MINUTES OF THE MEETING
BUSINESS & INDUSTRY COMMITTEE
MONTANA STATE SENATE

February 3, 1987

The thirteenth meeting of the Business and Industry Committee met on Tuesday, February 3, 1987, in Room 410 of the Capitol at 10 a.m. The meeting was called to order by Chairman Allen Kolstad.

ROLL CALL: All committee members were present.

CONSIDERATION OF SENATE BILL NO. 163: Sen. Paul Boylan, Senate District 39, Bozeman, chief sponsor of SB 163, stated he had introduced the bill at the request of the independent bankers to establish some state policy in the area of bank mergers. He explained that the bill would prohibit any future mergers which would result in a single banking organization having more than 11% of all the bank assets in the state. He told the committee that the independent banking people were present at the meeting to speak for the bill and would speak about similar asset limitation laws in a number of other states, the federal law on bank mergers and the risk of depending on just a few big banks. He then introduced Jack King of Kalispell as a proponent of the bill.

PROPONENTS: A.J. (Jack) King, Chairman of the Valley Bank and First Security Bank of Kalispell, and member of the Executive Committee and Past President and Chairman of the Independent Bankers Association of America, spoke in favor of the bill and read his written testimony which is attached to the minutes. (See EXHIBIT 1)

Frank S. Stock, Chief Executive Officer and a Director of the Security State Bank, Polson, also spoke in support of SB 163 to which he presented written testimony to the committee. (See EXHIBIT 2) He also included an article from the Great Falls Tribune of January 17, 1987 which is attached as part of Exhibit 2.

S. Kent Brubaker, Executive Vice President of State Bank of Terry, Terry, Montana, spoke in support of SB 163. He presented prepared testimony to the committee which is attached to the minutes as EXHIBIT 3.

Ron Ahlers, Executive Vice President of First Security Bank of Bozeman and also Vice President of the Montana Independent Bankers Association, appeared as a proponent of the bill and distributed his written testimony to the committee. (EXHIBIT 4)

Roger Tippy, Attorney and lobbyist for the Montana Independent Bankers Association, appeared as a proponent. (EXHIBIT 5) He concluded the formal presentation of the proponents but asked the other proponents present to stand and show their concurrence.

OPPONENTS: Bob McNellis, Managing Officer of the Helena Branch of the Federal Reserve Bank of Minneapolis, offered written testimony which he read to the committee members. This testimony is attached as EXHIBIT 6.

Ed Jasmin, President and Chief Executive Officer of Norwest Bank Helena, appeared as an opponent and distributed EXHIBIT 7 to the committee, which is his written testimony.

Robert L. Reiquam, President, First Bank West, Great Falls, submitted EXHIBIT 8 as testimony in opposition to SB 163.

QUESTIONS FROM THE COMMITTEE: Sen. Thayer questioned Mr. Jasmin concerning his comments about the 11% concentration rule being good for one community it is also good for another. Mr. Jasmin said it came from testimony of the proponents that monopoly and market share concentration as being bad. He said he did not know when it becomes better - as he pointed out, Montana has 56 one-bank towns which serve them well but that is certainly a monopoly.

Sen. Walker asked Mr. McNellis, according to his documentation, the First Bank System has 25.2% of the assets and Norwest has 11.6%, if this bill passed would they have to cut themselves down in size. Mr. McNellis said it would not be from any action of the Federal Reserve System and as he read the bill, it would not impact current organization except to the extent they would want to merge with affiliate offices. He said he understood the bill would prevent that from happening.

Sen. Williams referred to Mr. King's statement in his testimony that he did not believe anyone would want Montana to mirror Idaho but since our basic industries are pretty much the same he asked Mr. King to give some comparison on the economic conditions - how they related to Idaho's. Mr. King replied that the two states are pretty similar as far as economic conditions overall and that the banking climate one way or another has not affected the conditions. He said in Idaho, through their multi-branching system and unlimited banking, a great deal of the earnings from those banking assets are being extracted. They are susceptible to losing some of their ability to finance their own industries. He gave an example of an out-of-state corporation determining the deposits, or assets, in Idaho could be more profitably used to build condominiums in San Diego and said that was not the case with Montana where there are nearly 170 banks of which almost 120 are home-owned. Sen. Williams asked if the economic conditions of the two states are still similar to which Mr. King replied they are.

Sen. Weeding asked Mr. Reiquam to describe his bank's ag policy as the rumor had been around the last few weeks that Firstbank and Norwest were phasing out their ag real estate programs and he wanted to know if this was operating loans or a total package of services to agriculture. Mr. Reiquam said when he talked about increasing the ag loans in the Great Falls market that the majority of those were agricultural production loans as agricultural loans secured by real estate need to be classified as real estate loans on their statements so they were primarily production loans. He said he could not say anything about Norwest phasing out their loans as he did not work for them nor had he seen any of their policies. However, their loan officers compete with Norwest officers on a regular basis for credits that come to them primarily from the Farm Credit System as well as from some other banks around the country due to the problems that are there. He said he had a hard time believing they are phasing out the ag loans when they are competing for the same customers. He said Firstbank has increased their portfolio over the past two years and are continuing to do so at the present time. They have been extremely busy taking applications, processing them and have tried to show a repayment ability on those. He said he thought that was true also with other Firstbank System banks but they do operate somewhat independently.

Sen. Weeding then stated it was his understanding that Mr. Reiquam was perhaps not in the real estate end of it but they get there by the security position that is required of real estate loans to protect the banks. Mr. Reiquam said, traditionally, banks, whether they are holding company banks and certainly the independent banks, will not take on very many agricultural real estate loans as it wouldn't take very long in a state like Montana to fill the loan portfolio with long-term real estate loans and they have left that market primarily to insurance companies and the Federal Land Bank, some FHA and some contracts for deeds but they handle a very low percentage of ag real estate loans as two or three would fill the portfolio of most banks. He stated further that with the funding for banks being on deposit with maximum terms of up to maybe a five-year CD, the money can't be tied up or committed out for 25-30 years as is necessary for ag loans. He said in the recent period they have made some agricultural real estate loans that could be paid out in a short time as people try to get away from the variable rates in the Farm Credit System and the concerns over that organization.

Chairman Kolstad said he was also surprised that Firstbank had gone into an expansion of the ag operating loans and asked Mr. Reiquam if that was probably a direct result of the weakening farm credit system. Mr. Reiquam said it was not entirely because of that; some was a result of that but also the fact that they have had aggressive behavior on the part of their ag department and they have solicited these loans - a good portion of it comes from the Farm Credit System but it was a combination of all those things.

Sen. Williams asked Sen. Boylan where he came up with the 11% figure to which Sen. Boylan answered that this is what the Independent Bankers came up with and deferred to Mr. Tippy concerning that question.

Mr. Tippy said the legislative committee of the Independent Bankers looked at the size of the various banks in the state and set a number at about the size of the second holding company, the Norwest system; slightly under its present share but these fluctuate a bit. He wanted to note that even were the Norwest system not to contract anymore and stay at 11.6% they could consolidate under SB 198. All they would have to do is take advantage of the divestiture language in the bill after consolidating and sell off the smallest bank and go down a percent or so which would put them under 11% rather than over 11%. He said it was not nearly as restrictive a bill as the opponents have made it out to be.

Chairman Kolstad referred to Mr. Tippy's statement that Montana's 4-firm concentration level was quite high and asked if Mr. Tippy saw that as dangerously high or if he was fearful that it would become dangerously high. Mr. Tippy replied that after reading what the Board of Governors decided about Wyoming where they said 43% was moderately concentrated but it was okay to go to 47, it did not appear that the Fed would feel that being at 50% now was any reason not to let things go to 50 or 60 should one of the Minneapolis-based holding companies propose a merger of that kind. He said the Independent's position, as stated, was anything that approached the Idaho level would not be in the best interests of Montana agriculture and independent banking.

Sen. Neuman said one of the arguments, it appeared to him, that the reason to let the larger companies expand and hold greater shares is that they can make larger loans available to larger companies and Mr. Jasmin had indicated only the big banks could probably finance these; he asked Mr. King to respond to that statement. Mr. Kind replied there was some truth to that statement but it wasn't 100%. He said that most of them have access to capital markets today and that the committee is aware that there is almost unlimited capital markets. They find if they can get a Farm Home guarantee on any size farm loan up to their limit there is a market for it. He said it is a problem for heavy industry but he didn't know an example where this has occurred. He did say, however, that the Independents, at one time, put together a participation loan in the city of Butte where they helped Montana Power Company with a several million dollar loan.

Chairman Kolstad asked Mr. Jasmin what percentage of Norwest's loans in Montana were ag related but Mr. Jasmin said he did not have that figure, however, Norwest was not heavily ag oriented.

In closing, Sen. Boylan said the bill did not limit growth through superior performance; it only limits growth through mergers.

The hearing was closed on SB 163.

CONSIDERATION OF SENATE BILL NO. 198: Sen. Gene Thayer, Senate District 19, Great Falls, chief sponsor of the bill, said the bill would accomplish three things: (1) allows banks to merge and consolidate, (2) authorizes independent banks to establish up to two branch banks, and (3) allows emergency branch banking for failing banks in one-bank towns. His written testimony concerning SB 198 is attached to the minutes as EXHIBIT 9.

PROPONENTS: Mike Grove, President of the First National Bank of White Sulphur Springs, Montana, an independent bank, spoke as a proponent of SB 198 and presented written testimony which is attached as EXHIBIT 10.

Rick Hart, Bank of Montana, Helena, said he became president of the bank in 1983 which was previously the Commerce Bank and Trust Company, an independent bank in Helena. He said the Bank of Montana is an affiliate of Bank of Montana System which has 14 banks in 13 communities in the state which he listed for the committee. Some of these are truly commercial bank environments and some are agricultural. He said some considerations with regard to SB 198 is that it is generally believed that Montana's banking laws are archaic and instead of being the only ones that are in-step we are the only ones that are out-of-step. He said other states have derived legislation to give flexibility to the banking community for their survival and competition. From a diversification standpoint which is important to every banking institution in the state, no bank wants all of its credits in one area - they are all looking for some amount of diversification. He said that SB 198 allows for some of that and the branching portion of this bill would allow some of the independents to diversify their portfolios by going into other communities. This is not true for the holding company banks, he said. They felt this could only add to a stronger banking environment in the state with this diversification. He asked the committee members to talk with their independent bankers and ask them specifically what their objections to SB 198 are and what is the harm to them. He said that in this piece of legislation the only people allowed to do branching are the independents. He said they feel this is some kind of master plan by the large holding company banks who would come back later with a full branching bill. He believed this legislation could only benefit the independent and asked them why they would oppose this piece of legislation.

Mr. Hart said from a competition standpoint, there has been an extreme growth of the savings and loans and credit unions and felt that this piece of legislation would allow, to some degree, to give them the flexibility to compete with these institutions. The savings and loans and credits unions have continued branching - numbers of branches have opened around the Helena area particularly in the savings and loan area. He asked how long this would be allowed to exist and said he doubted there are many complaints from the consumers as to the branching that is presently allowed by them. Most people find that to be a convenience feature, however, holding company banks will not be allowed to branch but independents would be allowed to do so. He pointed out that Sears, insurance company brokerage houses, a diverse group of competitive bases that they have to do battle with in day to day operations. He asked that some of the strings be released from them to allow them to compete more aggressively and work more efficiently. He said that they endorsed the passage of SB 198 to allow some flexibility to survive now and in the future and urged the committee to support SB 198.

Steve Browning, attorney from Helena, representing Firstbank System, Norwest and Bank of Montana, said he had been retained to assist in this legislation. He said he had two questions to bring out and some amendments to the bill to be discussed. He read from a news article from the Helena Independent Record of February 2, 1987 concerning branching of banks which is attached to the minutes as part of EXHIBIT 11. He said he had traveled around the state talking to independent bankers trying to find out what they could do in this legislation that would allow consolidation to be available to the group banks. He said he finally got some independent bankers to say they would like to be able to branch and it was suggested that he come up with a compromise to give something to the independents in exchange for the right to merge and consolidate. He said that is where the idea of providing branching for independents came from. He referred to page 6, line 19 dealing with branching by independents and read that section from the bill. He pointed out the areas where an independent could branch - in towns where there is no bank, in towns where there are banks and have a population of 8,000 or more and a town with a bank or banks that have a population of less than 8,000 it would reqire the written approval of the banks in the area. The independent banks would be the only banks able to create new banking facilities, according to Mr. Browning. He pointed out the advantages which would be the reduced capitalization requirement to independents; second, it would provide greater customer convenience.

Mr. Browning said that merger and consolidation is included in the bill on page 2, line 11 and explained that it is relatively simple. He pointed out that today merger and consolidation is permitted but never used because it is an unworkable provision. He gave an example of Bank A buying Bank B under Montana law but they have to make a decision as to which location under which they want to operate because they have to close one down. Every business in Montana can merge and consolidate which many of them do - banks don't do it because of the way the law is set up and it makes no economic sense. He explained his proposed amendment which simply says that a bank may continue to operate in the existing locations if they merge or consolidate. (EXHIBIT 11) He said that merger and consolidation is an acceptable reform which has been concluded by all groups which have studied it and 45 states now have some form of consolidation. He distributed the amendments to the committee which they wanted to be considered during executive session. One would include emergency branching and emergency chartering was the other. Emergency chartering would be establishing a brand new bank immediately. In the event of a closing bank, if a sale could not be accomplished, then emergency branching provision would take effect. The other handout was a series of tax amendments which he considered technical amendments and went on to explain them.

OPPONENTS: Robert Baxter, Executive Vice President of the First State Bank of Thompson Falls, appeared as an opponent to SB 198 and submitted written testimony, EXHIBIT 12, attached to the minutes.

Allan Bradley, President, Bitterroot Valley Bank, Lolo, said they were a small independent bank that opened their doors in 1982 and they closed their books in December of 1986 at $10.8 million. They participated in a large loan of $2.3 million to five other independents. He said they have seen mergers, consolidation and centralization in the lumber industry, the railroad industry, the telephone service and in banking during the last few years. He pointed out an excellent example in Missoula County of the above happening with Firstbank Western and Firstbank Southside. These two banks have been consolidating for the last several years; they now have the same board of directors, the same president, their investment decisions are made in Minneapolis, their large loan decisions are made at the regional office. He said the Bitterroot Bank is completely self-contained unit which makes their own investment decisions, make their own loan decisions, have their own computer and computer operator.

Mr. Bradley referred to his handout, EXHIBIT 13, and explained it to the committee. He pointed out that the Bitterroot Bank provides almost three times as many local jobs per million dollars of local assets controlled. He noted that in

1984 the two Firstbank banks controlled about $1.5 million of Montana assets for every fulltime job. At the close of business in 1986 they controlled almost $2 million of Montana assets for every job. In other words, he said, with consolidation, with centralization of management, the trend is getting wider. With this advantage the Firstbank banks should be able to deliver their services at a significant savings to their consumers, according to Mr. Bradley. He then referred to page 2 of the printout which showed that the Firstbank banks were near the top in their charges to consumers in every category and the rates paid on their deposits were near the lowest in the Missoula area. Centralization, consolidation is seldom advantageous for rural states like Montana, Mr. Bradley said. He urged the committee to kill the bill.

Gary Sisson, Vice President of First Security Bank, Bozeman, spoke against SB 198 and presented written testimony which is attached as EXHIBIT 14.

