHAMBER OF COMMERCE

March 24, 1997

Senator Don Steffes
Chairman, Senate Committee on Financial Institutions and Insurance
Statehouse
Topeka, KS 66612

Dear Chairman Steffes and Committee Members:

The Chamber represents approximately 1,000 Kansas businesses in the Kansas City area. Our top priority is to support legislative efforts to enhance Kansas' economic growth. As we considered proposals last fall, we focused on issues of concern to business growth. One of the issues with which we were concerned is the effort to allow Kansas to "opt out" of federal legislation that permits interstate branching. As a result of those concerns, the Greater Kansas City Chamber of Commerce opposes SB 381.

We would like to share with you our concerns about Senate Bill 381 and urge you to join 41 other states that have passed legislation to "opt in."

We believe that SB 381 would create a barrier to competition and to providing lower cost financial services to consumers as well as making banking inconvenient. For consumers, it is most convenient to be able to deposit and withdraw funds from any branch without regard for the location of the facility. Banks operating in Kansas and any other state would have to maintain two organizations rather than one and the duplication increases costs.

We also believe that if Kansas blocks interstate branching it will mean that Kansas banks will not play by the same rules as banks in at least 41 other states and Kansas banks would be left behind banks in surrounding states. In today's international economy, Kansas businesses need access to the financial industry. Using old-style laws and regulations will create barriers to conducting business efficiently.

If the growth of Kansas banks is impaired by "opting out," it will be more difficult to keep businesses in the state and attract new businesses. We do not believe that Kansas should hold back natural growth.

The Greater Kansas City Chamber of Commerce believes that Senate Bill 381 will impede business growth as we enter the 21st Century. Fear of fair and healthy competition is not the best way to set public policy. Banking should be treated like other businesses and should not be placed at a competitive disadvantage with other types of financial service companies. In order for businesses and banks to succeed, we encourage you to oppose Senate Bill 381. Thank you for your consideration of our perspective.

Sincerely,

Jennifer Unruh
Manager of Government Relations

JU/jlb

Senate FI&I
Attachment 7
3/24/97

First Bank
Kansas

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

March 21,1997

Senator Don Steffes
Chairman of Senate State Financial Institutions
and Insurance Committee

Dear Senator Steffes,

I am the President of First Bank Kansas Emporia. I understand that the Senate Committee on State Financial Institutions is reviewing SB381 regarding opting out of interstate branching. Last year a similar bill 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
Mary E. Yewell

Senate F I & I
Attachment 8
3/24/97

MEMORANDUM

TO: The Honorable Don Steffes, Chairman
Senate Financial Institutions and Insurance Committee

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

DATE: March 24, 1997

RE: Senate Bill 381

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 SB 381 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 NationsBank Garden City, says one of his goals is to have loans exceed deposits. He can do this as part of NationsBank but not as a separately chartered bank.

My company and I are customers of NationsBank and we are proud of how NationsBank 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

Senate F I & I
Attachment 9
3/24/97

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 Senate Bill 381 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

BANK OF COMMERCE

March 13, 1997

Senate Finance Committee
Statehouse
Topeka, Kansas 66612

RE: Senate Bill No. 381

Dear Committee Members:

I will not be able to attend the hearings scheduled with the Senate Finance Committee regarding Senate Bill No. 381, which is the "opt-out" interstate branching bill.

It is my opinion that a decision to prevent interstate branch banking will accomplish nothing other than to limit this state's ability to fully participate in a nationwide banking system. My family owns six banks and three branches in Southeast Kansas. We do not feel there is any threat to our banks or the banking community to allow interstate branch banking.

The technology revolution has created many opportunities for Kansas banks as well as other Kansas industries. We need to open our borders to allow free flow of business as opposed to establishing a protectionist policy which will ultimately limit this state's role in interstate commerce.

Thank you for your consideration to my comments. If you would like to discuss Senate Bill No. 381 further, please contact me at your convenience.

Sincerely,

Mark T. Lair
Mark T. Lair
President

MTL/slk

Senate FI&I
Attachment 10
March 24, 1997

P.O. Box 538 Chanute, Kansas 66720 (316) 431-1400 Fax (316) 431-1505 Member FDIC

CNB
THE CITIZENS NATIONAL BANK
Member FDIC

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 Senate Bill 381 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.

Senate F I & I
Attachment 11
3/24/97