

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairman Ruth Teichman at 9:30 a.m. on March 2, 2010, in Room 152-S of the Capitol.

All members were present.

Committee staff present:

Ken Wilke, Office of the Revisor of Statutes
Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Beverly Beam, Committee Assistant

Conferees appearing before the Committee:

Tom Thull, State Bank Commissioner
Doug Wareham, Kansas Bankers Association
Shawn Mitchell (written only), Community Bankers
Kathy Olsen (written only), Kansas Bankers Association

Others attending:

See attached list.

Tom Thull, State Bank Commissioner (Attachment 1 and 4)
Doug Wareham, Kansas Bankers Association (Attachment 2)
Kathy Olsen (written only), Kansas Bankers Association (Attachment 5)
Shawn Mitchell (written only), Community Bankers (Attachment 3 and 6)

The Chair called the meeting to order.

Hearing on

HB 2608 - Financial institutions, examinations and annual assessments

Melissa Calderwood, Research Department, gave an overview of the bill. Ms. Calderwood stated that this bill would amend a provision in the Banking Code governing the assessment on state-chartered banks and trust companies to specify that an assessment may be collected by the Bank Commissioner as deemed appropriate. The installment periods are limited under the bill to a frequency of at least monthly. It would specify that when an invoice for the assessment has been issued by the Commissioner, payment is due within 15 days of the date of the invoice and would allow the Commissioner to impose a penalty on the annual assessment when the payment is 15 days or more past due; the penalty established under the current law is in the amount of \$50 per day. She said additionally, the bill would provide for the reimbursement to the Office of the State Bank Commissioner the amount of expenses incurred and the cost of services performed by the agency on account of any bank, trust department, trust company, or other corporation which is outside the normal expenses of an examination. The bill also would specify requirements for the payment of an assessment where a merger, consolidation, or purchase and assumption has occurred; the assessment is to be based on the value of the assets of all institutions involved with the merger, consolidation, or assumption. She added that under current law, the annual assessment, made on the fiscal-year basis in July, is collected biannually, with payments due on July 15 and January 15.

State Bank Commissioner, Tom Thull, testified in support of HB 2608. Commissioner Thull stated that this bill amends K.S.A. 9-17-3, which is the statute that governs the assessments of the banks and trust companies we regulate. He said currently, the agency assesses banks and trust companies once per year in July, with collection of that assessment occurring twice; once in July and once in January. He said under subsection (c) of this statute, he is asking for the ability to continue to assess once per year, but collect the assessment more frequently than twice per year. He said as written, the statute would allow the commission to collect the assessments as needed, but no more frequently than once per month. He said this will help the agency manage their money more suitably, only collecting the necessary funds for the operation of the agency when the timing is appropriate. (Attachment 1)

CONTINUATION SHEET

Minutes of the Senate Financial Institutions and Insurance Committee at 9:30 a.m. on March 2, 2010, in Room 152-S of the Capitol.

Doug Wareham, Kansas Bankers Association, testified in support of HB 2608. Mr. Wareham said HB 2608 would simply allow the state bank commissioner to collect assessments from state-chartered banks as needed, but not more frequently than monthly. He said state bank assessments are currently collected bi-annually. He added that this change will help alleviate the challenges associated with the department having large fund balances on hand that have become an attractive target for fee sweeps in recent years. (Attachment 2)

Shawn Mitchell, Community Bankers Association presented written testimony in support of HB 2608. (Attachment 3)

Ken Wilke presented technical amendments to HB 2608.

The Chair closed the hearing on HB 2608.

Hearing on

HB 2609 - Banks and banking, general power, purchase life insurance

Ms. Calderwood gave an overview of HB 2609. She stated that HB 2609 would amend the Kansas Banking Code relating to the general powers of state chartered banks. She said the bill would allow banks to invest in life insurance for limited purposes within set limitations. She added that this bill would put the provisions of this special order in the Kansas Banking Code.

State Bank Commissioner, Tom Thull, testified in support of HB 2609. He stated that in 2005 the Commissioner issued Special Order 2005-1 that granted parity for state banks with national banks with regard to the purchase of life insurance. He said the Special Order also incorporated the requirement for a bank to have a thorough pre-purchase analysis as well as guidelines the banks must follow in the purchase of the product, to ensure the bank understands the risks. He added that the Special Order also will eliminate confusion of any reader who looks only to K.S.A. 9-1101 and is unaware of the existence of the Special Order. (Attachment 4)

Kathy Olsen, Kansas Bankers Association, presented written testimony in support of HB 2609. (Attachment 5)

Shawn Mitchell, Community Bankers Association, presented written testimony in support of HB 2609. (Attachment 6)

The Chair closed the hearing on HB 2609.