Bill Groff, Victor, said a gentlemen in the banking business told him in the year 2010 there would be six banks in America, which means, for this committee, the monetary policy will be decided in New York and that's what the argument is about today. Mr. Groff said we need the big banks but they need to be kept in some type of control. He said the scary thing to him was giving away the control of this state as he had spent the last nine years in conjunction with people in New York and he knew what their respect is for the state of Montana. He said we should run our state and let somebody in New York run New York. He urged the committee to vote no on the bill.

Roger Tippy, attorney and lobbyist for the Montana Independent Bankers Association, appeared as an opponent to SB 198. He asked the committee members to think about a few specific parts of the bill; the branching authority at the bottom of page 6 and top of page 7 is limited only to independents. The majority of the independents do not want this authority granted to them in the bill and they were not requesting this new power. Mr. Tippy said he could see mischief in the bill and gave the example of a big holding company making an offer on a little independent that no one can match or expects to match. They could have the little bank put a branch in another location and then they would buy them out. He referred to page 9 and 10 of the bill, delegating a good deal of new rule-making authority to the state banking board and he pointed out there was no statement of intent or discussion as to what those regulations should be. He said they would be greatly concerned with this as would the Department of Commerce were this bill to get to the floor. In closing, he commended Sen. Thayer for reminding everyone that we do have to think about the future and we just can't leave it status quo. He referred to Mr. Groff's remark about there being only six banking systems in the future and wondered what this would portend for agriculture and farmers and ranchers. If the viability of the family farm still has some meaning then the viability of the small community bank still has a meaning too, according to Mr. Tippy, and it's important that actions taken by the legislature deal with the future, keep an eye on agriculture and look to taking care of the type of bank that seems to rise or fall with the farmers' fortunes.

QUESTIONS FROM THE COMMITTEE: Sen. Williams asked Mr. Tippy if he had studied the amendments and what they would do to the bill. Mr. Tippy replied that they had not had a chance to do so but certainly would following the hearing.

In answer to a question from Sen. Neuman, Mr. Bradley said he had not included credit card rates in his exhibit as he didn't think there would be any differential there. Sen. Neuman then questioned how the consolidation and merger authority would stimulate the capital and the inference he got was that by passing this bill capital formation would be more readily available or there would be more capital available in Montana. Mr. Sandquist of Bozeman, said he did not see where consolidation would increase capital; it may have an effect on the lending limits of some of the banks involved. However, unless there is new capital it's not going to increase anything.

Sen. Neuman said he had the understanding that if banks failed in Montana that independents would not be able to fill the gap that would be created by those failures. Mr. Groff said the Fed has an arrangement that a bid can be made on a bank in trouble but certain capital requirements must be met. This can be done and it is not restricted.

Chairman Kolstad asked Mr. Browning if the authority for the holding companies to acquire independent banks includes the provision that would also allow them to acquire an independent bank that had recently merged or become a branch. Mr. Browning replied that the bill didn't speak to that situation. Under merger consolidation there is a provision for preference for in-state banks and that preference lasts for 150 days. A bank that wishes to be purchased will file notice of desire to be purchased with the state banking board; within a 60 day period any bank wishing to purchase that bank will also file a notice of intent to purchase. Then, the out-of-state holding company bank doing business in Montana would be precluded from entering into any negotiations or any contracting with respect to acquisition, so, for a period of 210 days there could not be any negotiations along those lines. Chairman Kolstad pointed out it really didn't preclude them from doing that and it wasn't specifically stated in the bill, to which Mr. Browning agreed. He also asked Mr. Browning if holding companies are most interested in consolidating within their present system - if this is the prime goal in the bill, he asked if they would object to those criteria. Mr. Browning stated it would depend on how the amendment would be drawn and who would offer it. He said last session they came up with a compromise with a one page bill but ended up being a 14 page bill and none of the amendments were necessary, he felt, but they did agree to them to achieve a compromise. They would not agree to amendments for the purpose of defeating this bill. If they were offered to be fair and to provide some protections they might consider them, he said.

Chairman Kolstad remarked that Mr. Browning had testified it was a compromise and the opponents had testified just the opposite.

Sen. Weeding asked Mr. Baxter about the "no loan" policy to which he had referred in his testimony. Mr. Baxter explained that he did not have an opportunity to participate in the formulation of any particular policy especially those regarding loans which pertained to their bank. He perceived from the policy that Montana was a very poor place in which to do business. He said management and ownership also considered the legal climate that prevailed in Montana - they felt the legal climate was as bad or worse than the economy. Therefore, they suggested it wasn't an appropriate place to make loans, at least for the time being, and that policy was handed down to them. They were permitted to make loans to existing customers under certain circumstances but they were not to increase credit lines nor seek new customers.

Sen. Weeding asked if that policy was developed in Minneapolis. Mr. Baxter said he honestly couldn't tell Sen. Weeding that - the banks were managed by persons in Great Falls who, he thought, probably reported to persons in Minneapolis. Sen. Weeding questioned Mr. Baxter if that policy was specific to his bank. Mr. Baxter replied that he believed it pertained to the entire system which, at that time, contained 15 banks.

Mr. Grove, in answer to a question from Sen. Thayer, said the branching provision gives the independents an alternative they do not now have; competition is good and they were the only bank in the county. He thought, perhaps, they should talk about things they aren't doing, not what they are doing. He said it was time to do away with the archaic laws that keep them from moving ahead. Some of the independents do not want to branch but the present law says they can't even if they wish to do so. He felt it was time to give all businessmen in Montana the opportunity to expand, banks included. He said he could see a lot of non-banking competition moving in and wanted to be in a position to be able to compete and felt branching would be good for the independent bankers.

Sen. Thayer closed his presentation on SB 198, stating that he had a document in his possession containing the names of 58 bankers that supported the bill and asked that it be presented to the committee. He said the issue that "big is bad" is not necessarily true and big banks are not going to gobble up the little banks. Ironically, he said, after going home last session, Firstbank system put four of their banks up for sale and none have been sold as of this date and those are healthy banks, so why would it be easy to get someone to come in to pick up a failed bank. One of the persons testifying said Norwest Bank system in South Dakota had put 24 of their banks up for sale. He said that didn't sound like "big" trying to gobble up the little. This bill is addressing survival and asked the committee to give the bill a do pass. (EXHIBIT 15 - List of 58 bankers)

Chairman Kolstad thanked both the proponents and opponents for their well-organized testimony. He stated that the committee would take these bills under advisement in executive session at a subsequent meeting.

The next meeting will be Wednesday, February 4, 1987. There being no further business, the meeting was adjourned at 12:25 p.m.

Allen C. Kolstad

ALLEN C. KOLSTAD, CHAIRMAN

ls

ROLL CALL

Business & Industry COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 2/3/87

NAME	PRESENT	ABSENT	EXCUSED
ALLEN C. KOLSTAD, CHAIRMAN	✓		
TED NEUMAN, VICE CHAIRMAN	✓		
PAUL BOYLAN	✓		
TOM HAGER	✓		
HARRY H. McLANE	✓		
DARRYL MEYER	✓		
GENE THAYER	✓		
MIKE WALKER	✓		
CECIL WEEDING	✓		
BOB WILLIAMS	✓		

Each day attach to minutes.

DATE 2/3/87

COMMITTEE ON Business & Industry

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Oppose
Joyce Sandquist	1st Sec. Bk - Bozeman		163	198
[illegible]	"		163	198
[illegible]	Valley Bank - FSB Kalispell		163	198
[illegible]	First Banks & self		198	163
David Brown	First Bank		198	163
Tom [illegible]	First Bank Helena		198	163
[illegible]	F.B. Systems		198	163
Robert F. McNells	Federal Reserve	163	—	—
W.R. Tait	Norwest Banks		198	163
[illegible] Stradinger	Norwest Bk Ana/Butte/Dillon		198	163
Bob [illegible]	Dutton St Bank		198	[illegible]
Earl Johnson	First Bank Helena		198	163
Mike [illegible]	First Natl WSS		198	
[illegible] Anderson	Anderson [illegible]	198		
Terry Carmody	Mont. Farmer W		163	198
Rick Hart	Bank of Montana - Helena	198	198	163
[illegible] W. Shaw	Norwest Bank - S. 2	198	198	163
[illegible]	First Bank - Norwest		198	163
Steve Browning	First Bank - Norwest		198	163
Susan C. Witte	First Bank - Norwest			
Tom Bradley	Norwest Bank Billings	163 & 198	198	163
Larry Klingman	Norwest Bank Billings	163 + 198	198	163
Louie Merriel	Farmer / Amalg. Union		198	
Chris Stobie	Grocery retailer			198

(Please leave prepared statement with Secretary)

DATE 2/3/87

COMMITTEE ON Business & Industry

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One: Support	Check One: Oppose
Roger Tippy	M.I.B.	163	X	
Roger Tippy	M.I.B.	198		X
RICHARD F. MAURER	VALLEY BANK - KALISPELL	163	X	
RICHARD F. MAURER	VALLEY BANK - KALISPELL	198		X
[illegible]	YELLOWSTONE LAUREL BANK	163	X	
	YELLOWSTONE BANK - LAUREL	198		X
Kent J Harris	YELLOWSTONE BANK - COLUMBUS	163	X	
Kent J Harris	YELLOWSTONE BANK - COLUMBUS	198		X
Kent Brubaker	State Bank of Terry	198		X
" "	" "	163	X	
[illegible]	Western Nat'l Bank Wolf Point	198		X
[illegible]	" "	163	X	
[illegible]	Flathead Bank of Bigfork	163	X	
[illegible]	Flathead Bank of Bigfork	198		X
[illegible]	FLATHEAD BANK	198		✓
[illegible]	FLATHEAD BANK	163	X	
Art WIEDEMAN	1st Nat - Cut Bank	198		X
Art WIEDEMAN	✓ ✓	163	✓	
Jack Rockford	Security Bank Three Forks	198		X
Jack Rockford	" " " "	163	X	
Ron Ahlers	First Security Bank - Bozeman	163	X	
Ron Ahlers	✓ ✓ ✓	198		X
[illegible]	FIRST Security Bank Bozeman	163	X	
[illegible]	" " " "	198		X
Bill Graff	Farmers State Bank	198		X
Mike Polhousky	1st Security Bank of West Yellowstone	163	X	
Mike Polhousky	✓ ✓ ✓	198		X

(Please leave prepared statement with Secretary)

DATE 2/3/87

COMMITTEE ON Business & Industry

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Oppos
[illegible]	Security State Bank	163	X	
[illegible]	Security State Bank	198		X
[illegible]	" " "	198		X
[illegible]	" " "	163	X	
John C Cowen	1st Security Havre	198		X
John C Cowen	" " "	163	X	
[illegible]	1st Security Bank Havre	198		X
[illegible]	" " " "	163	X	~~X~~
Morton G. Malek	Farmers State Bank - Conrad	198		X
Morton G. Malek	" " " "	163	X	
Gordon Ochenrider	Mountain Bank, Whitefish	198		X
Gordon Ochenrider	" " "	163	X	
Theo F. Bartschi	First State Bank Shelby	163		X
" " "	" " "	198		X
R. Bartschi	First Nat'l Bank Cut Bank	163		X
" " "	" " " " "	198		X
[illegible]	First Security Bank [illegible]	198		X
[illegible] Robinson	" " "	198		X
[illegible]	" " "	198		X
Jerry Foster	Dept of [illegible]	163		
Tom Kamp	First Security - Boz.		163	198
Bob Waller	1st Interstate Billings	198		X
Gene Coombs	" " "	198		X
Laurel McAtee	First Madison Valley Bk Ennis	198		X
Larry D. Sanderson	First Boulder Valley Bk	198		X
Alan Bradley	Bitterroot Valley Bank	198		X

(Please leave prepared statement with Secretary)

DATE 2/3/87

COMMITTEE ON Business & Industry

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Opp[os]e
Phil Sandquist	1st Sec BK - Bozeman	163 198	163	198
Frank S Stock	Security State Bank - Polson	163 198	163	198
Paul D. Caruso	1st Sec. Bank - Helena	163 198	163	198
Roger Simonson	1st Sec Bank Milton	163 198	163	198
Phillip B Johnson	1st Bk Helena	✓	198	163
Dennis DeVine	Security State Bank Polson	163 198	163	198
Ed Jasmin	Norwest Bank Helena	163 198	198	163

(Please leave prepared statement with Secretary)

From the GREAT FALLS TRIBUNE, Saturday, January 17, 1987.

Farm Credit System draws fire at hearing

By T.J. GILLES
Tribune Agriculture Editor

A one-time farmer's ally that has become an insensitive, heavy-handed, bureaucratic abuser of the member-borrowers who used to control it was the picture of the Farm Credit System that emerged during testimony Friday in Great Falls.

After hearing nearly seven hours of testimony from about 40 people, Rep. Ron Marlenee, R-eastern district, said it seems that most of the recent adverse changes in FCS procedure stem from dictates of the federal Farm Credit Administration, which regulates the cooperatively owned ag lending system much as the Federal Deposit Insurance Corp. oversees banks.

He said he will try to have the House Agriculture Committee summon FCA Chairman Frank Naylor to testify within the next six weeks.

Marlenee said the committee needs to determine if the system is following the intent of Congress in implementing programs and find out if members' stock in the lender is being protected or endangered.

Nearly 350 people from throughout the state broke into raucous applause periodically in response to critical comments about FCS.

Billings ag consultant Martin Canell said: "From my point of view, a lot of farmers and ranchers are being driven off the land by the policies of the Farm Credit System."

Among other things, U.S. agriculture's leading lender and biggest financial institution was accused of:

- Ignoring recently approved regulations calling for forbearance procedures with troubled borrowers and review committees to work out appeals.
- Multiplying the amount of paperwork needed to process even routine operating loans from borrowers — even those without any blemishes on their credit records.
- Denying borrowers access to records in their own files.
- Arbitrarily reappraising land values to make even the best customers' operations appear doomed on paper.
- Forcing unrealistic payment requirements on borrowers.
- Imperiling the value of members' stock through mismanagement.
- Causing unreasonable delays in making decisions on loans — delays that often work hardships on clients and cause financial loss.
- Writing unworkable conditions into loan contracts, which put virtually every borrower in default upon signing.

When FCS officials gave their side of the story, they repeatedly blamed their regulator, the Farm Credit Administration, for forcing the changes.

Scobey farmer Marvin Tade said: "Somebody's been trying to eliminate this system completely, and as far as I know it's the Farm Credit Administration."

Fort Shaw dairyman Ralph Parker, who had urged Marlenee to conduct the forum and helped in its organization, told the Tribune he thinks FCA chief Naylor is "hell bent on destroying the system" and the farmers who belong to it. He cited comments by Naylor that the nation had a surplus of farmers and needed to get rid of the excess.

FCA spokesman Mike Powers

See CREDIT, 2-A

Credit

said some new procedures came as a result of the FCS' severe financial problems (the system lost $2.7 billion in 1985, the worst banking loss in U.S. history) or because the system had been behind the times in such areas as documentation.

While Brockway farmer Dave Kasten, a member of the five-state district SCS board, said the regulator insisted on "absolute compliance with policies, procedures and guidelines," Powers insisted that the increased paperwork and bureaucracy were not required.

Kasten said the Spokane banks now must compile 106 reports, 71 of which go to the FCA.

Marlenee said it seems to be a case in which FCS banks "don't have to do it — but heaven help you if you don't."

A typical operating loan may require 15 separate pieces of paperwork and may take four months or more for processing as it is shuffled between local, district and regional offices, witnesses said.

