

HOUSE FINANCIAL INSTITUTIONS COMMITTEE
January 31, 2012

Mr. Chairman and Members of the Committee:

My name is Judi Stork and I am the Deputy Bank Commissioner for the state of Kansas. Our agency is a neutral party to HB 2505.

Sections 610 and 611 of the Dodd-Frank Act enacted on July 21, 2010, state after 18 months of the effective date of the Act, state-chartered banks may invest in derivative transactions (as defined in Section 610), if the credit risk associated with derivative transactions is subject to the legal lending limit. The Kansas Banking Code, K.S.A. 9-1104 proscribes a legal lending limit applicable to *loans* held by Kansas state-chartered banks, but it does not explicitly include valuation of the credit risk associated with derivative transactions. This bill would amend the Kansas Banking Code, K.S.A. 9-1104 to explicitly make the credit risk associated with derivative transactions subject to the legal lending limit.

Our office would like to offer the following comments for the committee's consideration:

- As of 9-30-2011, FDIC call report information indicates five Kansas state chartered banks held investments in derivative products.
- Currently, as part of our regular bank examinations, we review a portion of the bank's asset portfolio for credit risk, including derivative assets. If a bank has a derivative asset that is of sub-quality, our examiners will identify those assets and either rate them as a low quality asset to further watch, or require the bank to remove the asset from their books as loss.
- If the Office of the Comptroller of Currency issues further guidance regarding how they will value the credit risk associated with derivative transactions for national banks, we will certainly review such guidance and determine whether it would be appropriate to similarly issue guidance documents or adopt regulations.

Thank you for your consideration.