



Date: January 21, 2020

To: Senate Committee on Financial Institutions and Insurance

From: Doug Wareham, President and CEO
Kansas Bankers Association

Re: Support for Senate Bill 259
Sustaining Local Access to Credit for Kansans

Dear Chairman Olson and Members of the Committee:

I am Doug Wareham appearing on behalf of the Kansas Bankers Association (KBA), which was 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 14,700 Kansans that provide financial services 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 259. We appreciate this committee taking a close look at the fact that Kansans are being penalized by state tax policy if they choose to do business locally with a bank or savings & loan.

After hearing from other proponents that will soon follow me, I hope you will recognize the unfair nature of the Kansas Privilege Tax, and the fact this tax is not only a threat to the community bank model, but a threat to your constituents that rely upon their local community bank for their financial service needs. I also hope you will agree the loss of community bank charters in our state has a dramatic negative impact on local economies, much like the impact of losing a local school or a local hospital. In many of the communities throughout your respective districts the intermediation of capital, which spurs economic growth, occurs solely because of the leadership presence of a local community bank or savings & loan.

The basis for the bill before you is that we believe it is imperative the Kansas Legislature ends the policy of picking winners and losers by granting preferential tax treatment solely to non-bank lenders. We hope you will agree that SB 259 will help level the playing field between lenders and we hope you will support the fact this legislation will lower interest costs for Kansas borrowers.

I realize there will be differing opinions and possibly even disagreements over the purpose of the preferential tax treatment currently in place for Credit Unions and the Farm Credit System, but I hope we can begin this discussion by agreeing on three key facts that are not debatable:

Fact #1: Kansas credit unions are exempt from paying state and federal income taxes and that allows them to offer lower interest rates to their customers.

Fact #2: The Farm Credit System is exempt from paying state income taxes and is also exempt from paying federal income taxes on income derived from real estate lending. Both exemptions allows them to offer lower interest rates to their customers.

Fact #3: Kansas banks and savings & loans are required to pay state income taxes, in the form of the Kansas Privilege Tax (4.375%), federal corporate income taxes (21%) paid by C corporations, and up to 37% in federal income taxes paid by Sub S bank shareholders. The imposition of state and federal income taxes burdens banks and savings & loans financially and forces them to pass that cost on to their customers in the form of higher interest rates.

I recognize today's discussion is about state tax policy, but I want this committee to understand that our organization is addressing the need for tax equity in the financial services realm at both the state and federal levels. Last spring, U.S. Senator Pat Roberts and U.S. Senator Jerry Moran introduced federal legislation (S. 1641) that would create tax equity between banks, credit unions and the Farm Credit System with respect to federal income taxes paid on ag real estate lending and home mortgage lending in rural areas with populations of 2,500 or less. Identical legislation (H.R. 1872) has also been introduced in the U.S. House by Kansas Congressman Steve Watkins with support from Congressman Roger Marshall and Congressman Ron Estes. The specific purpose of these proposals, which are now being considered in Congress, is to ensure that community banks can more effectively compete and provide the lowest possible interest rates to their farm and ranch customers, as well as rural homeowners. We commend the members of our Congressional Delegation for supporting this effort at the federal level.

It should come as no surprise to any of us that this unequal tax treatment is exacerbating the consolidation of community banks across our state. During the past decade alone the number of bank charters in Kansas has plummeted from 325 to 220, a 32% reduction. I'm not claiming income tax policy alone is the sole driver of bank consolidation, but the disparity in taxes paid by banks versus untaxed lenders has a significant and growing negative impact on Kansas banks, especially small community banks. Once again, this begs a very important question:

Why would Kansas maintain a tax policy that is picking winners and losers at the expense of Kansans and Kansas communities that are served by community banks?

SB 259 helps level the playing field for banks and savings and loans by allowing them to deduct the interest income derived from commercial and agricultural business loans and rural housing loans from their income subject to the Kansas Privilege Tax. As I shared earlier, SB 259 will help create tax equity between community banks and credit unions and the Farm Credit System. With respect to the credit union industry, I will admit that Kansas banks currently finance a very high percentage of business lending in our state. But in recent years, we've seen large, bank-like credit unions become much more aggressive in the commercial/business lending space. We expect that trend to continue and know of very recent examples where credit unions are adding \$3 million, \$10 million and even \$40 million commercial loans to their business lending portfolios. We simply request a level playing field for our banks and their business customers.