Many farmers and ranchers con-

From 1-A

trasted days gone by when local Production Credit Associations and Federal Land Banks were producer-controlled and went out of their way to help borrowers with today's rogue-like bureaucracy where decisions are handed down from Spokane or Washington, D.C.

Billings lawyer Charles "Timer" Moses says there has been an increase in litigation only because farmers take to legal channels as a last resort to keep their farms.

Others said formerly simple and straightforward loan agreements now are written in complex legal

Moses said: "I think it's a sign of the times that we get farmers and ranchers coming in and say, 'I've been with the Land Bank for 40 years — and I've never had to contact a damn lawyer until now.'"

Great Falls lawyer Greg Schwann said that because of the FCS quasi-government set-up "we have the most mumbo-jumbo, confused, disgusting set of jurisdictional problems" as the Federal Intermediate Credit Banks (which loan money to PCAs) are exempt from the federal tort claims court but the law says nothing about the standing of PCAs, which may be federal "instruments" but not federal agencies.

Problem loans may involve not only the FCS but the federal Farmers Home Administration and private lenders, so the jurisdictional jungle gets even thicker, he said.

Marlenee said Congress should pass legislation that will determine which courts have jurisdiction in cases involving the FCS to set up "a proper forum to protect the borrow-

As you read the article, please substitute "The All Montana Bank" for Farm Credit System, and Federal Deposit Insurance Corporation (FDIC) for Farm Credit Administration (FCA) and you will have a scenario of what a concentration of bank assets could do to all Montana businesses at some future time when economic conditions are tough.

A small bank may fail and cause one town to have a problem but it will not cause the whole state to suffer.

This article also points out that large centralized organizations require a lot of paperwork, cause long delays in decisions, cause customers economic hardship and financial loss and generally do not provide service that a local, controlled group can, that understands each customers situation.

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 1
DATE 2/3/87
BILL NO. SB 163

S T A T E M E N T

O F

A. J. (JACK) KING

CHAIRMAN

OF THE

VALLEY BANK AND FIRST SECURITY BANK

KALISPELL, MONTANA

BEFORE THE

COMMITTEE ON BUSINESS AND INDUSTRY

MONTANA STATE SENATE

ON

SENATE BILL 163

FEBRUARY 3, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS JACK KING AND I AM CHAIRMAN OF THE BOARD OF DIRECTORS OF THE VALLEY BANK AND FIRST SECURITY BANK OF KALISPELL. I AM ALSO A MEMBER OF THE EXECUTIVE COMMITTEE AND PAST PRESIDENT AND CHAIRMAN OF THE INDEPENDENT BANKERS ASSOCIATION OF AMERICA, A NATIONAL TRADE ASSOCIATION REPRESENTING APPROXIMATELY 7,000 COMMUNITY OWNED AND OPERATED INDEPENDENT BANKS LOCATED IN ALL 50 STATES.

MR. CHAIRMAN, I STRONGLY SUPPORT SENATE BILL NO. 163.

MR. CHAIRMAN, IT IS EXTREMELY INTERESTING TO ME THAT THE CREATORS OF OUR BANKING SYSTEM PROVIDED ASSURANCE THAT THE SMALLER COMMUNITIES THROUGHOUT OUR NATION RETAIN THE ABILITY TO CONTROL AND DIRECT THEIR PERSONAL BANKING ASSETS TO THE BETTERMENT OF THEIR COMMUNITIES AND THEMSELVES. IN 1957, THE CONGRESS PASSED THE DOUGLAS AMENDMENT RECOGNIZING BANK DIRECTED CONSUMER SERVICES WERE BEING JEOPARDIZED AS A RESULT OF THE ADVANTAGE OF SOME FIRMS TO ACCESS THE CAPITAL MARKETS RATHER THAN THE NEED TO PROVIDE LOCAL CUSTOMER SERVICES. THE DOUGLAS AMENDMENT PROVIDED STATES THE RIGHT TO SELECT THE SYSTEM WHICH WOULD BEST SERVE ITS PEOPLE. THE DOUGLAS AMENDMENT HAS SERVED MONTANA WELL. NEARLY EVERY

COMMUNITY IN THIS STATE HAS ITS OWN COMMUNITY BANK, CAPITALIZED, LARGELY BY INDIVIDUALS LIVING WITHIN THE CONFINES OF THAT FINANCIAL INSTITUTION'S TRADE AREA, WEDDED TO THAT COMMUNITY UNTIL SUCH TIME AS SOME CORPORATION DETERMINES THAT THE ASSETS CAN BE MORE PROFITABLY EMPLOYED ELSEWHERE.

MR. CHAIRMAN, SENATE BILL NUMBER 163 IS AN ANTI-CONCENTRATION BILL. IT IS DESIGNED TO <u>HELP</u> MAINTAIN SOME CONTROL OF HOME OWNED BANKING ASSETS WITHIN OUR COMMUNITIES.

AN ANTI-CONCENTRATION LAW HAS ADDITIONAL BENEFITS AND SAFETIES. ISN'T IT INTERESTING, THE LOSSES SUSTAINED AT THE CONTINENTAL-ILLINOIS HAVE OUT-DISTANCED THE TOTAL LOSSES OF ALL OF THE REST OF THE CLOSED BANKS AND BANK HOLDING COMPANIES WHICH HAVE FAILED IN RECENT HISTORY. CONTINENTAL, OF COURSE, IS THE ULTIMATE OF WHAT HAS OCCURRED TO DATE, DUE TO THE CONCENTRATION OF ASSETS.

HERE IN MONTANA, DO WE NOW KNOW, BIG IS BEST? --- THAT THE LARGER THE FINANCIAL INSTITUTION, THE STRONGER---THE MORE EFFICIENT---THE LEAST LIKELY TO FAIL?

WELL, LET US TAKE A LOOK AT MONTANA'S LARGEST HOLDING COMPANY

BANK CHAINS, AND THEN LET US COMPARE THOSE OPERATIONS WITH OUR----MONTANA OWNED AND OPERATED COMMUNITY BANKS. FOR REFERENCE WE HAVE BEEN UTILIZING THE SHESHUNOFF CORPORATION WHICH HAS BEEN BASED ON INFORMATION TAKEN FROM BANK REPORTS TO THE FEDERAL SUPERVISORY AGENCIES. THE SHESHUNOFF CORPORATION IS A NATIONALLY RECOGNIZED STATISTICAL AUTHORITY BASED IN AUSTIN, TEXAS.

INASMUCH AS BIG IS CONSIDERED BEST BY MANY, I WOULD LIKE TO START WITH BIGGEST. THE BIGGEST, AS FAR AS MONTANA IS CONCERNED, IS THE FIRST BANK SYSTEM. THE SHESHUNOFF SYSTEM OF RATING BANKS PROVIDES FOR A NUMERICAL RATING ON A SCALE OF 0 TO 100. I HAVE AVERAGED THAT SCALE FOR EACH HOLDING COMPANY. AS OF JUNE 30, 1986, FIRST BANK SYSTEM BANKS IN MONTANA HAD AN AVERAGE RATING OF 21.8%. MORE IMPORTANTLY, AT THAT TIME, 53% OF FIRST BANK SYSTEMS MONTANA BANKS, HALF OF THEIR OWNERSHIPS WERE RATED BELOW 10 AND NON-RATED BY SCALE. THIS INCLUDED THE LARGEST BANK IN OUR STATE.

PLEASE NOTE THE OTHER MINNESOTA TWIN CARRIED AN AVERAGE RATING IN MONTANA OF EVEN LESS. BY CONTRAST, AND WHILE I AM WILLING TO CONCEDE PROBLEMS WITHIN SOME OF OUR COMMUNITY BANKS, I WISH TO POINT OUT THAT COMMUNITY BANKS AND <u>ONLY</u> COMMUNITY BANKS CARRY "A" OR "A+" RATINGS IN MONTANA, PLACING THESE BANKS AMONG THE HIGHEST RATED BANKS IN THE NATION. AS OF JUNE 30, 1986, THERE WERE 19 "A" RATED BANKS IN OUR STATE. I WOULD ALSO CALL TO YOUR ATTENTION, THE AVERAGE RATINGS OF OUR COMMUNITY BANKS----WAS ABOUT 40. CAN OUR COMMUNITY BANKS BE BETTER OPERATED AND CAN OUR

COMMUNITIES BE BETTER SERVED BY MAKING THESE BANKS AVAILABLE FOR ACQUISITION BY THOSE WHOSE ONLY CLAIM TO FAME IS THE ABILITY TO GAIN ACCESS TO THE CAPITAL MARKETS AND BUY? AN ANTI-CONCENTRATION BILL PROVIDES

COMPETITIVE MARKET PLACE COMBINED WITH ONGOING COMMUNITY INVESTMENT.

SENATE BILL 163 IS NOT AN ANTI-COMPETITION BILL. ON THE CONTRARY, SENATE BILL NO. 163 ASSURES MONTANA WE WILL NEVER HAVE LESS THAN 10 BANK HOLDING COMPANIES AND, HOPEFULLY, MANY MORE INDIVIDUAL INDEPENDENT COMPETITIVE MONTANA COMMUNITY OWNED FINANCIAL INSTITUTIONS.

DO OTHER STATES HAVE ANTI-CONCENTRATION BILLS? THE ANSWER IS "YES". IN 1975, THERE WERE 4, TODAY THERE ARE 12. A LIST OF THOSE STATES ARE ATTACHED.

IS THERE A REAL RISK TO CONCENTRATION? I BELIEVE THE ANSWER IS OBVIOUS.

SEATTLE FIRST NATIONAL'S FAILURE STAMPEDED THE WASHINGTON STATE LEGISLATURE INTO SESSION TO PROVIDE LEGISLATION TO PERMIT THAT BANKS ACQUISITION BY A LARGER OUT OF STATE BUYER, <u>ALBEIT A SICK ONE,</u> AND SACRIFICED TO ANOTHER STATE, <u>FOR ALL TIME,</u> FUTURE EARNINGS OF WASHINGTON'S LARGEST FINANCIAL INSTITUTION.

A FAILING FIRST CITY BANK OF HOUSTON, BANC, TEXAS, AND

INTERFIRST OF DALLAS AND TEXAS COMMERCE BANKSHARES, DUE TO THEIR TREMENDOUS ASSET SIZE STAMPEDED THE TEXAS LEGISLATURE INTO THROWING ALL OF THEIR TEXAS BANKS ON THE INTERSTATE MARKET, WITHOUT A THOUGHT THAT IT WAS A BUYER'S MARKET AND ONLY THE SUCCESSFUL WERE SALEABLE. TEXAS IS THE LARGEST UNIT BANK STATE IN THE NATION.

MONCOR, ONE OF NEW MEXICO'S LARGEST MULTI-BANK HOLDING COMPANIES FAILED WITH 50 MILLION DOLLARS OF STATE FUNDS ON DEPOSIT. PANIC IN THE NEW MEXICO CAPITAL REIGNED SUPREME UNTIL THE FDIC PERMITTED RECOVERY OF THE PUBLIC DOLLARS.

HAWKEYE BANKSHARES, IOWA'S LARGEST MULTI-BANK HOLDING COMPANY IS INSOLVENT. TO SURVIVE, IT IS TRYING VALIANTLY TO SELL AS MANY OF THEIR 37 BANKS AS POSSIBLE. HAWKEYE CANNOT FIND A SUITOR WHICH IS EVEN INTERESTED IN THE WHOLE SHOW.

AND THE LIST GOES ON. ATTACHED YOU WILL FIND A STATEMENT MADE BY BEN LOVE, CHAIRMAN OF TEXAS COMMERCE BANCSHARES ATTESTING TO THE FACT THAT 40% OR MORE OF THE MAJOR BANK HOLDING COMPANIES IN THE NATION ARE UNDER SOME TYPE OF SUPERVISORY LETTERS OF

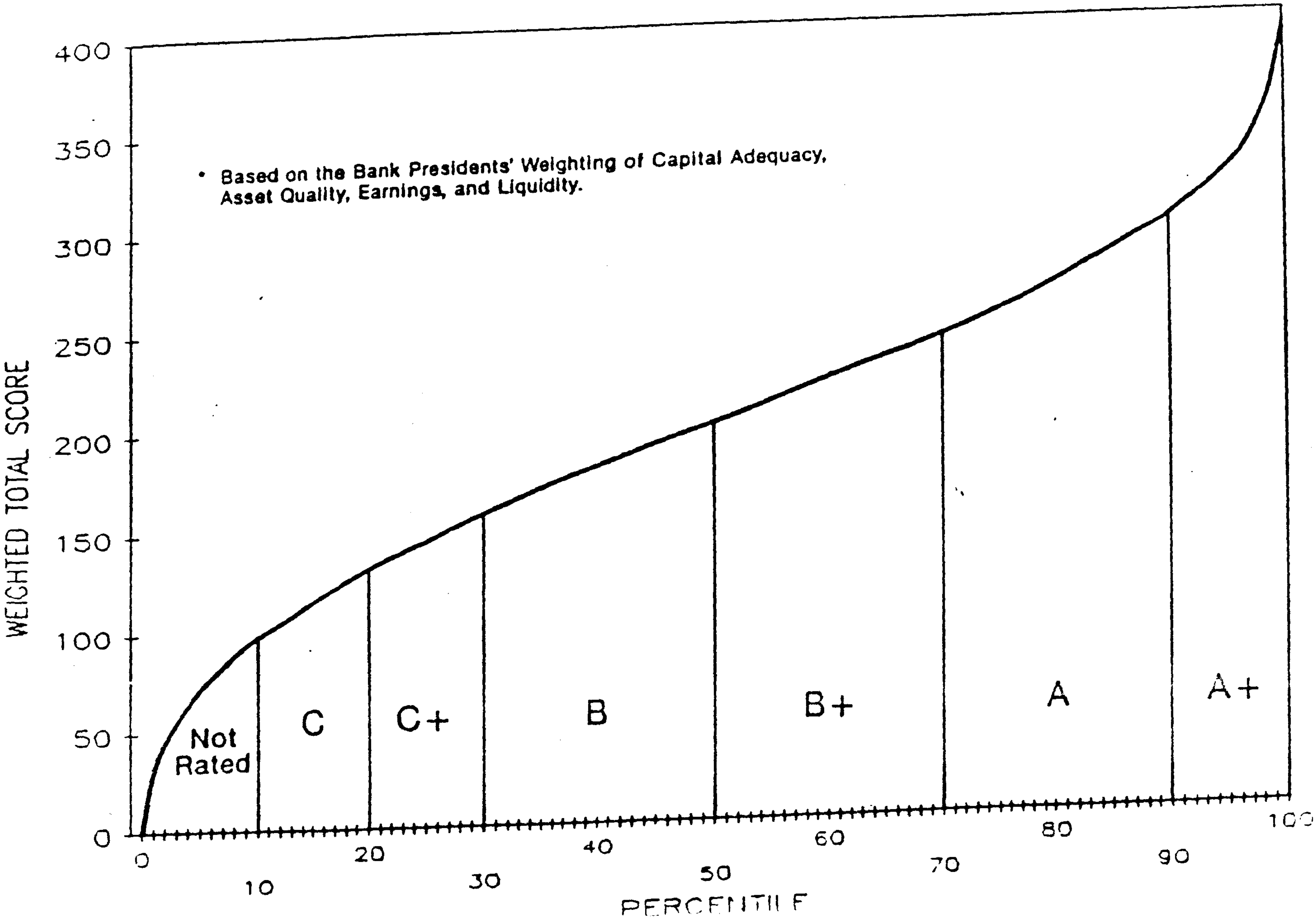
UNDERSTANDING. MONTANA IS FORTUNATE. WE HAVE AVOIDED A GREAT DEAL OF CONCENTRATION. WE HAVE EFFECTIVELY SPREAD OUR RISKS, WE HAVE RETAINED OWNERSHIP OF A GREAT MANY OF OUR COMMUNITY BANKS AND THESE REMAIN AN INDIVIDUAL INDEPENDENT COMPETITIVE FORCE.

