

MINUTES OF THE MEETING
BUSINESS & INDUSTRY COMMITTEE
MONTANA STATE SENATE

February 9, 1979

The meeting of the Business and Industry Committee was called to order by Vice-Chairman Pat Goodover on the above date in Room 404 of the State Capitol Building at 10:00 a.m.

ROLL CALL: All members were present except Senator Regan who was excused. Chairman Hazelbaker arrived a few minutes late due to another meeting.

SENATE BILL 371: Senator Goodover introduced Senator Bill Thomas, sponsor the bill, who explained the bill to the Committee.

Senate Bill 371 is an act to revise the requirements for security for deposits of public funds.

Senator Thomas stated this bill would allow more loans to be made by the local financial institutions.

PROPONENTS OF SENATE BILL 371: Mr. John Cadby, representing the Montana Bankers Association, stated they support the bill. His testimony is attached. He also proposed another amendment which is attached.

Mr. Earl Johnson, president of 1st National Bank & Trust Co. of Helena, supports SB 371 and urged its passage.

Mr. Ed Jasmin, representing Northwestern Bank of Helena, also spoke in support of SB 371.

Mr. F. H. Boles, representing the Montana Chamber of Commerce, stated they support SB 371.

Mr. James Howeth, representing the State Board of Investments, stated they neither support nor oppose the bill, but they feel there are problems with the bill. Accounting would be difficult.

OPPONENTS OF SENATE BILL 371: Mr. Elmer Cyr, representing Mineral County, spoke in opposition to the bill. He stated he felt investments should be better secured.

Senator Thomas stated that the purpose of the bill is to provide more capital so that people could obtain more loans. It isn't to reduce solvency of negotiables.

There was a question and answer period from the Committee.

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Business & Industry Committee
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Mr. Cadby told the Committee that often the money goes out of state because of a higher yield, and he thinks they should be able to compete for its funds like any out of state bidder.

Mr. Howeth pointed out a conflict in what SB 371 was amending and this should be checked out.

There being no further questions, the hearing on SB 371 was concluded.

DISPOSITION OF SENATE BILL 371: Senator Dover made a motion to move the amendment. The motion carried unanimously.

Senator Dover made a motion that Senate Bill 371 DO PASS AS AMENDED. There was a second to the motion by Senator Lowe. The Committee voted unanimously to PASS SB 371 AS AMENDED.

SENATE BILL 99: Chairman Hazelbaker asked Attorney Bob Pyfer about a new Statement of Intent for Senate Bill 99. Mr. Pyfer submitted the new Statement of Intent and explained it to the Committee. He stated it must be read with statutory guidelines.

Mr. Pyfer stated a person can't hold a license to distribute and also retail. They have to go through a licensed distributor.

Mr. Roger Tippy stated that the wine must be sent directly to a licensed distributor, and the distributor cannot extend credit to any retailer for more than seven days.

Senator Goodover asked the Chairman if action could be delayed on Senate Bill 99 until tomorrow's meeting. This was agreed upon by the Committee.

ADJOURN: There being no further business, the meeting was adjourned at 11:00 a.m.



Sen. Frank Hazelbaker, Chairman

ROLL CALL

BUSINESS & INDUSTRY COMMITTEE

46TH LEGISLATIVE SESSION - - 1979

Date Feb. 9

STANDING COMMITTEE REPORT

February 10 1979

MR. President

We, your committee on Business and Industry

having had under consideration Senate Bill No. 371

Respectfully report as follows: That Senate Bill No. 371

introduced bill, be amended as follows:

1. Title, line 6.

Following: "7-6-203,"

Insert: "17-6-102,"

2. Page 2.

Following: line 15

Insert: "Section 2. Section 17-6-102, MCA, IS AMENDED TO READ:

"17-6-102. Insurance on deposits. (1) No such deposits in excess of the amount insured by the federal deposit insurance corporation or federal savings and loan insurance corporation shall be made unless the bank, building and loan association, and savings and loan association first delivers to the state treasurer or deposits in trust with some solvent bank, as hereinafter provided, as security therefor, bonds or other obligations of the kinds listed in 17-6-103, having a market value at least equal to at least 50% of the amount of such deposits in

DO PASS

(Continued)

February 10

79

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excess of the amount so insured. The board of investments may require security of a greater value. When negotiable securities are placed in trust, the trustee's receipt may be accepted instead of the actual securities if the receipt is in favor of the state treasurer, his successors in office, and the state of Montana and the form of receipt and the trustee have been approved by the board of investments.

