Approved: 1-20-10
Date

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 January 14, 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 Banking Commissioner
- Doug Wareham, Government Relations, Kansas Bankers Association (Attachment 1)
- Matthew Goddard, Heartland Community Bankers Association (Attachment 2)
- Shawn Mitchell, Community Bankers Association of Kansas (Attachment 3)

Others attending:
- See attached list.

Chairman Teichman welcomed the Committee and Staff as well as others in attendance, to the first meeting of the 2010 Legislative Session. The Chair asked the Staff to introduce themselves.

The Chair presented F I & I Committee rules for the 2010 Legislative Session.

Banking Commissioner, Tom Thull, gave an update on what is happening in the banking industry in Kansas. He said Kansas has 247 state chartered banks. Of those 247, there are 88 banks with a "one" rating, with one being the best. One hundred eleven are "two" rated, thirty are rated "three," 13 are "four" rated and four are five rated. Commissioner Thull said the bottom line is about 20% are in the four/five rating and that means they have issues that need to be attended to. The Commissioner said the problems arose when the housing industry started its downward spiral. He asked that community banks not be lumped into the same category as the big banks on Wall Street. He said the biggest problems banks face are quality asset issues and that can drag everything else down. He said bankers are not gamblers, they just got caught up in a situation that no one saw coming. He said generally, Kansas banks are doing well.

Doug Wareham, KBA, stated that while the banking industry is currently working through one of the most challenging economic periods in our state and nation's history, the overwhelming majority of Kansas banks remain safe and well-capitalized. He said as we enter 2010, the Kansas banking industry continues to face significant local economic challenges caused largely by depressed commercial and residential real estate markets and in some regions the negative impact of rising unemployment. He said Kansas banks are dealing with two costly factors, FDIC assessments and increased regulatory scrutiny. Mr. Wareham said in spite of the fact that our national economy, in terms of GDP, is once again achieving positive numbers, much of the negative financial impact from the 2008-09 recession is just now being realized by Kansas banks and in turn, the communities they serve. (Attachment 1)

Matthew Goddard, Heartland Community Bankers Association, said Heartland Community Bankers Association represents thrifts in Kansas, Colorado, Nebraska, Oklahoma and other Midwest states. He said their members specialize in residential mortgage lending. He noted that during the first nine months of 2009, Kansas savings associations made more than $2 billion in residential mortgage loans. He said in response to the crisis on Wall Street, Congress is considering regulatory reform. He continued that although much of the media attention is focused on institutions considered too big to fail, thrifts are in the cross hairs of the congressional debate. In closing, he said despite the challenges facing the banking industry, Heartland Community Bankers Association members remain solvent and well-capitalized. He said they are still making loans in their communities and will continue to do so for many years to come. (Attachment 2)

Shawn Mitchell, Community Bankers Association of Kansas, stated that Community bankers maintain that customers and communities are best served by local investment of deposit dollars, local lending decisions and

Minutes of the Senate Financial Institutions and Insurance Committee at 9:30 a.m. on January 14, 2010, in Room 152-S of the Capitol.

Shawn Mitchell, Community Bankers Association of Kansas, stated that Community bankers maintain that customers and communities are best served by local investment of deposit dollars, local lending decisions and local ownership of financial institutions. He said community banks play a significant role in local economic development efforts, stimulating the economy to produce jobs and new opportunities. He noted that as a group, community banks are the primary lenders to agriculture, small business, individuals and families. He said community bankers will continue to work with members of the community to start or expand business, buy new homes and weather the current crisis with great hope for the future. (Attachment 3)

The next meeting is scheduled for January 19, 2010.

The meeting was adjourned at 10:30 a.m.

SENATE FINANCIAL INSTITUTIONS & INS. COMMITTEE
GUEST LIST

DATE: 1-14-10

NAME	REPRESENTING
[illegible]	United Health Group
Stuart Little	Community Bankers Assoc
Haley DaVee	KCUA
Marla March	KCUA
Tom Thull	OSBC
Judi Stork	✓
Diane Bellquist	✓
Doug Wareham	KBA
Kathy Olsen	KBA
John Meetz	KID
SHAWN MITCHELL	CBA
Matt Goddard	HCBA
Leigh Keck	Hein Law Firm
Natalie Bright	KAHP

Kansas Bankers Association

Date:	**January 13, 2010**
To:	**Senate Financial Institutions & Insurance Committee**
From:	**Doug Wareham, Senior Vice President-Government Relations**
Re:	**Banking Industry Update:**

Madam Chairman and members of the 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. I appreciate the opportunity to provide you with an update from the front lines of the banking industry in Kansas.