MR. CHAIRMAN, I DO NOT THINK ANYONE IN THIS ROOM WANTS MONTANA TO MIRROR IDAHO. TWO OF THEIR THREE MAJOR BANK HOLDING COMPANIES ARE OWNED AND CONTROLLED BY OUT OF STATE INTERESTS, IDAHO ON HAS 25 BANKS LEFT IN THE ENTIRE STATE. SEVENTY-ONE PERCENT OF THEIR TOTAL BANKING ASSETS ARE IN THREE BANKS.

ANTI-CONCENTRATION REGULATION IS NEEDED. I ASK YOU TO VOTE SENATE BILL NO. 163 OUT OF YOUR COMMITTEE WITH A "DO PASS" RECOMMENDATION.

THANK YOU.

NATIONAL OVERVIEW*



* Based on the Bank Presidents' Weighting of Capital Adequacy, Asset Quality, Earnings, and Liquidity.

STATES WHICH HAVE ENACTED LIMITATIONS ON EXPANSION BASED ON ASSETS

ARKANSAS	15%
INDIANA	10%
IOWA	10%
KANSAS	9%
KENTUCKY	15%
MISSISSIPPI	13%
NEBRASKA	11%
NEW HAMPSHIRE	15%
NEW JERSEY	20%
OKLAHOMA	11%
TENNESSEE	16.5%
WEST VIRGINIA	20%

Houston Chronicle
Section 3 ☆
Thursday, Aug. 22, 1985

BUSINESS

Finance & Markets

Ben F. Love

Allegations against TCB dropped

By SUSAN BISCHOFF
Houston Chronicle Business Editor

The Comptroller of the Currency has dismissed its previous allegations charging Texas Commerce Bank-Houston with giving two directors preferential loan treatment.

The original allegations, filed five months ago by an examiner in the Comptroller's office, suggested two separate loans involving directors Patrick R. Rutherford Jr. and W.R. Moncrief may have violated the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

"The Comptroller's office has now determined that these allegations were not supported by the facts and are, therefore, being totally dismissed," said Texas Commerce in a statement issued Wednesday.

"We are gratified and reassured that these allegations proved to be without merit and have been dismissed," said Ben F. Love, chairman and chief executive officer of Texas Commerce Bancshares.

The dismissal "means a great deal in terms of confirming that Texas Commerce has operated both lawfully and ethically and in keeping with the business principles which have governed Texas Commerce for 99 years," he said.

Texas Commerce has said since March, when the charges were made, that it believed there had been no violations.

Rutherford, chairman of Rutherford Oil Corp., resigned as a director of both Texas Commerce Bancshares and Texas Commerce Bank-Houston in April. Moncrief, an independent oilman from Fort Worth, remains a Texas Commerce director.

The Comptroller's examiner had expressed concerns about the restructuring of Rutherford drilling company loans into a $19 million loan on which the interest was to be reduced to 4 percent for the first five years and 6 percent for the next five years.

The Comptroller's office also investigated a $19 million unsecured loan to relatives of Moncrief at a fixed interest rate of 8.84 percent. The proceeds of the loan were used to repay unsecured loans that Texas Commerce banks had made to Moncrief over several years.

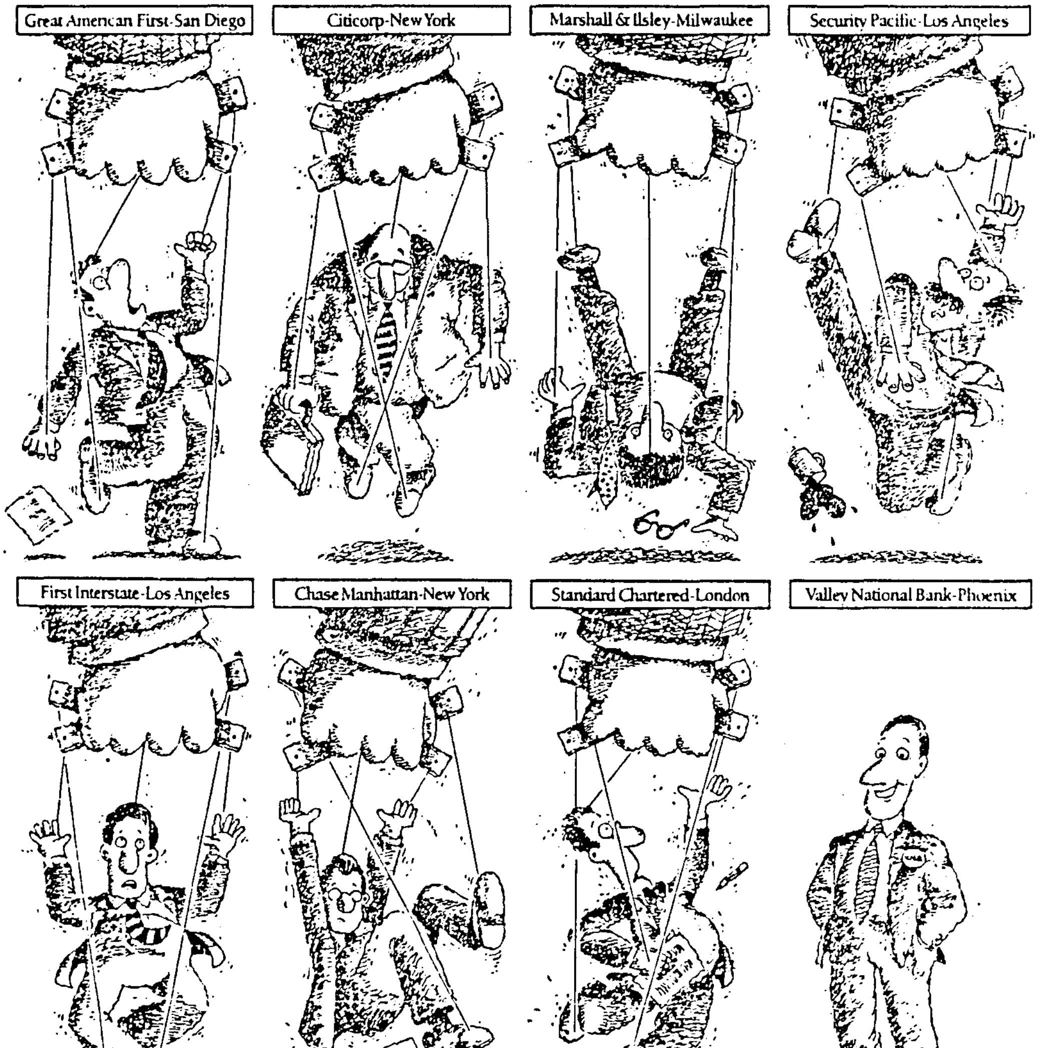
Directors are frequently large customers of their bank, but must be treated like other customers in terms of rates. The Comptroller has the power to assess civil penalties and other liabilities against the officers and directors of a bank.

The administrative agreement announced earlier between Texas Commerce Bank-Houston and the Comptroller's office remains in effect.

Four out of five of the largest Texas banks and 40 percent of the nation's largest banks have units operating under such administrative agreements, Love said.

The Texas Commerce Bank-Houston agreement covers certain loan policies and procedures, a new written conflict of interest policy for executive officers and directors and the establishment of three additional committees of outside directors to provide oversight on compliance with the agreement.

Before You Get Attached To A Bank, Find Out Who The Bank's Attached To.



Many of the major financial institutions in Arizona now come with strings attached. Those strings reach New York, Wisconsin, Los Angeles, and London. Who knows how far they'll eventually stretch? To Tokyo? To Sydney? To Zurich?

And why not? Arizona is a very attractive market. We're growing many times faster than the national average. And our future looks as bright as the Arizona sun.

Many of you may well ask, "So what?" After all, most bank transactions are relatively simple and can be handled by just about any bank, even the ones with strings attached.

But what happens when you need a loan in a situation unique to Arizona? Will your banking institution's policies, set up in New York, London, or L.A., discourage such a loan?

That's when you need a bank that combines keen insight into your business, the local economy, and the entire Arizona picture. There's only one major bank left that fits the bill: Valley National Bank, Arizona's largest.

Our senior management, the group that sets policy, lives and works here. They know Arizona and Arizonans. No institution is more committed to our state's future.

So the choice is yours. Valley National Bank, the bank that helped to build Arizona, or some other bank, with strings attached.

VALLEY NATIONAL BANK

Mr. Frank S. Stock

SENATE BUSINESS & INDUSTRY
NO. *2*
2/3/87
BILL NO. *SB163*

SUPPORT SENATE BILL 163, THE ASSET LIMITATION BILL

Big banks would like you to believe they are much safer than small banks. The theory being that large banks can spread their risk over wide geographic areas and many customers. The reality of this theory should be seriously questioned in light of fact.

California has an economy as large as many nations in the world and it is quite diverse with electronics, manufacturing, seaports, and agriculture that not only has small grains and cattle, but also includes many fruits, vegetables, and vineyards which is much more diverse than ours. This economy is doing much better than Montana's, yet California's banks have had problems. Bank of America, which was once the largest bank in the United States and now the second largest with branches all over California, plus some in foreign countries, is sick. Other billion dollar institutions have also failed or had to be rescued, including Franklin National in New York, Continental Illinois in Chicago and Seattle First National in Washington.

Members of the committee,you do not necessarily get safer financial institutions when they are bigger. In fact, loans to many third world countries were made by larger banks. While we do not hear much about them in the news, now, the loans are not collected, and they are still a potential problem. Big banks just make bigger social economic problems when they get in trouble.

Closer to home, we have the farm credit system closing PCA's. Many farms have lost their credit. It is compounding the agricultural problems all over our state and over much of the nation. It decreases the value of assets because the credit is dried up. Good, well managed farms are caught right along with the high leveraged operators and poorly managed farms. From testamony printed in the Great Falls Tribune, it is difficult for a borrower to get a decision. It may take several weeks at best and maybe an answer is never forth coming. I know a man in Polson who is trying to sell 240 acres to a neighbor and the neighbor has capacity and desire to buy. The problem is that the Farm Credit System will not make a decision to agree to any price to release the land from the FLB mortgage. This has been going on since November.

We know that when a little bank fails, it is very hard on the community. FDIC is geared to collect loans, not service on-going loans, no matter how good. We also know that customers of a failed bank or farm credit system carry a stigma when they seek credit from other lenders. I will ask you, why do we want to create a situation where we have a large state-wide bank or perhaps a regional bank with a great majority of bank assets that may fail and cause disruptions over a vast area for many people? You may say this cannot happen. Ten years ago no one thought Continental Illinois, Seattle First, Bank of America or Farm Credit System would be in trouble but they are.

If we limit the size of our banks, we will limit the size of future disruptive problems caused by a failure of a major financial institution.

From the GREAT FALLS TRIBUNE, Saturday, January 17, 1987.

As you read the article, please substitute "The All Montana Bank" for Farm Credit System, and Federal Deposit Insurance Corporation (FDIC) for Farm Credit Administration (FCA) and you will have a scenario of what a concentration of bank assets could do to all Montana businesses at some future time when economic conditions are tough.

A small bank may fail and cause one town to have a problem but it will not cause the whole state to suffer.

This article also points out that large centralized organizations require a lot of paperwork, cause long delays in decisions, cause customers economic hardship and financial loss and generally do not provide service that a local, controlled group can, that understands each customers situation.

Farm Credit System draws fire at hearing

By T.J. GILLES
Tribune Agriculture Editor

A one-time farmer's ally that has become an insensitive, heavy-handed, bureaucratic abuser of the member-borrowers who used to control it was the picture of the Farm Credit System that emerged during testimony Friday in Great Falls.

After hearing nearly seven hours of testimony from about 40 people, Rep. Ron Marlenee, R-eastern district, said it seems that most of the recent adverse changes in FCS procedure stem from dictates of the federal Farm Credit Administration, which regulates the cooperatively [illegible]ed ag lending system much as [the] Federal Deposit Insurance Corp. oversees banks.

He said he will try to have the House Agriculture Committee summon FCA Chairman Frank Naylor to testify within the next six weeks.

Marlenee said the committee needs to determine if the system is following the intent of Congress in implementing programs and find out if members' stock in the lender is being protected or endangered.

Nearly 350 people from throughout the state broke into raucus applause periodically in response to critical comments about FCS.

Billings ag consultant Martin Canell said: "From my point of view, a lot of farmers and ranchers are being driven off the land by the policies of the Farm Credit System."

Among other things, U.S. agriculture's leading lender and biggest financial institution was accused of:

- Ignoring recently approved regulations calling for forbearance procedures with troubled borrowers and review committees to work out appeals.
- Multiplying the amount of [pape]rwork needed to process even [routi]ne operating loans from borrowers — even those without any blemishes on their credit records.
- Denying borrowers access to records in their own files.
- Arbitrarily reappraising land values to make even the best customers' operations appear doomed on paper.
- Forcing unrealistic payment requirements on borrowers.
- Imperiling the value of members' stock through mismanagement.
- Causing unreasonable delays in making decisions on loans — delays that often work hardships on clients and cause financial loss.
- Writing unworkable conditions [into] loan contracts, which put virtually every borrower in default upon signing.

When FCS officials gave their side of the story, they repeatedly blamed their regulator, the Farm Credit Administration, for forcing the changes.

Scobey farmer Marvin Tade said: "Somebody's been trying to eliminate this system completely, and as far as I know it's the Farm Credit Administration."

Fort Shaw dairyman Ralph Parker, who had urged Marlenee to conduct the forum and helped in its organization, told the Tribune he thinks FCA chief Naylor is "hell bent on destroying the system" and the farmers who belong to it. He cited comments by Naylor that the nation had a surplus of farmers and needed to get rid of the excess.

FCA spokesman Mike Powers

See CREDIT, 2-A

Credit

From 1-A

said some new procedures came as a result of the FCS' severe financial problems (the system lost $2.7 billion in 1985, the worst banking loss in U.S. history) or because the system had been behind the times in such as areas as documentation.

While Brockway farmer Dave Kasten, a member of the five-state district SCS board, said the regulator insisted on "absolute compliance with policies, procedures and guidelines," Powers insisted that the increased paperwork and bureaucracy were not required.

Kasten said the Spokane banks now must compile 106 reports, 71 of which go to the FCA.

Marlenee said it seems to be a case in which FCS banks "don't have to do it — but heaven help you if you don't."

A typical operating loan may require 15 separate pieces of paperwork and may take four months or more for processing as it is shuffled between local, district and regional offices, witnesses said.

Many farmers and ranchers contrasted days gone by when local Production Credit Associations and Federal Land Banks were producer-controlled and went out of their way to help borrowers with today's rogue-like bureaucracy where decisions are handed down from Spokane or Washington, D.C.

Billings lawyer Charles "Timer" Moses says there has been an increase in litigation only because farmers take to legal channels as a last resort to keep their farms.