For the record, banks provide roughly 40% of the financing needs for the agriculture industry in Kansas, with the Farm Credit System also providing roughly 40% of that financing. SB 259 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 lower interest rates on

short-term ag operating loans, long-term ag real estate loans and rural housing loans. The number of farm bankruptcies in Kansas unfortunately continues to trend upward, with 37 bankruptcies reported from September 2018 to September 2019. We regularly hear stories of ag lenders working with their borrowers to restructure loans during this extended down cycle. Simply put, the tax relief contained in SB 259 will provide our lenders the ability to lower interest rates for their customers, a fact you will soon hear from other proponents of this measure.

There has been a lot of buzz at the Kansas Statehouse, including within Governor Kelly's administration, about rural revitalization in Kansas. I believe it's important to note that Kansas banks provide nearly 50% of financing to main street businesses and the adoption of SB 259 will enable every bank to provide lower cost financing triggering rural economic growth and development. We applaud Governor Kelly and Lt. Governor Rogers for highlighting the need for policies that will help sustain and grow rural Kansas communities and we know SB 259 will help accomplish that goal.

In closing, I would share that our organization is doing everything possible to ensure the community banking model is sustained in Kansas. We believe having competition (fair competition) for financial services is what's in the best long-term interest of every Kansas community (large and small) and we believe that is in the best interest of every individual Kansan. We are proud of the role community banks play in supporting and serving both rural and urban communities across this state and we support SB 259 because it will help:

1. Revitalize rural communities;
2. Benefit borrowers; and
3. Sustain local access to credit.

We look forward to working with you during this Legislative Session to enact this important policy measure. Thank you.

Kansas Bank and Credit Union Stats
FYE 12/31/2018

Name	Entity	Ownership	Corporate Structure	Total Assets 2018 Y (\$'000)	Income Taxes 2018 Y (\$'000)	Net Income 2018 Y (\$'000)	Total Loans & Leases 2018 Y (\$'000)	Total Deposits 2018 Y (\$'000)	Net Interest Income 2018 Y (\$'000)	Noninterest		Percent of Salaries to Income
										Operating Income 2018 Y (\$'000)	Other Income 2018 Y (\$'000)	
Capitol FSB	Savings & Loan Assoc	Sub of Major Exchange Instn	Corporation	9,321,162	30,854	92,135	7,536,283	5,696,209	201,053	21,822	47,523	21%
INTRUST Bank NA	Commercial Bank	Private	S-Corporation	5,201,340	3,819	80,176	3,389,741	4,240,077	160,287	60,367	67,467	31%
CrossFirst Bank	Commercial Bank	Sub of Major Exchange Instn	Corporation	4,105,308	(896)	24,330	3,060,747	3,251,336	110,595	5,546	47,979	41%
Equity Bank	Commercial Bank	Sub of Major Exchange Instn	Corporation	4,058,211	11,374	40,181	2,575,408	3,125,453	126,717	20,471	47,951	33%
Security Bank of Kansas City	Commercial Bank	Private	Corporation	3,004,453	10,255	42,628	1,653,131	2,346,330	100,586	12,654	35,673	32%
Community/America CU	Credit Union	Private	Cooperative	2,686,628	0	10,248	1,859,559	2,196,861	74,958	71,481	77,107	53%
Fidelity Bank	Savings & Loan Assoc	Private	Corporation	2,269,890	5,627	20,440	1,773,045	1,877,556	72,369	24,169	36,018	37%
KS StateBank	Commercial Bank	Private	S-Corporation	2,029,298	871	28,529	1,531,302	1,739,267	55,957	13,523	23,585	34%
Emprise Bank	Commercial Bank	Private	S-Corporation	1,686,673	1,246	30,186	1,261,188	1,508,485	63,029	18,438	27,193	33%
Meritrust Federal Credit Union	Credit Union	Private	Cooperative	1,214,462	0	4,213	1,056,454	1,004,743	40,798	10,823	26,702	52%
Community National Bk & Tr	Commercial Bank	Private	Corporation	1,201,916	2,207	8,812	860,028	1,016,718	39,855	10,040	20,033	40%
Armed Forces Bank NA	Commercial Bank	Private	Corporation	1,077,570	6,952	17,086	684,013	872,519	38,456	45,860	27,921	33%
Landmark National Bank	Commercial Bank	Sub of Major Exchange Instn	Corporation	982,703	1,450	10,767	495,138	829,796	28,949	14,938	16,042	37%
Central National Bank	Commercial Bank	Private	Corporation	966,018	1,545	9,299	496,077	845,643	28,424	18,738	23,456	50%
Credit Union of America	Credit Union	Private	Cooperative	890,895	0	11,116	761,475	712,764	28,199	11,476	14,804	37%
Mazuma CU	Credit Union	Private	Cooperative	660,812	0	8,175	489,245	528,986	24,156	7,711	14,244	45%
Golden Plains Credit Union	Credit Union	Private	Cooperative	657,261	0	3,951	596,632	554,723	19,781	3,258	11,616	50%
Azura Credit Union	Credit Union	Private	Cooperative	481,821	0	3,832	353,605	412,055	15,334	4,687	9,162	46%
Envista Credit Union	Credit Union	Private	Cooperative	364,260	0	4,660	327,439	309,596	11,334	795	6,720	55%
Heartland CU	Credit Union	Private	Cooperative	311,165	0	269	257,046	260,956	9,894	5,059	7,583	51%
Mid American CU	Credit Union	Private	Cooperative	298,491	0	1,513	268,719	241,934	11,353	2,590	6,722	48%
Skyward CU	Credit Union	Private	Cooperative	284,243	0	2,771	123,625	233,067	7,594	1,255	2,977	34%
Frontier Community CU	Credit Union	Private	Cooperative	145,583	0	703	110,507	126,630	4,851	943	2,507	43%
White Eagle Credit Union	Credit Union	Private	Cooperative	106,023	0	839	76,447	90,894	4,183	763	2,054	42%

