



Date: January 19, 2021

To: Senate Committee on Financial Institutions
Senator Jeff Longbine, Chairman

From: Alex Orel, Senior Vice President – Government Relations
Kansas Bankers Association

Re: Support for Senate Bill 15

Dear Chairman Longbine and Members of the Committee:

I am Alex Orel appearing on behalf of the Kansas Bankers Association (KBA), organized in 1887 and whose membership includes 98% of the 220 banks and savings & loans headquartered in Kansas. Our membership also includes 19 out-of-state commercial banks operating in Kansas. The Kansas banking industry employs more than 22,000 Kansans that provide financial services in every county across the state. Our organizational mission statement is:

"Together, we support our member banks and bankers with leadership, advocacy, and education to benefit the communities and customers they serve."

Thank you for the opportunity to testify today in support of SB 15. We appreciate this committee and the legislature taking a close look at long term solutions to address the economic impact caused by the COVID-19. We respectfully request that the Kansas legislature favorably consider SB 15, which will provide low-cost credit to ag producers and rural housing and create an economic recovery linked deposit loan program for small businesses, including farmers and ranchers, financially affected by the pandemic.

As the Kansas Legislature has considered solutions to address the economic impact of COVID-19, our association has been working with legislative leaders and other stakeholders to develop a robust state-level response addressing the need for low-cost credit for Kansas businesses. The availability of low-cost credit is vitally important to Kansas business, including farmers and ranchers, as shuttered storefronts, a crippled energy sector, low farm commodity prices and disruptions in the food processing sector has caused a ripple effect that will negatively impact the cash flows of agricultural operators and small businesses for the foreseeable future. The negative economic impact of COVID-19 has been unprecedented, and Kansas businesses need both short and long-term credit strategies to remain viable. We urge state policymakers to arm the business community with the tools needed to restructure debt when feasible and allow Kansas businesses to bring employees back to work. The road to recovery for our business sector will be long and arduous.



We do not believe this proposal will solve all the problems, but it will be a significant step in the right direction.

This bill will help provide low-cost credit to struggling business in two ways:

1. Creates a new Linked Deposit Loan Program through the Kansas State Treasurer's Office that will allow the state to partner with banks, credit unions, and farm credit to use dedicated state idle funds to deposit in participating financial institutions, which would then provide low-interest loans to Kansas businesses.
 - The existing linked deposit program for housing that is not currently being utilized could be repurposed, freeing up \$60 million in previously authorized state idle funds for this program.
 - Loans can be authorized for a length of up to 10 years with a maximum individual loan limit of \$250,000.
 - Participating financial institutions would be responsible for each loan's underwriting. Kansas financial institutions would repay the state on those deposits at a floating rate of 2% below the market rate with a floor of 0.25%.
 - This legislation would cap the interest rate spread for participating institutions at 3%.
2. Establishes a targeted tax exemption that will lower interest rates by Kansans seeking agricultural real estate loans and from banks and savings & loans operating in Kansas and creates an incentive for rural housing development across Kansas in communities with 2,500 or less.

Creating a new Economic Recovery Linked Deposit Loan Program will promote business growth, stimulate job creation, and serve as an incentive for financial institutions to extend credit to small business borrowers. Surrounding states, such as Missouri, Oklahoma, and Iowa, have similar programs currently infusing hundreds of millions of working capital dollars into businesses in their respective states. Last May, the Missouri State Legislature adopted legislation to increase the utilization of state idle funds for their Missouri First Linked Deposit Loan program by \$80 million. That increase will be in addition to the current \$720 million in state idle funds available for Missouri banks to bolster their state's investment in business growth. Oklahoma's linked deposit program currently has \$225 million available, and Iowa has \$108 million available. Kansas has had success with other linked deposit loan programs. We believe now is the time for Kansas to invest in our state's economic recovery by encouraging "impact investing" that assists the business sector.

SB 15 will provide immediate financial relief to Kansas farmers and ranchers struggling with ongoing low commodity prices by enabling community banks and savings and loans to offer more competitive interest rates on long-term ag real estate loans and rural housing loans. The number of farm bankruptcies in Kansas, unfortunately, continues to trend upward. We hear many stories of ag lenders working with their borrowers to restructure loans during this extended down cycle.



You are strategically positioned to assist small businesses, including farmers and ranchers, at this critical moment in our state's history. Both proposals will provide long term solutions to our ag and business community. Our farmers and ranchers and small business owners will need every tool possible to get through this crisis, and Kansas lawmakers can and should have a role in providing those tools. This bill is a straightforward solution that will bring confidence back to rural areas and main streets alike.