(2) Any bank, building and loan association, and savings and loan association pledging securities as provided in this section may at any time substitute securities for any part of the securities pledged. The collateral so substituted shall conform to 17-6-103 and have a market value at least sufficient for compliance with subsection (1) above. If the securities so substituted are held in trust, the trustee shall, on the same day the substitution is made, forward by registered or certified mail to the state treasurer and to the depository bank a receipt specifically describing and identifying both the securities substituted and those released and returned to the depository bank. "

Renumber: all subsequent sections

And, as so amended,

DO PASS

G.A.

SENATE BILL 371

Page 4 - Line 15

Allows advance refunded bonds secured by United States securities held in escrow to be pledged.

For example, a 20 year general obligation bond is sold at 5% to raise money for a new high school. This bond is callable or could be redeemed in 10 years.

Assume interest rates drop five years after the bond is issued, the County could then float another issue at say 4% to retire the first issue and save the local taxpayers a considerable amount of money, particularly on a multi-million dollar building.

The second issue would be used to buy US Government securities to be held in escrow until another five years passed. At this time, they would redeem the first issue and these securities.

The securities are underwritten by the US Government and, therefore, as secure as all other securities allowed to be pledged under present law. Allowing these securities to be pledged also provides an incentive for banks to purchase said securities as well as providing a savings to the local taxpayer.

THE MONTANA BANKERS ASSOCIATION
TESTIMONY ON
SENATE BILL 371
BEFORE THE
1979 SENATE BUSINESS & INDUSTRY COMMITTEE

"An act to revise the requirements for security for deposits of Public Funds."

SB 371 is a bill that updates present Montana law on pledging requirements for public deposits to be congruent with neighboring states, reduce paperwork, provide higher yields on public investments, and provide additional capital for economic growth.

The existing law in Montana requires banks to pledge municipal bonds, US securities or other securities as listed in Section 2 of the bill to protect State and local government deposits. SB 371 reduces the pledging ratio to 50%. Presently, 15 states have no pledging laws and another 10 states have modified their requirements to 50% or less. Utah, Idaho, and North Dakota have eliminated pledging, South Dakota requires 5%, Washington has a 10% requirement while Colorado and Oregon have 50% and 25% ratios respectively. SB 371 allows Montana to stay abreast with its neighbors by reducing our archaic and restrictive pledging requirements.

The present pledging requirements have caused several adverse conditions in Montana as follows:

1. The heavy workload placed on financial institutions and State and local offices who handle pledging.

2. The necessity to protect State and local deposits has become outdated.
3. The 100% pledging requirement limits the yield on public deposits.
4. Pledging causes liquidity hardships and restricts asset management and economic growth.

I. Pledging requirements burden those who administer it. The paperwork, such as signatures and authorizations, transferring collateral to a pledged status, making proper substitutions, releasing needed collateral, etc., take time and money.

Considerable time is spent by banks, city officials, County treasurers, the State treasurer, bank examiners, and security custodians of the Federal Reserve processing paper. The total cost for this time and paperwork to all banks and public entities could be significantly reduced with this bill.

II. Public depositors have historically had a preferred position over general depositors, by having the uninsured portions of their accounts secured by pledged bank assets. A great bulk of public deposits are already fully insured by the FDIC as they are now insured up to \$100,000. There is only a handful of large public depositors who are affected by the requirements of our antiquated pledging law.

The fear that government deposits are in peril if they are not fully guaranteed is nothing but wasted imagination that has

grown obsolete. If a bank failure occurred, disruption of government functions due to loss of bank deposits is quite remote for two reasons.