Kansas Bank and Credit Union

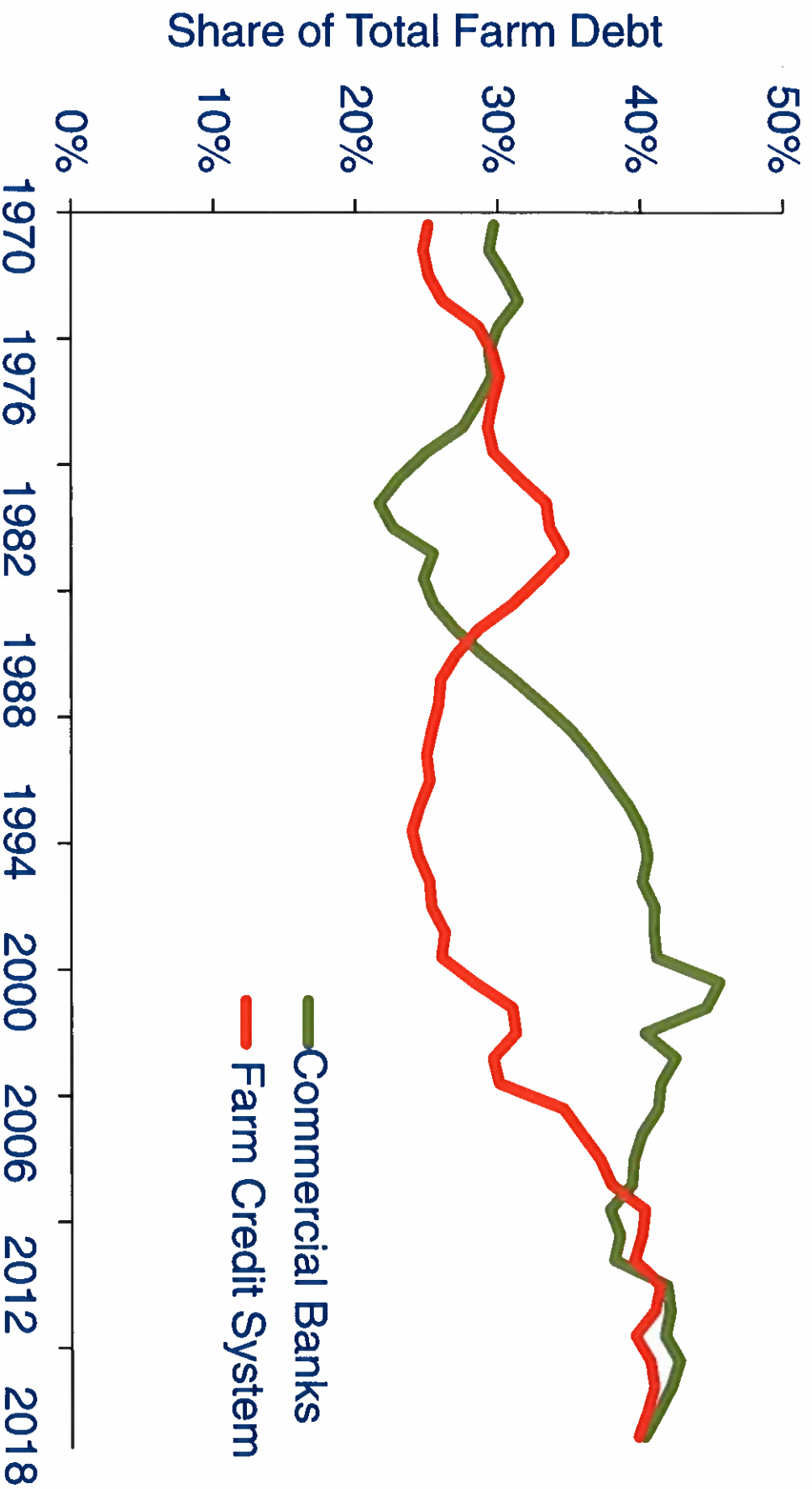
Interest Rate Analysis

FYE 2018

	<u>Banks</u>	<u>Credit Unions</u>
Rates on Deposits <i>(Interest Expense/Avg Assets)</i>	0.78%	0.77%
Rates on Loans <i>(Interest Income/Avg Loans)</i>	6.04%	4.82%
Non Interest Income <i>(Non Interest Income/Avg Assets)</i>	0.72%	1.26%