Attached to my testimony is a "State of the Kansas Banking Industry" statement (Attachment 1), which we, along with Matt Goddard with the Heartland Community Bankers Association prepared for the Kansas Chamber of Commerce. It is my understanding the Chamber is compiling a summary of the impact of increased fees and regulatory costs that businesses are experiencing in the aftermath of the recession. I strongly encourage each of you to review this summary, which provides a detailed account of what I will be focusing on today.

I would like to begin by stating that while our industry is currently working through one of the most challenging economic periods in our state and nation's history, the overwhelming majority of Kansas banks remain safe and well-capitalized. I also want to commend the Office of the State Bank Commissioner for their responsiveness to state-chartered banks in Kansas and the communities they serve. Kansas banks and individual Kansas bankers will play a significant role in leading the economic recovery that we know is on the horizon.

As we enter 2010, the Kansas banking industry continues to face significant local economic challenges caused largely by depressed commercial and residential real estate markets and in some regions the negative impacts of rising unemployment. Kansas banks are dealing with two costly factors that you may not have considered:

1. FDIC Assessments (Banks required to pre-pay assessments for 2010, 2011 and 2012)
    a. Examples

Bank Asset Size	08 FDIC Premiums	09 FDIC Premiums (Plus Pre-Paids)
$3.6 billion	$700,000	$18,600,000
$248 million	$68, 500	$1,256,243
$115 million	$13,029	$701,800
$68 million	$18,000	$364,000
$38 million	$5,620	$207,000

2. Increased Regulatory Scrutiny (45 new Federal laws, rules or regulations in 2009 alone)
    a. See Attachment 2 (Bank Regulatory Proposals List)

Thank you for the opportunity to share comments and I would be happy to stand for questions.

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FI&I Committee
1-14-10
Attachment 1-1

State of the Kansas Banking Industry

The recent economic recession that has gripped the entire nation has taken a significant toll on the Kansas banking industry during the past 16 months. Since the onset of the recession and accompanying crisis within the financial services sector, Kansas has experienced four separate bank failures. Banks in Topeka, Anthony, Paola and Overland Park have succumbed to the pressures of a nationwide collapse of the housing market and significantly increased scrutiny of commercial lending by federal regulatory authorities that provide oversight for the banking industry. Bank lending is a lagging economic indicator. In spite of the fact that our national economy, in terms of gross domestic product (GDP), is once again achieving positive numbers, much of the negative financial impact from the 2008-2009 recession is just now being realized by Kansas banks and in turn, the communities they serve.

Two major factors impacting Kansas banks as we enter 2010 are: 1) the financial impact of Federal Deposit Insurance Corporation (FDIC) assessments paid by all Kansas banks and thrifts to help replenish FDIC's Deposit Insurance Fund, and 2) the dramatically increased regulatory scrutiny of commercial and residential lending activities in the wake of the recent economic recession. Brief descriptions of these two factors are provided below:

FDIC Assessments: FDIC Insurance has always been paid, in total, by bank premiums. Not a single taxpayer dollar has been used to fund the FDIC. During the past two years, 178 financial institutions (banks & thrifts) have failed nationwide, which has significantly depleted FDIC's deposit insurance fund. In order to replenish the deposit insurance fund, all banks and thrifts not only recently submitted their 2009 assessments (premiums) to the FDIC, but were additionally required to pre-pay assessments (premiums) for 2010, 2011 and 2012. These assessments paid to the FDIC by Kansas banks ranged from just over $20,000 for one of the smallest banks in Kansas to more than $27 million for one of the largest banks operating in Kansas. These payments to the FDIC are draining millions of dollars from Kansas banks, and are significantly impacting the profitability of financial institutions in Kansas.

Regulatory Scrutiny: In the wake of the economic recession, federal regulatory agencies have introduced a myriad of new laws, rules and regulations that directly impact community banks. During the past 16 months, more than 45 new rules and regulations have been proposed by federal regulators including the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), U.S. Department of Housing and Urban Development (HUD), U.S. Securities & Exchange Commission (SEC), Federal Trade Commission (FTC) and the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN). A complete listing of these pending and approved rules can be obtained at:

www.ksbankers.com/core/contentmanager/uploads/publiccontent/publications/bankreglist09.pdf

This laundry list of new requirements increases the cost of doing business for every Kansas bank – whether it be due to the need for additional staffing, additional disclosures, or additional fees. Additional costs associated with these new regulations are estimated to range from $8,000 annually for small institutions to more than $175,000 annually for larger banks. In addition, regulators are requiring additional capital at the same time when accounting rules are forcing institutions to drive down the value of their loans. Consider that each dollar not committed to capital is leveraged into $10 worth of loans – that means there are a lot fewer dollars now available for lending due to these regulatory requirements.