First, State, National, and FDIC examiners do such a thorough job investigating banks, that, if a bank was in a shakey financial condition, proper action would be taken by these authorities to protect the depositors. Furthermore, according to the Federal Deposit Insurance Corporation, of the insured banks that failed and were liquidated between 1934 and 1973, there was a recovery of 97.7% of the total deposits. And Montana hasn't had a bank failure since the Depression. So, it is obvious that the necessity to specially protect government deposits has become useless and outdated.

III. SB 371 will provide higher investment yields to local government by easing the restrictions placed on banks. Because banks must secure public deposits, they can't offer as high yields as other investments in Montana's Short Term Investment Fund (STIF). Since 1974, three neighboring states (Colorado, South Dakota and Oregon) have lowered their pledging ratios. In each case, the State Treasurer sought higher investment yields and initiated the legislation to remove the disadvantage to its banks.

IV. SB 371 will ease some of the adverse effects that 100% pledging has had on bank's liquidity, asset management, and ability to provide loans.

The Comptroller of the Currency prescribes a liquidity ratio banks must follow. This means banks must keep a certain percentage of their total deposits in assets that are readily transferrable to cash, i.e., short and intermediate securities.

Occasionally banks are hit with a deluge of municipal and state funds. If a bank's portfolio is already substantially pledged, they would be forced to pledge their uncommitted liquid assets and thus, operate at an unacceptable level of liquidity.

Banks are stuck with either the cost and possible loss of converting long term assets to meet liquidity requirements or the cost of continuously staying "overpledged".

Our neighboring states have found beneficial results by lowering their pledging requirements. It insures bank bank liquidity and flexible asset management and frees up millions of loanable dollars to help farmers, ranchers, and home buyers.

NAME: John C. Gray DATE: 7/9/79

DATE: 7/9/19

ADDRESS: 701 Harrison

PHONE: 446-7-31776

REPRESENTING WHOM? MR. GENERAL ASCH

APPEARING ON WHICH PROPOSAL: SA 371

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: _____

NAME: EARL W. JAHNSEN DATE: 2-9-79

DATE: 2-9-77

ADDRESS: 1000 21st Street

PHONE: 442-2540

REPRESENTING WHOM? FIRST NATIONAL BANK OF THE CITY OF LEXINGTON

APPEARING ON WHICH PROPOSAL: 1371

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE? _____

COMMENTS: _____

NAME: ED JASMIN DATE: 2-9-79

DATE: 2-9-79

ADDRESS: 626 Monroe, Helena

PHONE: 442-5050

REPRESENTING WHOM? NORTHWESTERN BANK OF HELTON

APPEARING ON WHICH PROPOSAL: SB 371

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

NAME: F.H. Duck Bales DATE: _____

ADDRESS: Box 1730 HELENA

PHONE: 442-2405

REPRESENTING WHOM? MONTANA CHAMBER OF COMMERCE

APPEARING ON WHICH PROPOSAL: SB 371

DO YOU: SUPPORT? ✓ AMEND? _____ OPPOSE? _____

COMMENTS: Since the bill would have the effect of making more capital available for commercial and developmental loans in Montana the Chamber is in agreement with it.

NAME: James French DATE: 2-9-79

ADDRESS: Michael Bldg.

PHONE: 419-5656

REPRESENTING WHOM? STATE Bank of Trumann

APPEARING ON WHICH PROPOSAL: SB - 371

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE? _____

NAME: Elmer L. Cope DATE: Oct 9 - 1979

ADDRESS: Alberton Montana 59820

PHONE: 722-4492

REPRESENTING WHOM? Mineral County

APPEARING ON WHICH PROPOSAL: 5 771

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE? _____

COMMENTS: Not a single h. was by tree

Chemical reactions

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE Business & Industry COMMITTEE

BILL #371

VISITORS' REGISTER

DATE 1/9/78

Please note bill no.

(check one)

BILL # SUPPORT OPPC

NAME

REPRESENTING

Karin L. Lewis

Dave Lewis

Dept of Admin