Source: S&P Global Market Intelligence

Share of Total Farm Debt

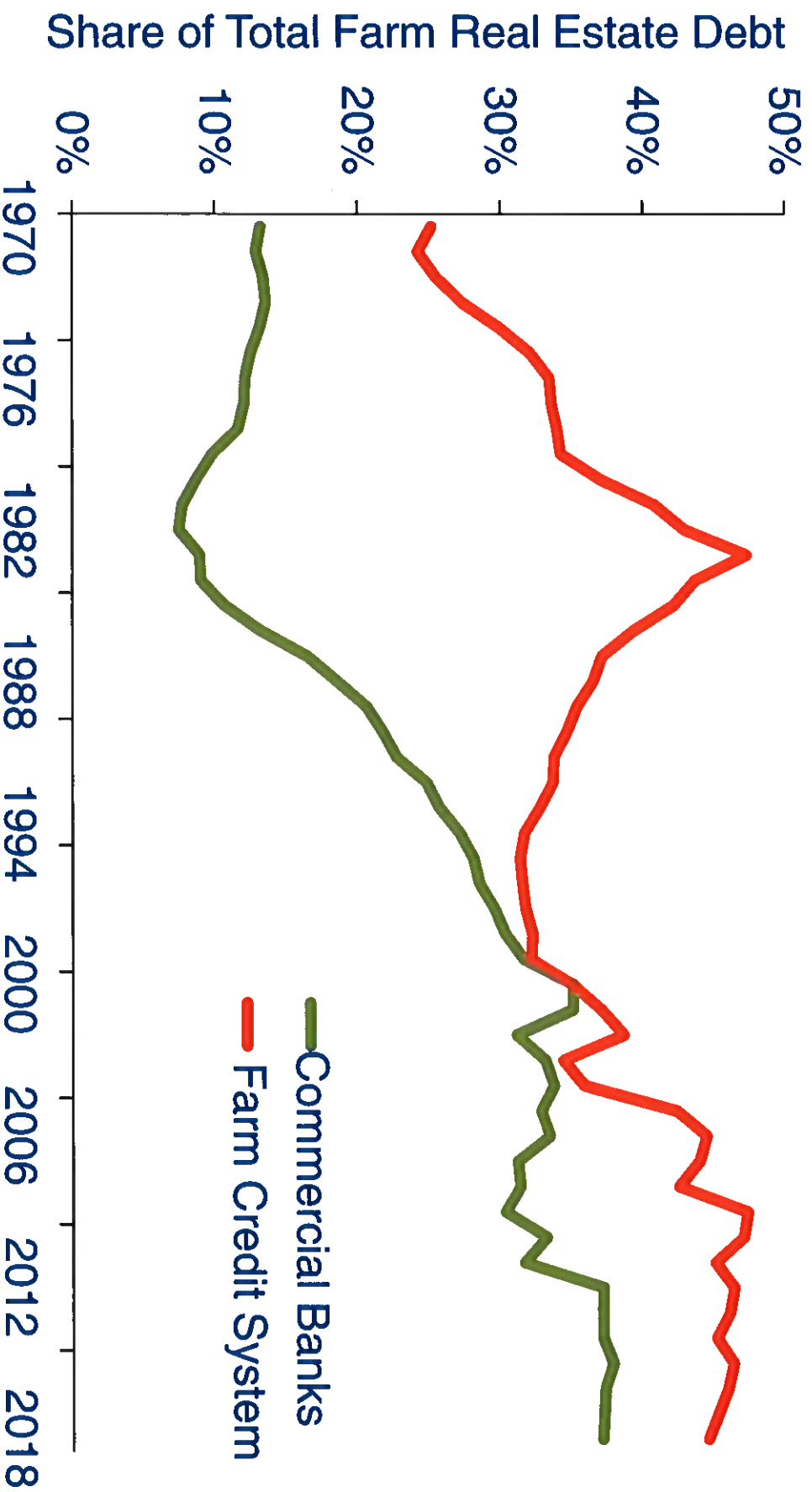


Source: United States Department of Agriculture ERS