Others said formerly simple and straightforward loan agreements now are written in complex legal

Moses said: "I think it's a sign of the times that we get farmers and ranchers coming in and say, 'I've been with the Land Bank for 40 years — and I've never had to contact a damn lawyer until now.'"

Great Falls lawyer Greg Schwann said that because of the FCS quasi-government set-up "we have the most mumbo-jumbo, confused, disgusting set of jurisdictional problems" as the Federal Intermediate Credit Banks (which loan money to PCAs) are exempt from the federal tort claims court but the law says nothing about the standing of PCAs, which may be federal "instruments" but not federal agencies.

Problem loans may involve not only the FCS but the federal Farmers Home Administration and private lenders, so the jurisdictional jungle gets even thicker, he said.

Marlenee said Congress should pass legislation that will determine which courts have jurisdiction in cases involving the FCS to set up "a proper forum to protect the borrow-

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 3
DATE 2/3/87
BILL NO. SB 163

WITNESS STATEMENT

NAME Sidney K. Brubaker BILL NO. SB 163
ADDRESS Box 6 Terry, Montana DATE 2/03/87
WHOM DO YOU REPRESENT? Montana Independent Bankers
SUPPORT X OPPOSE ______ AMEND ______

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

TOTAL RESOURCES - A WELL-UNDERSTOOD BANKING TERM

Comments: Senate Bill 163 limits the total resources any banking organization may control through merger to 11% of the total resources of all banks in the state. Total resources means the same thing as total assets in our banking terminology. You see our total assets in our statements of condition published every three months, as in last Saturday's daily newspapers. Total assets are a bookkeeping entry, being the sum of:

- noninterest-bearing balances and currency and coin;
- interest-bearing balances, securities, federal funds sold and securities purchased;
- loans and leases, net of unearned income, allowance and reserve;
- premises and fixed assets, other real estate owned, and other assets.

The total assets or resources of all the banks in Montana are periodically tallied, and the percentages held by each system of bank holding companies can be determined. For example, the percentages last year, after the 4th quarter for Montana banks were as follows:

Present market shares:

First Bank System (16 banks)	25.2%	of all banks' assets in Mont.
Norwest Corp. (8 banks)	11.6%	"
Montana Banc System (Adams-13)	6.3%	"
1st Interstate franchise (Scott-6)	6.0%	"
Bank of Montana (Kuhns-16)	4.6%	"
1st Interstate (Calif.-3)	4.2%	"

In a bank such as I represent, we live and die with the local community. There fore the health of our community is our major concern. When times are bad as they are at present. We have to work with our customers to find ways to weather the storm. We can't say that it doesn't fit our corporate planning and move on to greener pastures taking the deposits with us. Just because the economy in our area is poor we can not look for loans in Minneapolis, New York City or foreign countries. Because of our size we can not even compete in those markets.

The larger a financial institution is the larger the loan they are allowed to make. The larger the loans they are allowed to make the further they look for those loans, With all of Montanas current problems we do not need to add to them by making it more attractive for Montana money to leave the State.

By limiting the size of finnancial institutions you can minimize the affect that any one corporate decision might have on the State of Montana.

8-19-85
CHIEF EXECUTIVE OFFICER
MBA MEMBER
FOR YOUR INFORMATION

First Bank Systems Inc. to Sell 28 Banks In Move to Reduce Farm-Loan Exposure

By JEFF BAILEY
Staff Reporter of THE WALL STREET JOURNAL

MINNEAPOLIS—First Bank Systems Inc., moving to reduce its burdensome exposure to the sagging farm economy, said it plans to sell 28 banks in four Midwest states.

The sale of more than one-third of the banks owned by the nation's 14th-largest bank holding company could halve its loans to farmers to $400 million and provide more room on its balance sheet for its growing corporate loan portfolio.

Bank-stock analysts applauded the move as a way to improve First Bank's loan quality and its image, long tied to the agricultural region it serves. But some state officials were apprehensive about a major financial institution withdrawing from hard-hit farming towns.

The banks for sale are located in Minnesota, Montana, South Dakota and North Dakota, and have combined assets of $1.76 billion and equity of $112 million. First Bank's total assets are $24.4 billion.

First Bank's president and chief operating officer, DeWalt H. Ankeny Jr., said the 28 banks' 954 employees would be given first chance to buy the institutions and that the parent is prepared to lend most of the purchase prices.

Larger Markets Sought

Though the banks hold half the parent's farm loan portfolio, Mr. Ankeny insisted the decision to sell the institutions was based on a desire to concentrate resources on larger markets. "Getting out of (agriculture) loans isn't the motive for this at all," he said in an interview.

But it was the parent's potential for reduced loan exposure to the region's hard-pressed farmers that encouraged analysts. Farm loans accounted for more than one-third of the company's loan write-offs last year. "It would be a good move if they can pull it off without taking a loss," says Kenneth F. Puglisi, an analyst with Keefe, Bruyette & Woods Inc., New York.

Mr. Ankeny said First Bank expects to sell the banks for about their total $112 million book value, realizing no gain or loss. Dragged down by farm loans, the 28 institutions had combined profit of just $1.6 million last year. First Bank in 1984 earned $131.1 million, or $4.15 a share, on the strength of its rapid growth in commercial loans.

It could take a year or two to sell all the banks, Mr. Ankeny said, adding that the parent company expects it might have to keep some of the banks' farm loans to achieve the sales. If First Bank employees and local directors don't or can't buy the banks, he'll seek other offers, Mr. Ankeny said. It is too soon to say when sales might begin, he said.

Flexibility Is Important

The willingness to be flexible in negotiating the sales will be important because some of the 28 banks have been big money losers. For example, First Bank Worthington, located in southern Minnesota's grain farming area, had to be recapitalized last year. Elden W. Rance, the bank's president, said he and the bank's directors might consider trying to buy the $100 million asset bank, but "in this environment, you don't want to sink your last dime in."

Mr. Rance said First Bank's disclosure that it plans to sell the Worthington bank and others "was kind of a surprise."

Marilyn Foss, North Dakota's banking commissioner, said she learned Wednesday that First Bank plans to sell nine banks in her state. "That's a lot of banks for sale in North Dakota," she said. "It's a wholesale withdrawal from smaller communities."

Mr. Ankeny said that if no buyers emerge for some of the banks, First Bank will keep them open either as a branch or a separate bank. "We don't intend to walk away from those communities," he said.

Locally owned banks tend to lend more to their communities than those owned by distant holding companies, said Mike Hatch, commerce commissioner in Minnesota, where 15 banks are for sale. In the long run, he said, "from a community vantage point, it may be just as well."

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 4
DATE 2/3/87
BILL NO. SB 163

Mr. Ron Ahlers

I am here today in favor of Senate Bill 163.

Senate Bill 163 is an anti-monoploy bill and if passed will ensure the survial of our locally owned and operated small town banks.

As of September 30,1986 the 8 Norwest Banks in Montana had nearly 12% of the deposits and First Bank System had over 25% of all deposits. These large out-of-state holding companies already control over a third of all deposits. Add to this the two Montana holding companies deposits and you realize that only four banks control nearly half of all deposits in Montana.

THATS SCARY!!!

It is not in the interests of the future of our state to permit the concentration of our economic resources in so few especially when those few aren't even residents of Montana and have no real concern for the future of our farmers and ranchers, our small towns, and the local mainstreet businessman. The deposits of our state would end up in more lucrative markets that are more risky but promise a higher rate of interest. Montana money could be used to ~~by~~ buy junk bonds for merger take overs and real estate developments in California and Florida. These deposits are needed for economic development here in Montana.

Also on the committees agenda today is consolidation-merger bill SB 198. Even the initial changes proposed in that bill are harmful. The simple consolidation causes the removal of local control over Montana's economic destiny. Bank presidents become "branch managers" with the limited authority the new title indicates. Local bank boards and directors and their influence toward maintaining local development disappear.

Senate Bill 163 does not limit the growth of the holding companies banks. They can grow as much as their markets will allow. Senate Bill 163 merely says you cannot merge and consolidate if you already control more than 11% of the states deposits. Senator Proxmire has announced that he intends to introduce legislation at the federal level to hold control of national deposits at the 5 or 6 percent level.

He also is concerned about too few people controlling to much of our financial resources.

I urge you to pass SB163 and keep control of our economic resources in our home town communities where it belongs.

The "Minnesota Twins" control over 37% of the banking business in Montana now. A policy of allowing any one institution or pair of institutions to control a large percentage of Montana banking would not be sound. It is particularly unsound when the institutions poised and ready to dominate our banking are sitting hundreds of miles away in Minnesota. As the U.S. Supreme Court observed a couple of years ago, in an opinion written by Chief Justice Rehnquist: " . . . our country has traditionally favored widely dispersed control of banking. While many other western nations are dominated by a handful of centralized banks, we have some 15,000 commercial banks attached to a greater or lesser degree to the communities in which they are located."

SENATE BUSINESS & INDUSTRY
EXHIBIT NO 5
DATE 2/3/87
BILL NO. SB 163

ROGER TIPPY
Attorney At Law
BOX 543
CAPITOL 1 CENTER
208 N. MONTANA
HELENA, MONTANA 59624
(406) 442-4451

DATE: February 3, 1987

TO: Senate Business & Industry Committee

RE: Senate Bill 163

We cite two reasons why the merger review procedures of the Federal Reserve System are inadequate safeguards against monopolization and need to be supplemented with an asset limitation statute such as SB 163.

1. Montana's 4-firm concentration level is quite high now.

The Justice Department and the Fed evaluate proposed mergers with a formula known as the Herfindahl-Hirschman Index. While the HHI basically looks at the share of the market controlled by the four biggest firms, it gives more weight to cases where the leader has a very big share.

The simple 4-firm market share in Montana is just about 50%. This would be considered quite concentrated in the banking industry. The Fed's published decisions have described states as relatively unconcentrated where the top 4 bank holding companies have 30 to 35% of the commercial deposits. They call percentages like 42, 43, 45 as moderately concentrated.[1] There is little doubt that Montana is already in a condition of having a substantially concentrated banking industry.

2. The Fed is approving mergers elsewhere which would violate the guidelines.

Several years ago the Fed approved a merger of two holding companies in Wyoming which caused the 4-firm market share to go from 42.9% to 46.7%.[2] The Board of Governors said that while this degree of concentration exceeded the guidelines, Wyoming was a small state in population where even the biggest banks were small in an absolute sense as viewed from Washington, D.C. The Board went on to say that since there wasn't much in Wyoming banking but a few holding companies, they might as well approve this merger.

Banking law treatises contain statements like "(t)he federal banking agencies have approved many mergers in which the constituents held market shares in excess of the Department of Justice guidelines."[3]

[1] Landmark Banking Corp. of Florida, 70 F.R.B. 463 (1984) and other decisions at 71 A.L.R. Fed. 451-461.

[2] The Wyoming National Corp., 67 F.R.B. 633 (1981).

[3] Cobb, Federal Regulation of Depository Institutions, pp. 7-8.

The Douglas Amendment in the Bank Holding Company Act allows the states to restrict bank holding company activity through such means as asset limitations. The quotation from Chief Justice Rehnquist given earlier was part of a 1985 decision, the Northeast Bancorp case. The Court held that the Bank Holding Company Act of 1956, with its states'-rights proviso authored by the late Sen. Paul Douglas, gives the states great latitude in deciding just how much they want to allow holding companies from elsewhere to buy up banks within their borders.

There is no retroactive effect. The Montana Supreme Court does not read a retroactive effect into a statute unless the legislature expressly declares that to be its intent. There is no suggestion in SB 163 that it would apply to mergers made many years ago, so these are grandfathered.

TESTIMONY BEFORE THE SENATE BUSINESS AND INDUSTRY COMMITTEE

S.B. 163

FEBRUARY 3, 1987

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 6
DATE 2/3/87
BILL NO. SB 163

Mr. Chairman, I am Bob McNellis, Managing Officer of the Helena Branch of the Federal Reserve Bank of Minneapolis. I appreciate the invitation to offer testimony on this important legislation, Senate Bill 163. My comments do not necessarily reflect the opinion of the Federal Reserve System or the management of the Federal Reserve Bank of Minneapolis. My intent is simply to introduce data prepared by economists employed by the Federal Reserve System that may assist you in your deliberations. Although I as well as the Federal Reserve Bank of Minneapolis are most willing to assist this body, I must point out that my expertise is quite limited in the area of bank regulation and I may have to defer questions related to Federal Reserve policy to others more knowledgeable.

Senate Bill 163 implies that merger activity or expansion by the financial institutions currently or potentially holding 11% or more of all bank assets in Montana would reduce competition and threaten the viability of other institutions in the market area. The fear of concentration of financial resources has been a major concern throughout the history of our country. It undoubtedly contributed to some of the major anti-trust legislation passed by the United States Congress and with respect to banking, a major goal of the Bank Holding Company Act was to prevent an excess concentration of assets.

However, recent studies strongly indicate that the removal of barriers to expansion will not necessarily result in greater concentration of assets in local markets, reduce competition, impair the safety of the financial system, or put smaller institutions at a competitive disadvantage. For example, economists from the Federal Reserve Bank of Chicago, have contributed a fair amount of research into issues related to both inter and intra state banking. Douglas Evanoff, and Diana Fortier, economists at the Federal Reserve Bank of Chicago, in two separate pieces of work published during 1986 made two points that seem to be related to the issue before this committee:

1. Liberalization of restrictions to expansion will not necessary threaten the viability of small banks. The authors point out that small banks in general, regardless of the structure in which they operate, have out performed their larger counterparts over the years.
2. According to the economists, available data does not support the conclusion that relaxation of geographical restriction leads to more concentration in local markets. In markets where excess concentration is possible, the question is wether current anti-trust laws and regulation can prevent substantial anti-competitive effects. Evanoff and Fortier offer a

convincing argument that they can. They compared merger activity in states allowing branching to those that did not before and after the Bank Merger Act of 1960. Mergers occurring in the latter period were subject to approval by the principal federal regulatory agency and were also subject to anti-trust laws. They concluded that regulatory and anti-trust provisions were effective because markets allowing branching before the Bank Merger Act were indeed more concentrated than those introducing it in the latter period. Statistical tests indicated that the difference was significant.

If Evanoff and Fortier's conclusions are correct and liberalization of restrictions to expansion will not impede competition or increase asset concentration, then it certainly would also have to be true that neither would the consolidation of an organizations existing Montana affiliates into one bank with the rest becoming branches.

Senate Bill 163 apparently would deny the opportunity for such consolidation to a relative few financial organizations operating in Montana and thus prevent the potentially significant savings in operating expense that might result.

Arthur Rolnick, Senior Vice President and Director of the Minneapolis Federal Reserve bank has also been involved in studies related to bank structure, including a paper presented to an interim committee of the Montana legislature in April 1980.

He has found that competition and prevention of excessive concentration of assets in financial markets are aided by allowing reasonable entry of service providers and anti-trust laws in force.

In the paper presented to the interim committee, he took issue with relying on the concentration ratio for banking because it is based on the assumption that the state is the relevant market and the banks, the only competitors in that market. He pointed out that financial institutions probably operate in a number of markets of differing geographic dimensions, some being in a national market, others in the local community (e.g. individual checking accounts and consumer loans). He also pointed out that banks compete with many other financial institutions for certain types of banking services. As we all know, this has become even more of a reality since the passage of the Monetary Control Act in 1980 giving transaction deposit authority to thrift institutions.