Information provided by the Kansas Bankers Association (KBA) and Heartland Community Bankers Association (HCBA). For more information contact Doug Wareham or Kathy Olsen at (785) 232-3444 or Matt Goddard at (785) 232-8215.

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BANKING REGULATORY LISTING FOR 2009

ISSUED	AGENCY	REGULATION	STATUS	COMPLIANCE DATE OR COMMENTS DUE
November 27, 2009 November 18, 2009	Federal Reserve U.S. Treasury	Regulation GG Unlawful Internet Gambling	Final	Compliance due December 1, 2009 Extended to June 1, 2010
November 27, 2009	FDIC, OCC, FED	Regulatory Capital Standards FASB Statements 166, 167	Proposed	Comments due October 15, 2009
November 17, 2009	FDIC, OCC, FED	Regulation P – Privacy Model Notices	Final	Compliance due January 1, 2011
November 16, 2009	Federal Reserve	Gift Card Provisions of the Credit Card Act	Proposed	Comment due December 21, 2009
November 16, 2009	FinCEN	Expansion of Information Sharing to Deter Money Laundering/Terrorism	Proposed	Comments due December 16, 2009
November 16, 2009	Federal Reserve	Regulation Z; Helping Families Save Their Homes Act 2009; notice to consumers when mortgage sold or transferred	Interim Final	Compliance due early 2010
November 13, 2009	FDIC, OCC, FED	Registration of Mortgage Loan Originators	Final	Compliance due 2010
November 13, 2009	HUD	RESPA; Restraint in enforcement of new regulations		
November 13, 2009	FDIC, OCC, FED	Residential Mortgage loans modified per Making Home Affordable Program	Final	Compliance June 30, 2009
November 12, 2009	Federal Reserve	Regulation E on Overdrafts; Opt-in (ATMs, one-time debit card transactions)	Final	Compliance due July 1, 2010
[illegible]ember 12, 2009	FDIC	Prepaid Assessments	Final	Compliance due November 17, 2009

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October 22, 2009	Federal Reserve	Incentive Compensation guidance	Proposed	Comments due November 27, 2009
October 5, 2009	Federal Trade Commission	Guidance on use of endorsements/testimonials in advertising	Final	Compliance due December 1, 2009
September 29, 2009	Federal Reserve	Regulation Z under Credit Card Act provisions effective 2/22/2010	Proposed	Comments due November 20, 2009; Compliance due February 22, 2010
September 28, 2009	FDIC, OCC, FED	Protecting Tenants at Foreclosure Act	Final	Compliance due May 20, 2009
September 25, 2009	FDIC, OCC, FED	Correspondent concentration risks	Proposed	Comments due October 26, 2009
September 24, 2009	Federal Reserve	Regulation S – Costs incurred by banks producing customer financial records	Final	Compliance January 1, 2010
September 9, 2009	FDIC	FDIC Deposit insurance $250,000 extended; revocable trusts/mortgage servicing accounts	Final	Compliance due October 19, 2009
September 1, 2009	NACHA	ACH Operating Rules on extending adjustment entries and mobile ACH payments	Proposed	Comments due October 16, 2009; Implementation date December 17, 2010
August 27, 2009	FDIC	Extension of TAGP through June 30, 2010	Final	Ends June 30, 2010
July 30, 2009	Federal Reserve	Regulation Z; disclosures for private education loans	Final	Compliance due February 14, 2010
July 24, 2009	SEC	Municipal Securities disclosure amendments	Proposed	Comments due September 8, 2009
July 23, 2009	Federal Reserve	Regulation Z changes to Disclosures on Closed-end mortgages, HELOCs	Proposed	Comments due December 24, 2009
[illegible] 21, 2009	FDIC, OCC, FED	Interagency Q&As on Flood	Final, Proposed	Compliance due September 21, 2009; Comments