Action on

HB 2608 - Financial institutions, examinations and annual assessments

Senator Steineger moved passage of the technical amendments to HB 2608. Senator Brownlee seconded. Motion carried. Senator Steineger moved to pass HB 2608 out favorably as amended. Senator Brownlee seconded. Motion carried.

Action on

HB 2609 - Banks and banking, general power, purchase life insurance

Senator Kelsey moved to pass HB 2609 out favorably and place it on the Consent Calender. Senator Steineger seconded. Motion carried.

The next meeting is scheduled for March 3, 2010.

The meeting was adjourned at 10:10 a.m.



MARK PARKINSON, Governor

OFFICE OF THE STATE BANK COMMISSIONER

J. THOMAS THULL, Bank Commissioner

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

March 2, 2010

Madame Chair and Members of the Committee:

My name is Tom Thull, and I am the Bank Commissioner for the State of Kansas. I am here today in support of HB 2608. This bill amends K.S.A. 9-1703, which is the statute that governs the assessments of the banks and trust companies we regulate. Currently, the agency assesses banks and trust companies once per year in July, with collection of that assessment occurring twice; once in July and once in January. Under subsection (c) of this statute we are asking for the ability to continue to assess once per year, but collect the assessment more frequently than twice per year. As written, the statute would allow us to collect the assessments, as needed, but no more frequently than once per month. This will help the agency manage their money more suitably, only collecting the necessary funds for the operation of the agency when the timing is appropriate. Envisioning how the agency will implement this statutory change, as budget adjustments occur throughout the year, the agency will collect smaller amounts of funds more frequently to avoid an excess of monies at any given time, and a surplus remaining at year end. Since we are a fee funded agency, our only source of revenue comes from these assessments.

Thank you for your time. I would be happy to answer any questions from the committee.

*FI&I Committee
3-2-10
Attachment 1*



Date: March 2, 2010
To: Senate Financial Institutions & Insurance Committee
From: Doug Wareham, Senior Vice President-Government Relations
Re: Support for H.B. 2608 – (State Bank Commission Assessments)

Chairman Teichman and members of the Senate Financial Institutions & Insurance Committee, I am Doug Wareham appearing on behalf of the Kansas Bankers Association (KBA). KBA's membership includes 322 Kansas banks that provide financial services in 440 towns and cities across the state. Kansas banks currently employ just over 14,000 Kansans. Thank you for the opportunity to appear in support of H.B. 2608.

H.B. 2608 would simply allow the state bank commissioner to collect assessments from state-chartered banks as needed, but not more frequently than monthly. State bank assessments are currently collected bi-annually. We do not anticipate any additional cost associated with the more frequent collection of assessments, in light of the fact the process is electronic. We do believe allowing the State Bank Commissioner to collect fees as needed, could potentially reduce the financial impact on state-chartered banks that fully support the operations of the department's division of banking. We also believe this change will help alleviate the challenges associated with the department having large fund balances on hand that have become an attractive target for fee sweeps in recent years.

Once again, thank you for the opportunity to provide comments in support of H.B. 2608, and I would be happy to stand for questions now or at the appropriate time.

*FI&I Committee
3-2-10
Attachment 2*

To: Senate Financial Institutions and Insurance Committee

From: Shawn Mitchell, President and CEO
Community Bankers Association of Kansas

Date: March 2, 2010

RE: Written Support of House Bill 2608

Chairwoman Teichman and Members of the Committee:

I am Shawn Mitchell, President and CEO of the Community Bankers Association of Kansas (CBA). CBA represents community banks from every corner of Kansas with the vast majority of them being state chartered financial institutions. I appreciate the opportunity to provide written comment in support of House Bill 2608.

House Bill 2608 is an important piece of legislation that enables the office of the state bank commissioner flexibility in the collection of annual assessment fees from state chartered financial institutions. The ability to collect the assessed fees when deemed appropriate by the commissioner allows for the office of the state bank commissioner to budget and plan knowing precisely what dollar amount of funding is arriving and when that funding will be available, without having to deal with the issue of extreme volatility in cash balances of the departments accounts.

State chartered financial institutions accrue for their assessment fee monthly based upon the annual fee that the office of the bank commissioner calculates as being due for the fiscal year for each institution. The financial institutions currently pay the assessment fee semiannually to the office of the state bank commissioner. Financial institutions would not see a reduction, or increase, in assessment fees arising from HB 2608. They would still accrue for the fees as before and the fees would be collected in such installment periods as the commissioner deemed appropriate instead of the current semiannual structure.