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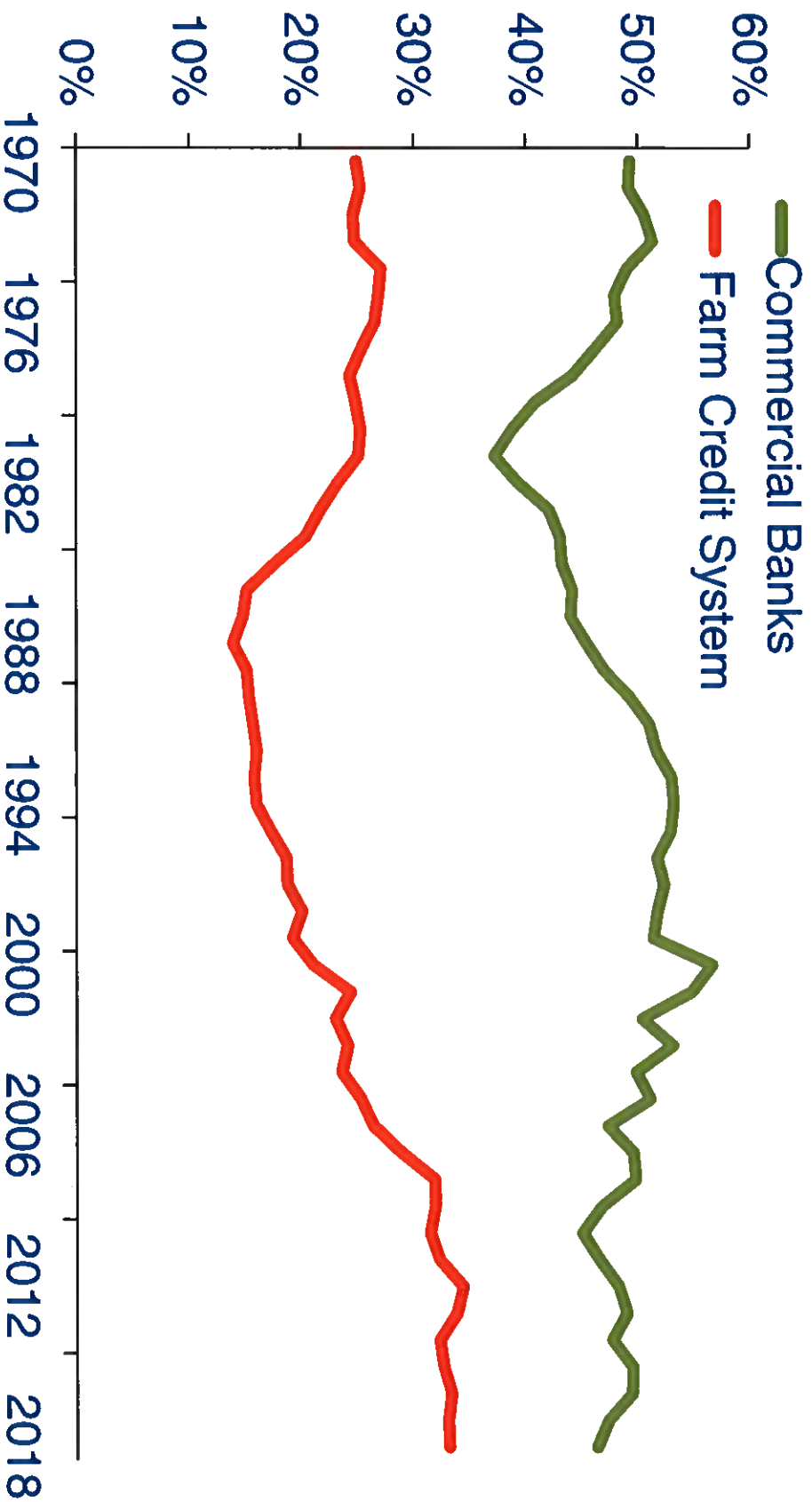
Farm Real Estate Lending