I note that Senate Bill 163 would have the most dramatic impact on the two largest out-of-state multi-bank holding companies operating in Montana, First Bank System and Norwest Banks. Rolnick observed that in June of 1979, First Bank and Norwest Bank Corporation together had 22 bank affiliates controlling 38% of total deposits in the state as of June 1979. He went on to say, and I quote,

"Although we are also concerned with a potential increase of bank concentration and its possible effects on prices and availability of banking services, we have argued previously that concentration alone is not necessarily a good indication of the competition in banking. Moreover, we see three factors which minimize our concern about Montana's banking industry:

First, Montana's two-banking firm concentration ratio is not high in relationship to other states. Seventeen other states had higher two-bank concentration ratios in 1978 than Montana.

Second, evidence suggests that even a high two-bank concentration ratio does not adversely influence prices and availability of banking services. A 1977 study by the Minneapolis Federal Reserve Bank looked at the prices and availability of banking services in Minnesota where the statewide two-bank concentration ratio is even higher than Montana. The study, which in part compared Minnesota to the unit banking states concluded that Minnesota's prices of banking services were in some cases higher, but in other cases lower than unit banking states; and that for many services the availability was greater.

Montana, unlike Minnesota, has a third large banking organization in the state - Western Bank Corporation (now First Interstate Corporation). Although at present, it controls less than 5% of bank deposits in the state, it represents a potential major competitor for First Bank System and Norwest Bank Corporation."

Although there have been dramatic changes in financial markets since Rolnick's work of 1978, it is my opinion that his conclusions are probably just as applicable today.

In summary, Mr. Chairman, regardless of the merit Senate Bill 163 may have, it is arguable about whether the legislation is needed to prevent greater concentration of assets than currently exists for three reasons:

1. Most bank mergers are subject to approval by the principal federal regulatory agencies as well as state banking authorities. I suspect that banking regulators currently have sufficient guidelines and authority to prevent excessive concentration of deposits/assets through mergers.
2. The trend in concentration of assets and deposits seems to be downward. Montana's two largest out-of-state holding companies controlled 56% of the state's deposits in 1930, 38% in 1979, and 34.03% in June of 1986.
3. Allowing financial institutions with multi offices to consolidate operations into one entity with the other becoming branches will not necessarily result in an increase in the concentration of financial assets.

SENATE BUSINESS & ...
EXHIBIT NO. 7
DATE 2/3/87
BILL NO. SB 163

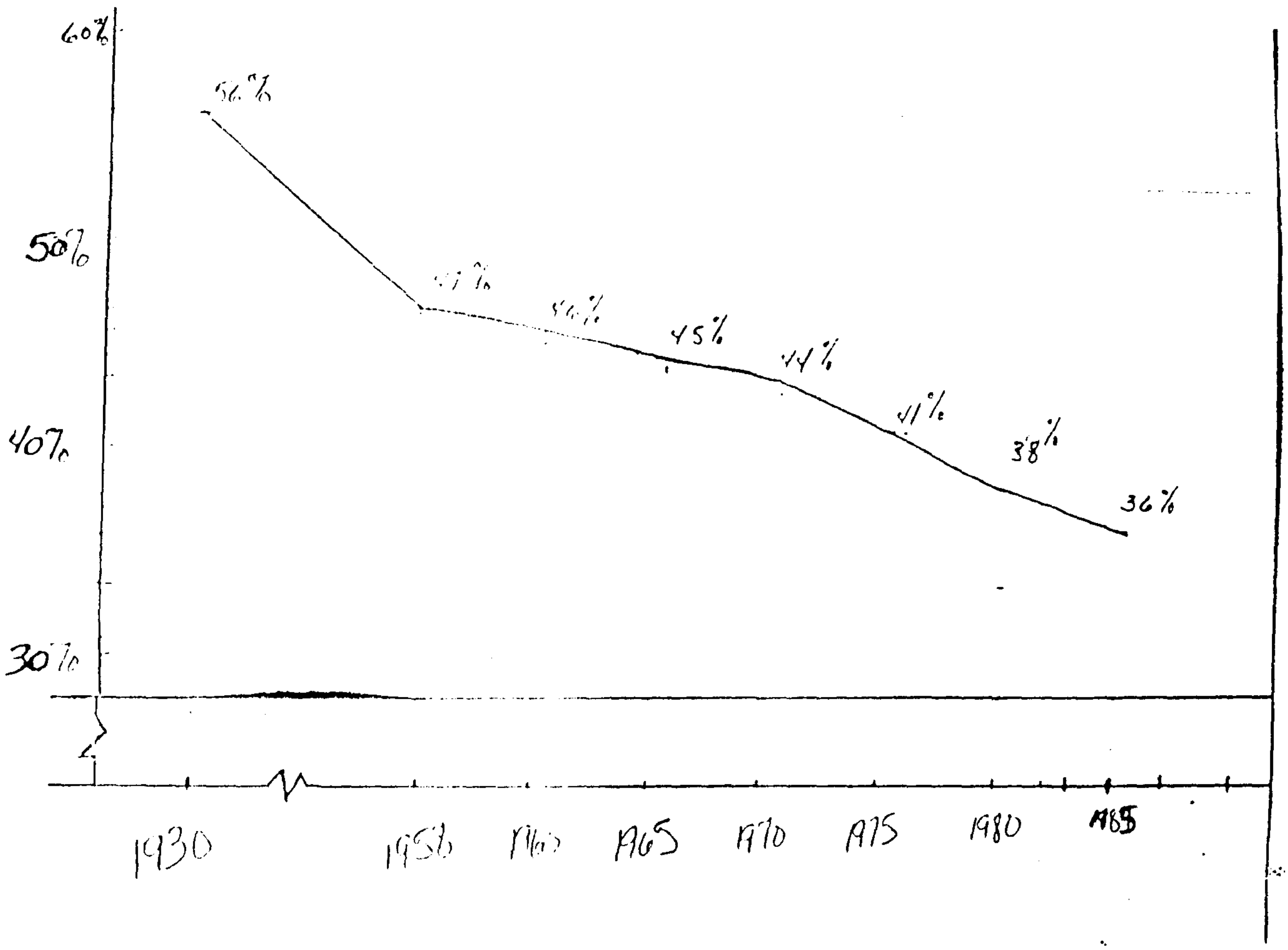
Mr. Chairman, members of the committee, for the record, I am Ed Jasmin, President and CEO of Norwest Bank Helena. I want to speak against S.B. 163, the Market Share Limitation Bill.

When I hear about restrictive legislation like this, I get a little excited. This bill would punish good bank systems and their employees, neither of which deserve it.

I am a native of Helena. My father was born and raised here and my grandmother came here as a young girl in the 1800s. My boss, Buck Moore, is a native of Two Dot, a graduate of MSU and a former member of the Montana Board of Regents. Earl Johnson, my counterpart at First Bank system, is a native of Lewistown. We all have a deep love for and a commitment to the state.

There are only two bank organizations in Montana that this bill will affect -- First Bank System and Norwest Corporation. Both systems were started during the very tough economic times of the 1930s by a group of upper midwest banks, including ours, and other banks in Montana. The purpose was to band together in order to survive the throes of the depression. Between 1920 and 1943 Montana lost 321 of its banks. All Norwest banks, then called Banco, survived, here in Montana and throughout the system.

Norwest is a publicly held company traded on the New York Stock Exchange. 70% of the stock is owned by individuals in all 50 states through Pension Plans, Mutual Funds and trust departments. Employees of Norwest own 800,000 shares through our Savings Investment Plan.



It is interesting to note from the above graph that in the 1930s First Bank and Norwest had 56% of all bank resources in Montana. Through new bank charters and increased competition, that percentage has continually declined to the present 36%. And now some want to consider a market share limitation. The timing of this bill seems off by about 40 years.

Here in our city, through the depression and until the chartering in 1959 of the Commerce Bank, now the Bank of Montana, Norwest and First Bank shared 100% of the total Helena bank resources. We did not oppose the chartering of the new bank in 1959 nor did either of us oppose the subsequent chartering of the First Security Bank in 1970 or the Valley Bank in 1978. We think good competition sharpens our resolve to provide better banking services. The three system banks still have 85 % of bank assets in Helena.

Not only are we long-time corporate citizens in our respective communities, but we are good citizens participating generously in community and state activities, both financially and in leadership roles.

For example, Norwest Bank contributed close to $100,000 toward the purchase, by the State, of C. M. Russell's painting, "When the Land Belonged To God," which is in the Russell Gallery and a copy in your Senate chamber. We've recently pledged a $100,000 commitment to Carroll College's Margin of Excellence campaign, which I co-chair as well as being Vice-chairman of Carroll's Board of Trustees. I am also currently chairing a campaign to raise $100,000 for the YMCA's share of our new Centennial Park and chairman of the Hometown Helena Pride Committee. First Bank's charitable contributions to Motnana institutions totalled more than $800,000 in 1986.

If an 11% market share will be good for our state, perhaps it may be equally good for each of our communities to have a market share, too, particularly the Montana communities which are served by just one bank. These banks have a 100% concentration in their communities -- a true monopoly. There are 56 one-bank towns in Montana.

If it is out-of-state ownership that is a problem perhaps the bill should be expanded to cover firms like J.C. Penney, IBM, MDU and Big Sky.

All of us here are interested in Montana's economic growth. We need new jobs in our state and need to encourage both large and small firms to look at our state. As the first President of the Montana Ambassadors and a current Ambassador board member, I am involved in many ongoing projects promoting Montana. One problem we continually fight is Montana's perceived negative business climate. Hopefully, your actions this session will correct some of the problems. Unfortunately this bill is one more negative signal. How can we have a strong economy with a restrictive banking environment? In the future, who would want to invest in any bank or banking organization if its growth was limited by size? How do we finance projects like the Montana Tunnels Gold Mine in Jefferson City or the Montana Resource Project at Butte or the new Columbia Falls Aluminum Plant with small banks limited in their ability to put together and finance very specialized ventures?

One of our negative business signals is an attitude that "big is bad." We like to pick on the big guy. First it was the Anaconda Company, then Arco and now the BN. Our struggling economy needs big companies as well as smaller companies. The same is true for banks -- that is unless we decide our economic future lies with macrame and craft shops.

October's Inc. Magazine featured the Best and Worst Business Climates in America. You've heard that Montana was near the bottom, 47th to be exact.

In the last decade all but three other states have passed legislation permitting some form of branching or interstate banking. Almost all of these states have better business climates. Are we so well off that we can do the opposite?

I attended the economic seminar in Butte this summer and heard Dr. David Birch scold us for acting like a third world nation. In his opinion, we try to build a fence around Montana and ignore the fact that today we participate in not only a national economy but a global economy as well. We already have antiquated banking laws compared to most states. This bill is a step backwards.

That is why the Governor's Economic Transition Task Force recommended to liberalize our present banking laws. A similar recommendation came from the Western Governors' Conference last summer.

These are tough times for Montana's banks as well as other segments of our economy. A recent study showed that Montana banks ranked third in total non-performing loans to total loans.

Our future is tied to the well being of our customers and our economy. Norwest Bank Helena has served this community for the past 89 years, 53 as a Norwest bank. We are committed to this community and state and want to be a part of our economic recovery. It's harder to do with one arm tied behind our back in the form of antiquated banking laws and now the possible limitation on our growth as represented by S.B. 163.

Might the real purpose of this bill be the stifling of competition?

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 8
DATE 2/3/87
BILL NO. SB 163

TESTIMONY ON SENATE BILL 163
(LIMITING STATEWIDE RESOURCES OF BANKS)
BY ROBERT L. REIQUAM, PRESIDENT
FIRST BANKS GREAT FALLS
SENATE COMMITTEE ON BUSINESS & INDUSTRY
February 3, 1987

Chairman Kolstad and distinguished members of the Committee:

Senate Bill 163 is a "gotcha bill." One of those silly vendettas that serves no earthly good, but uses your valuable time. Senate Bill 163 should receive a unanimous no vote as we all know it was written to restrict, hamper, and harass Montana's two major banking companies--First Bank System and Norwest. Isn't it clever that the percentage of 11 is used as the trigger restricting usage of SB 198?

Why the segregation of Norwest and First Bank? They have been outstanding corporate citizens with each of them having several hundred Montana stockholders and they have consistently paid millions of dollars in interest annually to thousands of satisfied customers. Who have been among the larger property taxpayers in the communities served by Norwest and First Bank? That's right--the same companies singled out for this restrictive treatment--First Bank and Norwest.

In the eight markets served by Norwest and the 12 by First Bank, these banks are consistently among the highest taxpayers as the stockholders have invested heavily in facilities and equipment. These banks have been major purchasers of bonds for community development, and they have been purchasers of supplies, automobiles, and other items from local businesses.

Norwest and First Bank poured millions into the Montana economy in 1929 as the originators of these corporations saw the need and the opportunity to invest in their struggling state.

In addition to their own banks, both of these organizations have been major lenders to purchasers of independent banks. They have led the way with correspondent services and initiated computer technology. There are few banks in Montana that have not been assisted in some way by one of the holding companies singled out in SB 163.

Now, while we are talking about the benefits of companies like First Bank and Norwest, let's not forget about the people they have trained in the financial service industry. You can go from Kalispell to Sidney, and from Malta to Red Lodge, and most places with a bank in between, and find a key employee that had training in a First Bank or Norwest Bank. These companies have provided the best in training policies and procedures, and many bankers have found challenging careers in Montana independent banks and in savings and loans because of training from one of the holding companies.

First Bank and Norwest employees have been model citizens in their communities. When Governor Schwinden had his "Loaned Executive Program" of some five years ago, First Bank offered key people and put in thousands of dollars to make the program the success it was. If you think you have budget problems now, think what the deficit would be if the "Loaned Executive Program" hadn't forced some efficiency moves back in the early 1980's. Look at the state boards and state programs involving these people. Nearly every Chamber of Commerce has one of these bankers on the Board, as an officer, or a committee chairman. Go through your hospital boards, church councils, school boards, scout and 4-H leaders, leaders of Business Week and other community programs, and you will find First Bank and Norwest employees providing labor, leadership, and dollars to make Montana a better place to live. In Great Falls in 1986, First Banks' 130 employees donated over 7,600 hours of volunteer time in community service projects.

Contrary to others, these companies put their bucks out, too. Nearly a half million in contributions were made by First Banks in Montana in 1986. And SB 163 wants to restrict these people?

Now there are some ugly rumors floating the hallways that First Bank and Norwest are tough to get loans from. I cannot speak for Norwest, but I hope that is true at the First Bank I manage! Tough, but fair and honest! Our loan policies insist on good financial information and repayment plans that help the borrower develop financial strength. The poorest banker in the world is the one that puts out money without assurance that the principal is coming back plus interest. A broke bank cannot pay taxes, salaries, nor lend money for a growing business.

First Banks Great Falls have nearly tripled their ag loans over the past two years. Commercial loans have shown a dip in the Great Falls economy, but consumer loans grew nearly 30 percent this past year. We are providing 42 percent of the loans to students in Montana for advanced education. And a bill like SB 163 can be proposed to restrict organizations like this! Evidently smart businessmen and women feel these policies benefit them or they would look elsewhere for financing.

While negative legislation like SB 163 is bad publicity for a state trying to attract business and industry, it may be a blessing in disguise. It has allowed me to tell you a few things about First Banks. As a third generation Montanan, born and raised on a ranch in North Central Montana, and educated at MSU as are my three children, I am proud of my association as an employee, a customer, and a stockholder of First Bank System. One of my proudest moments as a parent was when two of our children took positions with First Banks in Montana.