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		Insurance with proposal on five other questions		due September 21, 2009
July 15, 2009	Federal Reserve	Regulation Z Credit Card Act 2009 provisions – Open end credit plans	Interim Final	Compliance due August 20, 2009, February 2010, August 2010
July 14, 2009	Federal Reserve	Regulation Z "higher priced mortgages"	Final	Compliance due October 1, 2009
July 2, 2009	FDIC, OCC, FED	FACTA – Furnishers of Information to Credit Reporting Bureaus	Proposed	Comments due August 31, 2009
July 2, 2009	FDIC, OCC, FED	FACTA- Accuracy/Integrity of information furnished to CRAs	Final	Compliance due July 1, 2010
June 30, 2009	FDIC, OCC, FED	Interagency guidance on funding/liquidity risk management	Proposed	Comments due September 4, 2009
June 24, 2009	FDIC, OCC, FED	Regulation BB - CRA	Proposed	Comments due July 30, 2009
June 23, 2009	FDIC	Annual audit/reporting requirements	Final	Compliance due August 6, 2009
June 11, 2009	FDIC, OCC, FED	FACTA – FAQs on Identity Theft	Final	
June 5, 2009	FinCEN	BSA – Mutual funds as financial institutions	Proposed	Comments due September 3, 2009
May 29, 2009	FDIC	Interest rate restrictions on institutions that are less than well capitalized	Final	Compliance due January 1, 2010
May 20, 2009	Federal Reserve	Regulation D – Elimination Three Withdrawal/transfer limitation	Final	Compliance due July 2, 2009
May 12, 2009	FinCEN	Money Services Businesses definition	Proposed	Comments due September 9, 2009
May 8, 2009	Federal Reserve	Regulation Z – Early TIL disclosures	Final	Compliance due July 30, 2009
April 21, 2009	Federal Reserve	Unfair/Deceptive	Proposed	Compliance due July 1, 2010

		Acts/Practices on credit cards – Clarification		
March 3, 2009	OCC, FinCEN	SAR confidentiality	Proposed	Comments due June 8, 2009
February 4, 2009	FDIC	Sweep account disclosures	Final	Compliance due July 1, 2009
January 6, 2009	FDIC, OCC, FED	Regulation BB – CRA interagency Q&As	Final	
December 5, 2008	FinCEN	BSA – Exemptions from CTR reporting requirements	Final Guidance	Compliance due January 5, 2009 August 31, 2009
November 17, 2008	HUD	RESPA amendments (GFE/HUD 1)	Final	Compliance January 1, 2010, January 16, 2009
November 7, 2008	FinCEN	Transfer and reorganization of BSA regulations	Proposed	Comments due March 9, 2009
October 20, 2008	Federal Reserve	Regulation C – HMDA reporting higher priced mortgages	Final	Compliance due January 1, 2010

HEARTLAND COMMUNITY BANKERS ASSOCIATION

Matthew S. Goddard, Vice President

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To: Senate Financial Institutions and Insurance Committee

From: Matthew Goddard
Heartland Community Bankers Association

Date: January 13, 2010

Re: Financial Services Industry Update

The Heartland Community Bankers Association appreciates the opportunity to appear before the Senate Committee on Financial Institutions and Insurance to share our thoughts on the current environment for the financial services industry in Kansas. Although these are trying times for all citizens of Kansas, both individual and corporate, we remain optimistic about the future.

The Heartland Community Bankers Association represents thrifts in Kansas, Colorado, Nebraska, Oklahoma and other Midwest states. There are 16 federally chartered thrifts headquartered in Kansas with more than 1,500 employees. Our members specialize in residential mortgage lending. During the first nine months of 2009, Kansas savings associations made more than $2 billion in residential mortgage loans.

Kansas thrifts have not been immune to the recession that began in December 2007. Difficulties with housing markets and the collapse of government sponsored enterprises such as Freddie Mac and Fannie Mae have triggered a great deal of tumult in the mortgage industry. Although thrifts and other mortgage lenders are still willing to make loans, many consumers have been hesitant to borrow out of fear for their own financial future. In addition, most private mortgage insurers are no longer insuring loans when the borrower makes a down payment of less than five percent. Although this may be prudent and help borrowers in the long run, in the short term it delays buying a home for borrowers who must now save for a down payment.

For some financial institutions, the regulatory response to our nation's economic crisis has had more of a negative impact than the crisis itself. With real estate losses growing throughout the country, regulators, the Office of Thrift Supervision in the case of thrifts, are requiring institutions to set aside more capital to help cover potential losses. This means that money once made available to borrowers is now being held in reserves. Regulators are also forcing lenders to write down the value of their loans, especially for commercial real estate, triggering the need for more capital to cover the written down loans. This also results in lenders tightening their underwriting standards. At the same time that Congress and the White House are encouraging financial institutions to lend more to help jump start the economy, regulators are in effect saying to lend less. While money is still available for loans, it is not as readily available as it was before the recession. This would appear to have more of an impact on commercial borrowers and developers than home buyers with good credit.