Source: United States Department of Agriculture ERS
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Farm Non Real Estate Lending

Share of Total Farm Nonreal Estate Debt

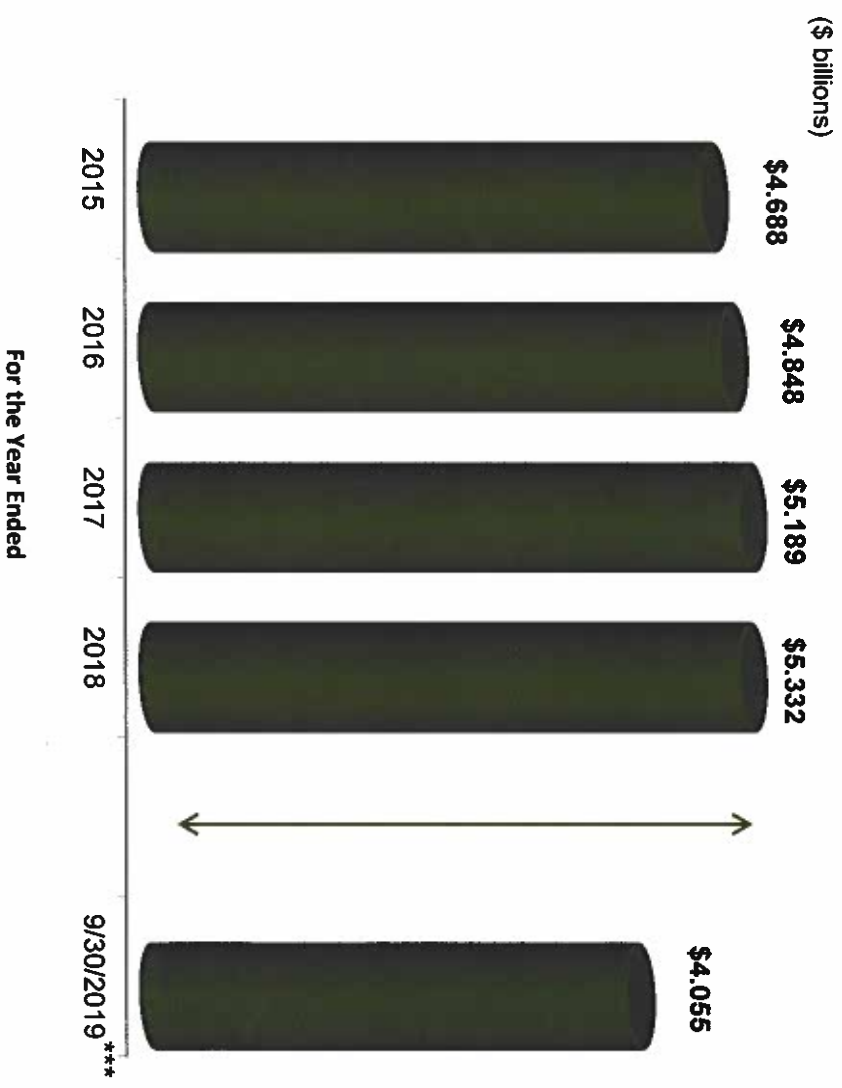


Source: United States Department of Agriculture ERS
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NET INCOME

- Net Interest Spread* declined to 2.02% at 9/30/19 from 2.13% at 9/30/18.
- Net Interest Margin** was 2.41% at 9/30/19 four basis points decrease from 9/30/18.



*Net Interest Spread = average rate on total earning assets – average rate on interest bearing liabilities
 **Net Interest Margin = net interest income / average earnings assets
 *** YTD