Don't you, as a responsible Senator, vote to limit their and other young people's careers by letting SB 163 get out of Committee. I urge you to defeat SB 163 and get on about your business by passing SB 198.

SENATE BUSINESS & INDUST
EXHIBIT NO. 9
DATE 2/3/87
BILL NO. SB198

STATEMENT BY SENATOR GENE THAYER
(Senate District 19)
IN SUPPORT OF SB 198
SENATE COMMITTEE ON BUSINESS & INDUSTRY
February 3, 1987

Mr. Chairman and Members of the Committee, I want to speak in support of my bill, SB 198. This bill does three things:

> First, it allows banks to merge and consolidate, a reform needed to encourage more flexible use of bank capital and to pave the way for economic growth;
>
> Second, it authorizes independent banks to establish up to two branch banks throughout the state;
>
> Third, it allows emergency branch banking for failing banks in one-bank towns.

This bill is quite simple. But it has caused quite a stir in the state's banking community. We are engaged today in a debate about banking in Montana. Let me tell you what this debate is <u>really</u> about. It is about the survival of our banks. About the preservation of Montana's financial systems. About shaping our state's economy to compete world-wide in the 21st Century. In short, about <u>preparing</u> for the future.

It is <u>not</u> a debate about large versus small. Not about alien foreign money powers versus friendly little communities. Not about big banks gobbling up little banks.

To repeat, this debate is about the basic survival of our state's banking system. To survive, we must adapt to changing conditions in the region, in the nation, and in the world. That is what this debate is <u>really</u> about. If we lose sight of that, we will lose an important opportunity.

<u>Bank Survival</u>

Banks in Montana have been very sick lately. In November 1983, the First National Bank of Browning failed, and no bank emerged to take its place. Last May, the Bank of Columbia Falls failed. Several months ago, my local newspaper reported that the earnings for the first six months of 1986 for Montana's 169 banks fell nearly 50 percent. Nationally, Montana's banks ranked among the worst in the nation in the percentage of non-performing loans to total loans.

There is an old saying that those who forget history are doomed to repeat it. We should all recall that 60 years ago every town in Montana used to have a bank before the Depression closed them.

In 1920, Montana had 431 banks. But by 1943, only 110 banks survived. Think about it for a minute. Over 300 banks closed over a 20-year period! That could happen again if we don't prepare for it. And that gets us back to the basic issue: survival. What can <u>you</u> do to help our banking system survive?

Currently, Montana has 169 banks. We need to take all steps necessary to insure that these banks remain vital elements of our local communities.

<u>Solutions</u>

Government studies confirm that our banks and our banking laws <u>are</u> a problem. Last summer, the FDIC Chairman observed that "states should liberalize overly-restrictive branching laws so that weak banks will be merged or otherwise acquired by healthier institutions."

A few months later, the Western Governors' Association reported that capital formation is vitally needed for economic growth and encouraged passage of branch banking to form that capital.

Governor Schwinden's Economic Transition Task Force recommended last December that Montana should modernize its banking laws by allowing branch banking and permitting merger and consolidation of banks.

Before this legislative session began, I believed that the difficult economic times would require each of us, as legislators, to critically re-examine old myths and ideologies. That is what my bill will require us to do.

Montana is one of five remaining states in the nation that still requires unit banking and prohibits branch banking. There is an old slogan that "if it ain't broke, don't fix it." Judging from the expected number of bank failures that we will see in Montana in 1987, Montana's banking system is about to go broke and it really <u>needs</u> fixing.

One final comment that I cannot resist making as I look at this audience and think about how my bank merger bill fared last session. This legislation is often considered a battle among bankers--sort of a private family feud.

There may be a feud going on here, but I do not choose to be a part of it, and I hope you won't either.

Fashioning legislation to save our banking system and to reposition it for the future is not a task to be decided by a popularity contest among bankers. It is an important policy function that will affect all of your constituents--not just your home town banker. Please consider that thought as you listen to the testimony on this bill.

I believe that SB 198 is a step toward the future of bringing Montana's economy into the 21st century, and I urge you to join me in supporting it.

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 10
DATE 2/3/87
BILL NO. SB 198

STATEMENT BY MIKE GROVE
IN SUPPORT OF SB 198
SENATE COMMITTEE ON BUSINESS & INDUSTRY
February 3, 1987

Mr. Chairman and Members of the Committee, my name is Mike Grove, President of the First National Bank of White Sulphur Springs, Montana which is an independent bank. I also serve as chairman of the Agricultural Debt Subcommittee for the Governor's Council on Economic Development. I want to speak to you from the point of view of pure economics and for the people and businesses of our great state.

The Governor's Council on Economic Development looked into the agricultural debt situation, we heard numerous testimonies from farmers, ranchers, businessman, lenders and regulators. It quickly became apparent that our agricultural economic situation is a problem that includes all Montanans. It is a social problem and creates financial pressures on all businessmen, including banks. Our state had no bank failures since the 1940's until 1983. Since then two banks have failed, one of which left the community of Browning with no banking services. In 1981 there were 10 bank failures in the United States, increasing each year to 1986 when 138 banks failed and this year 19 have already failed, triple the rate of 1986. In 1986, 26 banks failed in Texas, 16 in Oklahoma, 10 in Kansas, and 9 in Iowa and Missouri. All of these states have recently adopted some form of branching legislation. During January of 1987, 1 in Oklahoma and 1 in Iowa which failed were able to reopen as branches and banking services remained available before the bank failure. I feel there should be a system in place to minimize any possibility of a repeat of the Browning situation and heartily support the failing bank portion of this bill, it would allow the banking regulators an additional option in only a critical situation.

The Governor's Council for Economic Development made part of its recommendations that there should be a change in our banking laws to allow for a failed bank situation. We also recommended that there should be put in place legislation to allow a failed bank immediate chartering as a new state regulating bank. When the bank recently failed in Columbia Falls, it was a state chartered bank, however, reopened under a national bank charter because our state's laws do not allow for emergency state chartering. I would recommend that an addition to this bill be made to allow this change and would ask that be done in a form of an amendment.

Now is a time of great financial changes and our state is suffering from deflation which is shared with states throughout the midwest. We must address the effects and be realistic, its a time to change and quickly.

We are a state of great space with many small communities, the failing bank legislation which is part of SB 198 only creates a new option not now available to protect or state's depositors and communities. It hopefully will never have to be used, but let's move now to get the laws changed if ever needed.

I believe that SB 198 is a step toward the future of bringing Montana's economy into the 21st century, and I urge you to join me in supporting it.

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 11
DATE 2/3/87
BILL NO. SB 198

Amendments SB 198 Introduced (white) copy
prepared from amendments submitted by Steve Browning

1. Title, line 7.
   Following: "BANKS;"
   Insert: "AUTHORIZING THE COMMISSIONER TO ISSUE A CERTIFICATE OF AUTHORITY WITHOUT HEARING AND NOTICE IN CERTAIN EMERGENCY CIRCUMSTANCES;"

2. Title, line 11.
   Following: "32-1-203,"
   Insert: "32-1-204,"

3. Page 5, following line 12.
   Insert: "Section 3. Section 32-1-204, MCA, is amended to read: "32-1-204. Hearings -- notice --<u>exception</u>. (1) A hearing shall be conducted upon all applications for new bank certificates of authorization, in accordance with the Montana Administrative Procedure Act relating to a contested case, whether or not any protest to the application is filed.

(2) A notice of the filing of an application for a new bank certificate of authorization shall be mailed to all banks within 100 miles of the proposed location, measured in a straight line.

(3) A hearing shall be conducted no sooner than 30 days and not later than 90 days following the mailing of such notice.

(4) Any bank filing a written protest with the board prior to the date of the hearing shall be admitted as a "party", as defined in the Montana Administrative Procedure Act, with full rights of a party, including the right of subpeona of witnesses and written materials, the right of cross-examiniation, the right to have a transcript, and the right to receive all notices, copy of the application, all orders, and the right of judicial review and appeal.

(5) All applications for mergers, consolidations, or relocations of banks shall likewise require a hearing, and all of the rights and procedures stated herein shall apply to these matters.

<u>(6)(a) Notwithstanding the above requirements, if the deposit liability of any closed bank is to be transferred to or assumed by a state bank being organized for that purpose, the commissioner, upon approval of the state banking board, is empowered to issue a certificate of authority without notice or hearing, according to rules adopted by the board</u>.

<u>(b) If no application for a certificate of authority is made pursuant to subsection (a), the board may empower the commissioner to authorize and order the approval of the closed bank as an emergency branch bank pursuant to 32-1-372(6)</u>.

<u>(c) The board may promulgate rules to implement this subsection.</u>"

Renumber: subsequent sections

4. Page 8, line 23.
   Following: "<u>bank</u>,"
   Insert: "and upon verification that the board did not issue

a certificate of authority pursuant to 32-1-204(6)."

Distributed by Mr. Steve Browning

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 11
DATE 2/3/87
BILL NO.

Monday, February 2, 1987— 4A

OPINIONS & IMPRESSION

Branch banks needed

Dr. David Birch, an internationally renowned economist, recently observed that Montanans are too preoccupied with fighting civil wars while the rest of the world passes us by. While other states are changing, Montana continues its restrictive laws. But the status quo does not mean that Montana will go unchanged. Indeed, as various interest groups remain locked in battle, our state's economy contracts and our population declines.

AN IR VIEW

An example of a civil war referred to by Dr. Birch is the conflict between Montana's independent bankers and the group bankers who provide banking services to urban areas. Rural bankers resist changes to Montana's unit banking requirements. They oppose branch banking, which they believe causes monopolies to expand. They cite the fact that three banks in Arizona control 85 percent of that state's business. Yet they overlook the fact that Arizona was recently cited by *Inc. Magazine* as the best state in the nation in providing new jobs, new companies, and the best basic climate for business growth. Significantly, Montana ranked 47th in that same *Inc. Magazine* study.

Banks in Montana have not been healthy lately. In November 1983, the First National Bank of Browning failed, and no bank emerged to take its place. Last May, the Bank of Columbia Falls failed. Several months ago, our newspaper noted that the earnings for the first six months of 1986 for Montana's 169 banks fell nearly 50 percent. Nationally, Montana's banks ranked third in the nation in the percentage of non-performing loans to total loans.

Recent studies confirm that our banks and our banking laws are a problem. Recently, the FDIC chairman observed that "states should be encouraged to liberalize overly-restrictive branching laws thereby increasing the likelihood that weak banks will be merged or otherwise acquired by healthier institutions." A few months later, the Western Governors' Association reported that capital formation is vitally needed for economic growth and encouraged passage of branch banking to form that capital. Gov. Schwinden's Economic Transition Task Force, which grew out of the conference moderated by Dr. Birch, recommended last December that Montana should modernize its banking laws by allowing branch banking and permitting merger and consolidation of banks.

There is an old saying that those who forget history are doomed to repeat it. We should remember that Montana used to have more banks before the Depression closed them. In 1920, we had 431 banks, and nearly every town had a bank. But by 1943, Montana's banks declined to 110. Currently, Montana has 169 banks, and we believe the Legislature should take all steps necessary to ensure that these banks remain vital elements of our local communities.

That is why we support a bill (SB 198) by Senator Gene Thayer, R-Great Falls, who proposes three changes to Montana's banking laws:

(1) To allow banks to merge and consolidate, a reform needed to encourage more flexible use of bank capital and to pave the way for economic growth;

(2) To authorize independent banks to establish up to two branch banks throughout the state;

(3) To allow emergency branch banking for failing banks in one-bank towns.

This third reform is especially critical to ensure continued banking services in rural areas where agricultural banks are increasingly threatened.

Before the Legislature began, we thought that difficult economic times would require critical re-examination of old myths and ideologies. Montana is one of the few states in the nation that continues to require unit banking and to prohibit branch banking. There is an old saying that "if it ain't broke, don't fix it." Judging from the expected number of bank failures that we will see in Montana in 1987, Montana's banking system needs fixing. Sen. Thayer's bill offers three important remedies to these banking problems that should be adopted.

We would oppose, hwoever, a banking solution (SB 163) offered by Sen. Paul Boylan, D-Bozeman. His proposal would prohibit any bank with more than 11 percent of the deposits in Montana from obtaining expanded banking powers that might emerge with the passage of Senator Thayer's bill. Boylan's bill is a thinly disguised attack on the two Minnesota holding companies, First Bank System and Norwst Corporation, both of whom own banks with deposits in excess of 11 percent. First Bank and Norwest have been good corporate citizens in Montana. They contribute to our economy. They are major contributors to important charities and other community services that make Montana a good place to live. The restraints that would be placed on First Bank and Norwest by the Boylan bill are the kind of constraints that hobble our banking industry. The Boylan bill should be defeated, and the Thayer bill should be enacted. Boylan's bill is a step backward, and Thayer's bill is a step toward the future of bringing Montana's economy into the 21st century.

Helena Independent Record

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 11
DATE 2/3/87
BILL NO. SB 198

An amendment to amend Senate Bill No. 198, introduced copy (white) as follows:

1. Title, line 8.
   Following: "THE"
   Insert: "COMMISSIONER TO ISSUE A CERTIFICATE OF AUTHORITY,"

   Following: "32-1-203,"
   Insert: "32-1-204,"

2. Page 5, line 3.
   Following: line 12.
   Insert: "Section 3. Section 32-1-204, MCA, is amended to read:

32-1-204. Hearings - notice. (1) A hearing shall be conducted upon all applications for new bank certificates of authorization, in accordance with the Montana Administrative Procedure Act relating to a contested case, whether or not any protest to the application is filed.

(2) A notice of the filing of an application for a new bank certificate of authorization shall be mailed to all banks within 100 miles of the proposed location, measured in a straight line.

(3) A hearing shall be conducted no sooner than 30 days and not later than 90 days following the mailing of such notice.

(4) Any bank filing a written protest with the board prior to the date of the hearing shall be admitted as a "party", as defined in the Montana Administrative Procedure Act, with full rights of a party, including the right of subpoena of witnesses and written materials, the right of cross-examination, the right to have a transcript, and the right to receive all notices, copy of the application, all orders, and the right of judicial review and appeal.

(5) All applications for mergers, consolidations, or relocations of banks shall likewise require a hearing, and all of the rights and procedures stated herein shall apply to these matters.

<u>(6)(a) Notwithstanding the above requirements, when the deposit liability of any closed bank is to be transferred to or assumed by a state bank being organized for that purpose, the commissioner, upon approval of the state banking board, is empowered to issue a certificate of authority without notice or hearing, according to rules adopted by the board.</u>

<u>(b) If no application for a certificate of authority is made pursuant to (6)(a), the board may empower the commissioner to authorize and order the approval of such closed bank as an emergency branch bank pursuant to 32-1-372(6).</u>

(c) The board may promulgate rules to implement subsections (6)(a) and (6)(b)."

Renumber: subsequent subsections.

3. Page 8, line 23.
Following: ","
Insert: "and upon verification that the board did not issue a certificate of authority pursuant to 32-1-204(6)(a)(b),"

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 11
DATE 2/3/87
BILL NO. SB 198

An amendment to amend Senate Bill No. 198, introduced copy (white) as follows:

1. Page 1, Line 22.
   Following: "United States."
   Insert: "The word 'consolidation' means a legal reorganization or combination of two or more corporations to create a single surviving corporation."

