



**Date:** January 22, 2013

**To:** House Financial Institutions Committee  
Rep. Pete DeGraaf, Chairman

**From:** Doug Wareham, Senior Vice President-Government Relations

**Re:** Kansas Banking Industry Update

Mr. Chairman and members of the committee, I am Doug Wareham appearing on behalf of the Kansas Bankers Association (KBA). Thank you for the opportunity to highlight the many roles of our organization, as well as a brief update on challenges and opportunities facing the Kansas banking industry.

**Kansas Bankers Association Background Information:**

In light of the fact there are some new faces on this committee, I would like to begin by sharing that our organization, which was founded in 1887, is a voluntary, non-profit trade association that is governed by its membership. The KBA is headquartered here in Topeka, Kansas and is led by our 29-member board of directors. The KBA staff, which is led by President/CEO Chuck Stones, includes 29 professionals that provide services to Kansas bankers ranging from legislative advocacy to educational training to insurance services to regulatory compliance services. Our mission statement is simply:

*“To support and assist Kansas banks and Kansas bankers.”*

KBA’s membership includes 99% (286 of 289 banks chartered in Kansas) of the commercially chartered banks in Kansas. Our member banks employ more than 13,400 Kansans that provide financial services in more than 400 towns and cities across the state. While our member banks range in asset size from just over \$4 million to as high as \$4.1 billion, each member bank that belongs to the KBA has one vote on policy positions adopted by either our general membership or our Board of Directors.

**Kansas Banking Industry Update:**

The state of the Kansas banking industry is strong, but that doesn’t dispel the challenges Kansas bankers are facing. While the agricultural sector of our state’s economy has recently experienced a positive economic cycle driven largely by high commodity prices, the current drought is and will continue to impact agricultural producers as well as the agricultural banks that finance those operations. Growing uncertainty about the future of farm programs that serve as a safety net for agricultural producers is another concern for agricultural lenders across Kansas, and the KBA

has stressed the importance of those programs (especially federal crop insurance) to members of Kansas' Congressional Delegation serving in Washington, D.C.

The vitality of the Kansas banking industry has always been a reflection of the vitality of every Kansas community served by our industry. The recent economic recession, which began in late-2007 and ended in mid-2009, took its toll on main street businesses across Kansas and the banking industry was certainly not immune from the negative impact of the recession. Since the recession, Kansas banks have rebounded with growth in net income over each of the past three years (2010-2012).

Unfortunately, despite strengthening income numbers, the cost of doing business for Kansas banks (primarily due to increased regulatory costs) has accelerated bank consolidations during that same three year period. The number of bank charters in Kansas has dropped from 315 in September of 2010 to just 292 today; a 7% reduction in bank charters in Kansas. We expect consolidation to continue at a rapid pace in 2013. With the majority of Kansas banks (175+) having assets of less than \$100 million, there is simply little room for absorbing the increasing cost of regulatory compliance in today's low-interest rate environment.

KBA did recently embark on a new venture to help assist Kansas banks with the growing regulatory burden facing our industry. In 2010, our organization formed a new subsidiary, Kansas Bankers Consulting Services, LLC to provide KBA member banks with compliance, audit and legal assistance. We currently have 40+ banks utilizing these services, and that number is growing steadily.

One additional challenge facing Kansas bankers, especially those in rural Kansas communities, is increasing pressure from farm credit lenders that benefit from tax, funding and regulatory advantages approved by Congress. While this is primarily an issue that we are addressing at the federal level there are current state policies, including the application of the state mortgage registration tax, that we believe merits review by the Kansas legislature. KBA has introduced legislation this year to initiate that discussion. Kansas bankers will never be afraid of or opposed to healthy, fair competition, but we do not believe a government sponsored entity should be granted privileged-status when they are competing with tax paying Kansas financial institutions.

In spite of rising regulatory costs and ongoing pressure from tax-advantaged competitors, the traditional banking industry remains the backbone of local economies across Kansas. The KBA will continue to pursue policies that strengthen the traditional banking industry, because strong and vibrant main-street Kansas banks are a key ingredient to strong and vibrant Kansas communities.

Once again, thank you for the opportunity to provide a brief update from our organization and I would be happy to stand for questions. If at a later time you have questions or require additional information, please contact me at [dwareham@ksbankers.com](mailto:dwareham@ksbankers.com) or at (785) 232-3444.