

Approved: \_\_\_\_\_  
Month DD, YYYY  
(Date)

**MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE**

The meeting was called to order by Chairperson Forrest Knox at 3:31 PM on Tuesday, January 31, 2012, in Room 152-S of the Capitol.

All members were present except James Fawcett, who was excused.

Committee staff present:

Gary Deeter, Committee Assistant  
Melissa Calderwood, Kansas Legislative Research Department  
Cindy Lash, Kansas Legislative Research Department  
Matt Sterling, Office of the Revisor of Statutes  
Sean Ostrow, Office of the Revisor of Statutes

Conferees appearing before the Committee:

Doug Wareham, Kansas Bankers Association  
Judi Stork, Office of the State Banking Commissioner

Others in attendance:

See attached list.

*The Committee minutes for January 19 were approved.* (Motion by Representative Hermanson and seconded by Representative Montgomery)

The Chair opened the hearing on **HB 2505 - Limitations on loans and borrowing; derivative transactions.**

Staff Matt Sterling reviewed the bill, saying that it would amend the definition of “loan” to include any credit exposure to a borrower arising from a derivative transaction between a bank and that borrower. The change in the definition would make derivative transactions made by a bank subject to the limitations on loans and borrowing (Attachment 1).

Doug Wareham, Kansas Bankers Association, testified in support of the bill (Attachment 2). He stated that the bill will ensure that state-chartered banks can continue to engage in derivative transactions to the same extent as national-chartered banks. He explained that one provision of the federal Dodd/Frank Wall Street Reform and Consumer Protection Act requires an amendment to state statutes in order for state-chartered banks to maintain the same investment freedom that national-chartered banks enjoy.

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Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

## CONTINUATION SHEET

Minutes of the HOUSE FINANCIAL INSTITUTIONS Committee at 3:30 PM on Tuesday, January 31, in 152-S of the Capitol.

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Answering questions about derivatives, Mr. Wareham replied that often financial instruments, such as auto loans, are bundled and sold to investors; such asset-backed securities “derive” their value from the loan and its intrinsic interest payments. Such derivatives provide one option for banks desiring to diversify their investments. He added that only a few state banks invest in derivatives.

Judi Stork, Deputy Commissioner, Office of the State Bank Commissioner, provided written testimony ([Attachment 3](#)). She responded to questions from members, saying that present law mentions “investment securities,” but there is not definitive clarity whether derivatives are loans or investment securities. The bill obviates that question. She replied that a bank is limited to 15% of its capital in investment securities and 25% of its capital in loans.

The Chair closed the hearing on **HB 2505**.

The meeting was adjourned at 3:52 p.m. The next meeting is scheduled for Tuesday, February 7, 2012.