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Attachment 2-1

In response to the crisis on Wall Street, Congress is considering regulatory reform. Although much of the media attention is focused on institutions considered "Too Big to Fail," thrifts are in the crosshairs of the congressional debate. The Obama Administration has proposed eliminating the thrift charter and its federal regulator. A proposal from Senator Chris Dodd (D – Conn.), chairman of the Banking Committee, would eliminate OTS and prohibit new thrift charters. Although the reform legislation passed by the House of Representatives preserves the thrift charter, it would eliminate an independent thrift regulator and make OTS a division of the Office of the Comptroller of the Currency. HCBA worked in the House to improve the reform bill and we will continue to fight for the thrift charter in the Senate.

Also happening in Washington, the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation and funded by insured depositories has been significantly depleted to pay depositors who lost money in failed institutions. In order to keep the Fund solvent without taxpayer support, the FDIC has required DIF-insured institutions to prepay their deposit insurance premiums for 2010, 2011 and 2012. This advance payment was due on December 30, 2009. The largest institution in Kansas, an HCBA member, paid over $27 million in advance premiums. The advance premiums follow a 10-basis point special assessment earlier in the year. This is money that can no longer be used for loans or other investments.

Despite the challenges facing our industry, HCBA members remain solvent and well-capitalized. They are still making loans in their communities and we expect them to continue doing so for many years to come.

Thank you for your kind consideration of these thoughts.

CBA

Community Bankers
Association of Kansas

Directed By The Members We Serve

To: Senate Financial Institutions and Insurance Committee

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

Date: January 14, 2010

RE: Current state of financial institutions in Kansas

Chairwoman Teichman and Members of the Senate Financial Institutions and Insurance Committee,

Thank you for the opportunity to appear before the committee today and provide you with community banks' perspective on the current state of financial institutions in Kansas. My name is Shawn Mitchell and I am President and Chief Executive Officer of the Community Bankers Association of Kansas (CBA). Anyone who knows me knows I cannot pass up any opportunity to talk about Kansas community banks. As a community banker for more than 15 years, I've seen firsthand the important role local banks play throughout Kansas. Our business depends on building and maintaining personal relationships with our customers, supporting other small businesses that in turn provide jobs, services and helping our communities prosper. Whether it's donating toward Little League uniforms or cooking hamburgers at community events, community banks are continually involved in improving the day-to-day life of average, everyday people. If I didn't believe passionately in the vital importance of community banks and if I didn't believe just as passionately in the core principles of CBA, I couldn't do my job. CBA is a statewide organization of locally owned and operated banks intent on preserving local credit for local development. CBA member banks are as diverse as Kansas itself, as varied as the economies and the aspirations of the communities we serve.

Community bankers maintain that customers and communities are best served by local investment of deposit dollars, local lending decisions and local ownership of financial institutions. Community banks play a significant role in local economic development efforts, stimulating the economy to produce jobs and new opportunities. As a group, community banks are the primary lenders to agriculture, small business, individuals and families.

FI & I Committee
1-14-10
Attachment 3-1

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All financial institutions around the country have been subject to greater scrutiny, criticism, and substantial government intervention in the past few months due to many Wall Street mega banks creating an environment where their employees were incented to take on substantial risk to increase profits for the firm and then rewarded with increased pay. Community banks differ from that philosophy in that we incent our staffs to minimize risk and maximize community development. Our common philosophy; if our local community flourishes, then we shall also. We support many of the federal activities to promote financial institution stability. The state of affairs related to mega and multi-national financial institutions only serve to highlight the benefits of community banks and the way in that we conduct business. In general, our Kansas community banks are strong and resilient.

Kansas community banks, whether located in small towns, suburbs, or big city neighborhoods, create growth in our towns and cities by funding small business and using local dollars to help families purchase a home, finance college and build financial security. Retaining and refocusing local deposits allows community banks to focus attention on the needs of local families, businesses and farmers. Working with our neighbors and serving as community partners has allowed community banks to remain relatively un-affected by the global financial turmoil.

At the same time, community banker's roots in your communities mean CBA members are extremely concerned about how the 2010 Legislature will address the current revenue and budget crises. At the same time, we deeply feel the challenges confronting local businesses who face layoffs, closures and uncertainty. I do not envy your task of addressing these issues, but rest assured community bankers continue to work with the members of your communities to start or expand businesses, buy new homes and weather this current crisis with great hope for the future.

Thank you for your time and I would be happy to stand for questions at the appropriate time.

FI&I Committee
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Attachment 3-2