In conclusion, the Community Bankers Association of Kansas respectfully requests your support for House Bill 2608.

*FI&I Committee
3-2-10
Attachment 3*

OFFICE OF THE STATE BANK COMMISSIONER

J. THOMAS THULL, Bank Commissioner

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

March 2, 2010

Madame Chair and Members of the Committee:

My name is Tom Thull and I am the Bank Commissioner for the State of Kansas. I am here today in support of HB 2609. This bill amends K.S.A. 9-1101, which is the powers section for the state banks of Kansas. Currently, subsection (24) sets forth certain provisions under which a state bank may purchase life insurance. In 2005, the Commissioner issued Special Order 2005-1 that granted parity for state banks with national banks with regard to the purchase of life insurance. It allows state banks to purchase life insurance for the same reasons and to the same extent as national banks. An example of this would be the allowance for a bank to purchase insurance in connection with current employee benefit plans. The Kansas statute only allowed for deferred compensation and benefit plans. The Special Order also incorporated the requirement for a bank to have a thorough pre-purchase analysis as well as guidelines the banks must follow in the purchase of the product, to ensure the bank understands the risks of BOLI. It further requires a comprehensive risk management process for holding the BOLI. The amendment of this statute is simply to codify the authority Kansas banks have had for five years under the Special Order. It will also eliminate confusion of any reader who looks only to K.S.A. 9-1101 and is unaware of the existence of the Special Order.

I would be happy to stand for questions from the committee.

*FI & I Committee
3-2-10
Attachment 4*



March 2, 2010

To: Senate Committee on Financial Institutions and Insurance

From: Kathleen Taylor Olsen, Kansas Bankers Association

Re: HB 2609: Bank Owned Life Insurance

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to provide written testimony today in support of **HB 2609**, which codifies into state law, the Federal bank regulators' Interagency Statement regarding the purchase of and the holding of bank owned life insurance.

State-chartered banks in Kansas have two sets of regulators: the Office of the State Bank Commissioner (OSBC), and a Federal banking regulator – either the Federal Deposit Insurance Corporation or the Federal Reserve Bank. The bank chooses its Federal regulator.

State-chartered banks also have two sets of laws with which to comply – state and federal. As part of a recodification project, the OSBC and the KBA have been reviewing each statute located in the banking code. It became clear to those of us involved in this process that, rather than trying to keep the state code in conformance with the rules found in the Interagency Statement, it would make more sense to make the Statement part of the banking code. This will resolve a lot of confusion that exists today for our state-chartered members.

The bill retains the state-imposed limits on ownership of life insurance per insurance company (15%) and as an aggregate (25%) of the bank's capital, surplus, undivided profits, allowance for loan and lease losses, capital notes and debentures, and reserve for contingency.

Thank you and we would respectfully request that the committee consider **HB 2609** favorably for passage.

*FI&I Committee
3-2-10
Attachment 5*

To: Senate Financial Institutions and Insurance Committee

From: Shawn Mitchell, President and CEO
Community Bankers Association of Kansas

Date: March 2, 2010

RE: Written Support of House Bill 2609

Chairwoman Teichman and Members of the Committee:

I am Shawn Mitchell, President and CEO of the Community Bankers Association of Kansas (CBA). CBA represents community banks from every corner of Kansas with the vast majority of them being state chartered financial institutions. I appreciate the opportunity to provide written comment in support of House Bill 2609.

House Bill 2609 clarifies some of the language that previous legislation contained and most importantly aligns the legislation with the parameters outlined in the interagency statement of the purchase and risk management of life insurance, federal deposit insurance corporation (FDIC) financial institution letter 127-2004, effective December 7, 2004. This alignment with the language from FDIC is important to our state chartered financial institutions in that they can be assured of compliance with both state regulations and federal regulations without having to constantly refer to two separate sets of rules.

Our state chartered financial institutions have the option of many different types of regulated investments that they may purchase for the benefit of their institutions. House Bill 2609 does not expand that list of available options but it does make the option of purchasing life insurance, from highly rated insurance companies, a more viable option for our financial institutions. As with all investments that a state chartered financial institution may purchase, investing in life insurance is another tool that enhances an institutions earnings in a safe and sound manner.

In conclusion, the Community Bankers Association of Kansas respectfully requests your support for House Bill 2609.

FI & I Committee
3-2-10
Attachment 6