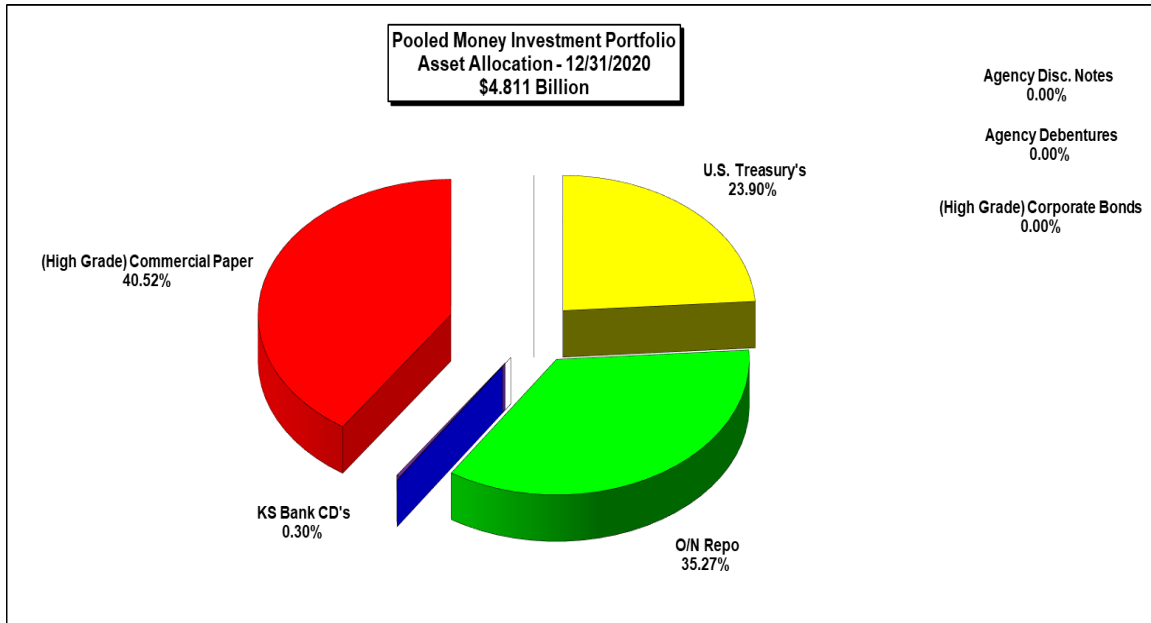
We respectfully request when the committee decides to act on SB 15, they recognize the importance and benefits of this proposal on our fellow Kansans for the long term.



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The Pooled Money Investment Portfolio

Portfolio Manager: Scott W. Miller, Executive Director & Chief Investment Officer, smiller@pmib.ks.gov



Asset Allocation as of: 12/31/2020

\$4.811 Billion (Par Value)

O/N Repo: 35.27%

U.S. Treasury Bills: 23.90%

Agency Discount Notes: 0.00%

Agency Debentures: 0.00%

Kansas Bank CDs: 0.30%

High Grade Commercial Paper: 40.52%

High Grade Corporate Bonds: 0.00%

Portfolio Holdings (Rating / Percent of Portfolio) as of: 12/31/2020

Investment Type	Percent of Portfolio
Overnight	35.27%
Repurchase Agreements	
U.S. Treasury Bills	23.90%
FNMA (Fannie Mae)	0.00%
FHLMC (Freddie Mac)	0.00%
FHLB (Home Loan Bank)	0.00%
FFCB (Farm Credit Bank)	0.00%

Kansas Bank CD's	0.30%
Bank of Montreal	4.16%
Bank of Nova Scotia	4.16%
BNP Paribas (New York)	4.16%
Credit Suisse (New York)	0.00%
Exxon Mobil Corp.	4.16%
ING (US) Funding LLC	0.00%
JP Morgan Securities LLC	4.16%
Lloyds Bank PLC	0.00%
Natixis (New York)	4.16%
Nestle Companies	0.00%
Prudential Funding LLC	3.12%
Rabobank USA Finance Corp.	0.00%
Royal Bank of Canada	0.00%
Swedbank AB	4.16%
Toronto Dominion Holdings USA	4.16%
Toyota Motor Credit Corp.	4.16%
US Bancorp	0.00%

* = Rating "On Watch" for Possible Downgrade

Graph / Charts Prepared by Scott Miller, Executive Director & Chief Investment Officer smiller@pmib.ks.gov

The PMIP, which is managed by the State of Kansas Pooled Money Investment Board, is comprised of all funds residing in the State Treasury; from various State Agencies, as well as, local governments and school districts located within the state of Kansas. The PMIP's primary objectives are securing principal, providing liquidity, and achieving a market rate of return. To provide for these objectives, the PMIP invests mainly in U.S. Government Securities (which include U.S. Treasury instruments and Federal Agency issues), repurchase agreements backed by such securities, 'A1+/P1' and 'A1/P1' rated Commercial Paper, AA-/Aa3 (minimum) rated Corporate Bonds, and Kansas Bank deposits.

The Portfolio's short duration target and its high level of liquidity mitigate interest rate risk. The investment decisions are based mainly on Cash Flow needs, which are closely monitored by the investment team.

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Pooled Money Investment Board 900 S.W. Jackson, Suite 209 - Topeka, KS 66612-1220 phone: (785) 296-3372 - fax: (785) 296-2857

January 2021

Dear Kansas Policymakers:

On behalf of the members of the (associations listed below) representing businesses in all corners of the state, we write to express support for Senate Bill 15, a bill to help Kansans recover from the devastating economic effects of the pandemic and beyond.

As the Kansas Legislature considers solutions to address the economic impact of COVID-19, our association has been working with legislative leaders to develop a robust state-level response addressing the need for low-cost credit for Kansas businesses. The availability of low-cost credit is vitally important to Kansas business, including farmers and ranchers, as shuttered storefronts, a crippled energy sector, low farm commodity prices and disruptions in the food processing sector has caused a ripple effect that will negatively impact the cash flows of agricultural operators and small businesses for the foreseeable future. The negative economic impact of COVID-19 has been unprecedented and Kansas businesses need both short and long-term credit strategies to remain viable.

We urge state policymakers to arm the business community with the tools needed to restructure debt when feasible and to allow Kansas businesses to bring employees back to work. The road to recovery for our business sector will be long and arduous. Access to low-cost credit vitally important for businesses in need of working capital.

Senate Bill 15 will help provide low-cost credit to struggling business in two ways:

- 1) establishes an economic recovery linked deposit loan program that will enable Kansas financial institutions, (Banks, Credit Unions, etc.) to provide low-interest loans to Kansas small businesses; and
- 2) establishes a targeted tax deduction that will lower interest rates for Kansans seeking agricultural real estate loans and single-family home loans in rural communities.

You are strategically positioned to assist small businesses, including farmers and ranchers at this critical moment in our state's history. This bill is a straightforward solution that will promote business growth, stimulate job creation and bring confidence back to rural areas and main streets alike.

Associated General Contractors	Kansas Association of Realtors	Kansas Restaurant & Hospitality Association
Community Bankers Association of Kansas	Kansas Auto Dealers Association	National Federation of Independent Business
Fuel True: Independent Energy Convenience	Kansas Bankers Association	Renew Kansas Biofuels Association
	Kansas Chamber of Commerce	
	Kansas Dental Association	

Senate Bill 15 - Economic Recovery Legislation

“This bill will promote business growth, stimulate job creation, and serve as an incentive for financial institutions to extend credit to struggling agricultural and small business borrowers.”

- Doug Wareham, KBA

ECONOMIC RECOVERY LINKED DEPOSIT LOAN PROGRAM

\$60 MILLION

UTILIZES \$60 MILLION IN EXISTING STATE IDLE FUNDS

\$250,000

INDIVIDUALS MAY BORROW UP TO \$250,000



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HAVE BEEN USING LINKED DEPOSIT PROGRAMS SUCCESSFULLY FOR YEARS

ALLOWS QUALIFIED FINANCIAL INSTITUTIONS TO PROVIDE LOW INTEREST LOANS TO HELP KANSAS SMALL BUSINESSES

ENHANCING CREDIT OPPORTUNITIES FOR RURAL KANSAS



\$200 MILLION OVER 20 YEARS

BACK INTO THE HANDS OF KANSAS FARMERS & RANCHERS



CHAPTER 12 FARM BANKRUPTCIES INCREASED 23% IN THE PAST YEAR

KANSAS HAD 37 CH 12 BANKRUPTCIES IN 2019, PRE-COVID-19

KANSAS BANK 2020 TOTALS

\$8.25 BILLION

FARM LOANS

\$4.56 BILLION

FARM REAL ESTATE LOANS

\$3.69 BILLION

FARM PRODUCTION LOANS