2. Page 4, Line 23.
   Strike: "at the time of the merger or consolidation."
   Insert: "at the end of each fiscal year."

3. Page 12, Line 19.
   Following: "(2) (a)"
   Strike: "Except as provided in 32-1-371, all";
   Insert: "All"

4. Page 15, Line 4.
   Following: "(iv)"
   Strike: "In"
   Insert: "Except as provided in 32-1-371, in"

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 12
DATE 2/3/87
BILL NO. SB198

Mr. Chairman and Honorable Committee:

For the record, my name is Robert Baxter and I am the Executive Vice President of the bank in Thompson Falls. I am here to testify against SB-198 because I feel that our community experience represents a pertinent and timely example of why out of area interests shouln't be permitted the opportunity to engage in banking business in a locality without establishing that it is in the best interests of that locality's inhabitants that it do so.

My family moved to Thompson Falls in 1945 and for many years we were well and sensibly served by a home owned bank. After our local bank became a part of a Minneapolis owned chain, however, we began to suffer a destabilization of our economic well being. It is my perception that out of town ownership not only failed to serve the legitimate needs of our area but actually created a very negative impact on all of us whether it was caused by the unavailability of funding after the adoption of a "no Loan" policy or whether it was caused by contributing to the overall sense of "doom and despair" that pervaded an area which had been relying on the bank over the years to help the community progress.

About two years ago a group of us had decided that we would continue to live and to raise our families in Thompson Falls. We concluded that the most important thing we could do to help ourselves was to acquire ownership of the local bank and rededicate that institution to promoting the quality of life in our small town. We were successful in negotiating a transfer of ownership and although we've had possession and management of the bank for a limited time we have received great support and encouragement from our local people. We've also received a gratifying response from the F.D.I.C. and the Federal Reserve Bank and we would be entirely willing to compare our performance with past ownership if specifically requested to do so by this committee. Of course, all that information is available now in call report form as a public record.

We have an almost overwhelming urge to dwell on the negative aspects of out of town ownership of community banks but will offer two or three points instead:

(1) First of all we recongnize that SB-198 does not authorize branch banking. We oppose it because we fear a deterioration in the statutory prohibition against branching. We oppose it because we oppose outside control. We only support local control of community banks.

(2) We beleive that multi-bank operations and absentee ownership creates not only a loss of emplyment but also costs the local bank and therefore its customers more in the long run. In Thompson Falls we lost six or eight employees and have been paying at least $200,000 per year more for centralized services than if we did those functions for ourselves in our own bank.

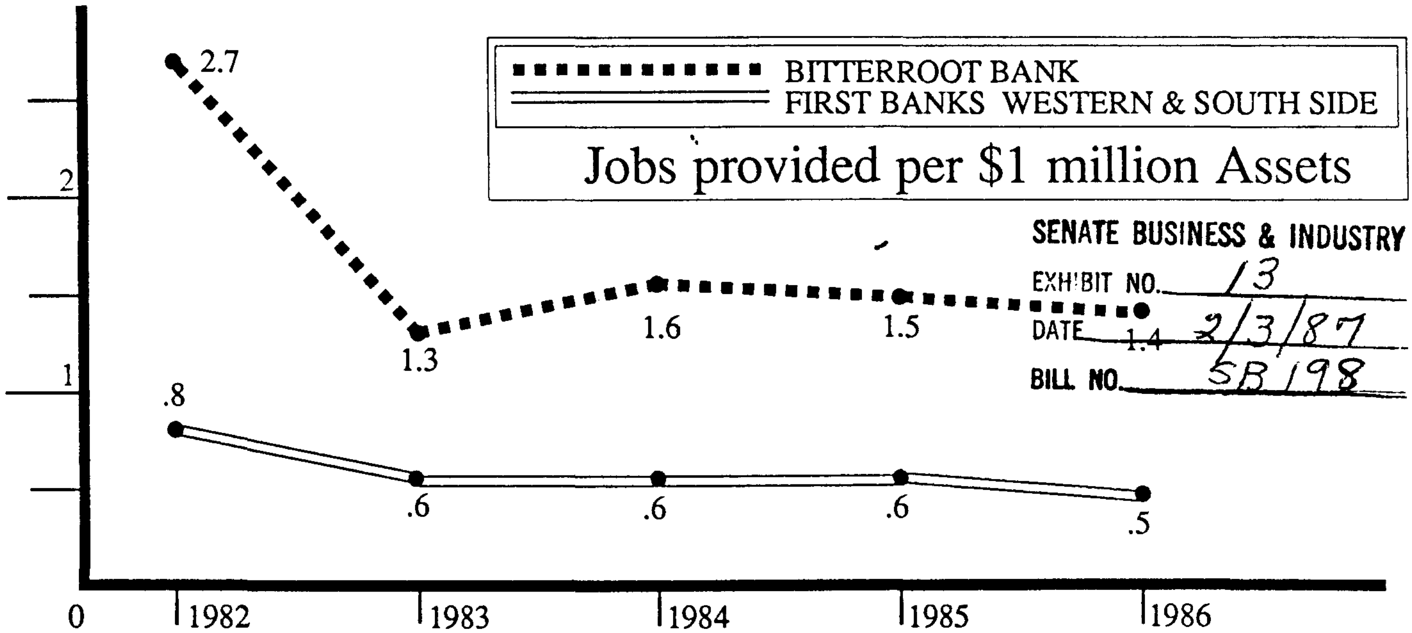
(3) Out of town ownership takes money out of the community. The earnings do not go into our commercial stream or contribute to the stability of our economy.

(4) Local bankers best serve local banking needs. An out of town loan review person is not as likely to serve a local loan request in an effective and efficient way as is a local banker. Consider, please, how you would feel if you were told how to perform your function as a Montana Senator by a Federal Administrator.

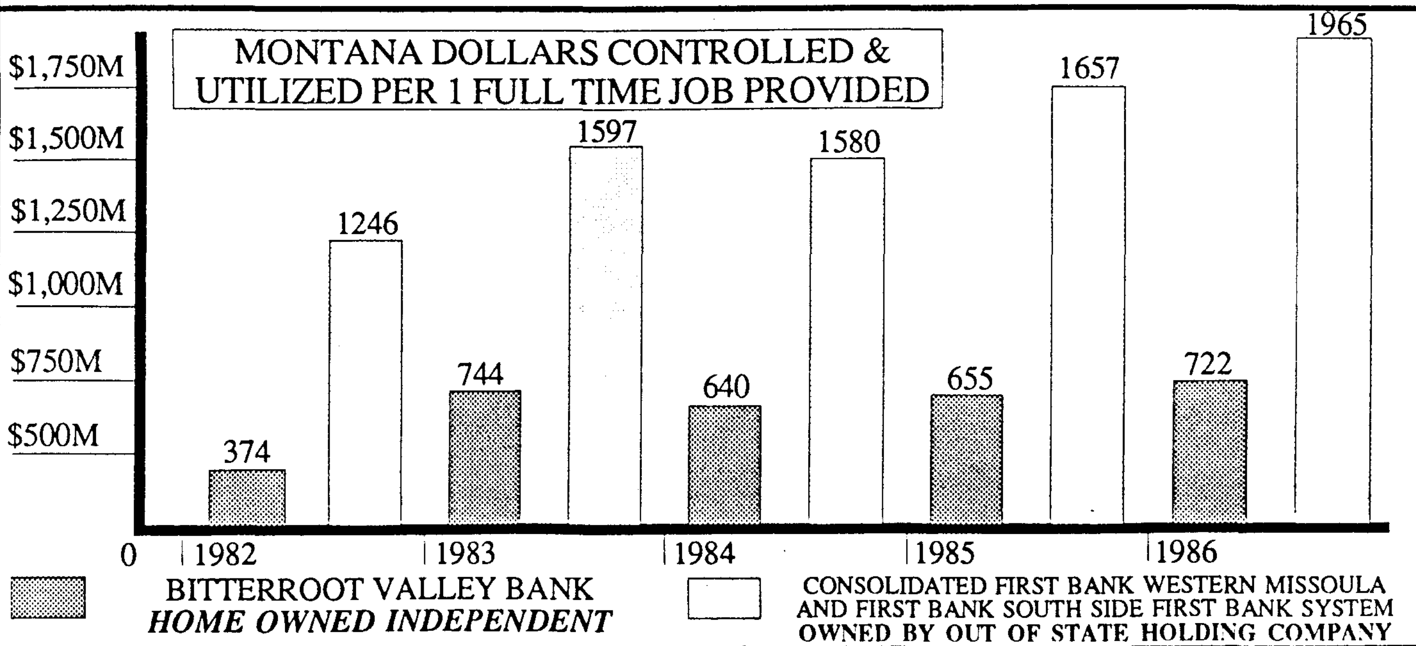
(5) Finally, I urge the proposition upon you that for any arrangement to be a truly good one, it must serve in a satisfactory way the needs of both parties. Out of town ownership of banks should be discouraged because it tends not to supply this mutuality. I would appear rather that the principal motivation of chain or branch banks is to extract profits from the communittees in which they do business.

Comparison of the Independent Bitterroot Valley Bank in Missoula County and the two First Bank System banks in Missoula County.

BITTERROOT VALLEY BANK				FIRST BANK SOUTHSIDE / FIRST BANK WEST COMBINED FIGURES			
As of Dec.31st	# Full Time Employees	Total assets in Thousands ($,000s)	Employees Per Million Dollar Assets	As of Dec. 31st	# Full Time Employees	Total assets in Thousands ($,000s)	Employees Per Million Dollar Assets
1982	9	$3,364	2.7	1982	140	$174,527	.8
1983	9	$6,704	1.3	1983	149	$237,974	.6
1984	12	$7,688	1.6	1984	150	$237,000	.6
1985	15	$9,831	1.5	1985	141	$233,688	.6
1986	15	$10,839	1.4	1986	130	$255,443	.5



SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 13
DATE 2/3/87
BILL NO. SB 198



Ex 13
2-3-87
S.B. 19

EXHIBIT B
EXCERPTS FROM SERVICE CHARGE SURVEY
By Charles Schmautz
September, 1986

	1st Interstate	First Banks	Montana Bank of South Missoula	1st Security	Bitterroot Valley Bank	Missoula Bank of Montana
Regular Checking Min. Balance	$300	$300	$300	$300	$200	$200
Charge if below	$2.00 plus 20¢ / check	$2.50 plus 20¢ / check	$2.00 plus 20¢ / check	$2.00 plus 20¢ / check	$2.00 plus 15¢ / check	$5.00 plus 15¢ / chec[illegible]
Escrow fee Minimum opening fee	$30	$150	$50	$50	$30	$75
Monthly fee	$1 per $100 no Minimum	$7 per month	$1 per $100 $5 Minimum	$1 per $100 $5 Minimum	$1 per $100 No Minimum	$1 per $100 $5 Minimu[illegible]
Regular Saving Min. Balance	$100	$300	$100	$100	$200	$300
Fee if below	$2	$2	$1	$2	75¢	$3
Overdraft charge	$12 per item	$12 per item	$10 per item	$10 per item	$7.50 per item $22.50 maximum	$12.[illegible] per it[illegible]

RATES PAID ON DEPOSITS AS OF 1/27/86

3 mo C.D.	5.149%	5.05%	5.50%	5.70%	5.61%	NA
6 mo C.D.	5.227%	5.35%	5.75%	5.80%	5.80%	NA
12 mo C.D.	5.318%	5.55%	6.00%	6.10%	5.80%	NA
24 mo C.D.	5.565%	5.85%	6.25%	6.30%	6.30%	NA
M. M. Savings	5.00%	5.00%	5.25%	5.50%	5.55%	NA

Ex 13
2-3-87

ational
efiners
se of

stra-
for
m 9

Sunday, July 14, 1985

Great Falls Tribune

Bank's plan will cost jobs

A consolidation of First Bank operations in Billings is expected to cost Great Falls about 35 jobs.

First Bank District Manager Bob Reichel said the consolidation plan, to be initiated Aug. 1, is meant to save the Minneapolis-based bank holding company money $3 million to $5 million. Affected are "back room" functions such as statement processing. Customers are not expected to notice any difference.

"Basically, what the customer will see will not change a bit," Reichel said. He said that Helena, which will act as an item processing center under the consolidation, will probably be the only city to gain jobs. Billings will lose several.

He said some employees in Great Falls, which will lose the most jobs, are expected to find work within the system as others retire or resign. Some may be chosen for jobs in other cities.

Billings will be one of five regional operations centers within the banking system. It will be responsible for the state of Montana and is expected to be fully operational by the end of the year.

Ex 13
2-3-87
SB 58

THE REST OF THE STORY . . .

The benefits of interstate bank ownership and "mergerization" of the industry are indeed wonderful!

The following article appeared in the June 1 edition of the Waterloo Courier. Those who favor interstate bank ownership cannot help but be overcome with emotion at the sight of the savings in personnel expense.

And one assumes that all of those previously employed workers appreciate that their sacrifice is not in vain, but a contribution to the new technology and the new and better services we all know to be the direct and necessary consequences of consolidation.

5,000 will lose jobs in biggest bank merger

SAN FRANCISCO (AP) — About 5,000 people will lose their jobs as Wells Fargo & Co. absorbs Crocker National Corp. in the nation's biggest bank merger, a Wells Fargo executive says.

Wells Fargo President Paul Hazen said termination notices were given Friday to 1,650 workers, most of them from Crocker, and further reductions will be made over the next two years as operations are consolidated.

Wells Fargo completed its $1.1 billion acquisition of Crocker from the London-based Midland Bank PLC on Friday, making it the country's 10th largest bank holding company and California's third largest bank.

Affected employees received a 30-day notice that their positions have been eliminated, and they will be provided with job search assistance and allowed to apply for other jobs within the company.

If employees fail to find jobs during that period, they will be placed on a paid leave of absence ranging from two weeks to 21 months, depending on their position and length of employment.

[Ed. Note. Of course, this could not happen in Iowa because consolidation here would mean more jobs, right?]

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 14
DATE 2/3/87
BILL NO. SB 198

February 3, 1987

TO: Honorable Members of the Business and Industry Committee

I am Gary Sisson, Vice President of First Security Bank of Bozeman. I spent the first nine (9) years of my banking career with the Norwest Bank System and left for an independent bank in 1978 for several reasons. One of them was because a senior officer advised me to get out while I still could. We had seen more and more control of our bank shift to Minneapolis. When I started work at the bank, it operated with almost no interferance from the main office. By the time I quit, many of the operating, personnel and investment decisions were being made by the main office in Minneapolis. We became participants in several National loans that were of no benefit to our community, only to the profitability of the Bank and its National stockholders. During the years since I left the Norwest Bank, my friends have indicated that many more changes have occurred.

Even though those of us who worked for System Banks had a commitment to our community, the system did not. From my own experience, I can unequivocally state that the commitment to the community by independent banks far exceed that of corporate bankers and their bosses in other cities. The basic reason for this is that independent bankers can rely only on the success of their community for their own success.

Thank you for your time and consideration.

Gary Sisson, Vice President

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 15
DATE 2/3/87
BILL NO. SB198

The Bankers' Coalition
P. O. Box 162
Helena, MT 59624
(406) 449-6220

January 21, 1987

Dear Montana Bankers:

We, the undernamed Montana Bankers, support the spirit of the attached legislation, which will be introduced this month in the Montana Legislature by Senator Gene Thayer and Representative Rex Manuel. This bill is a compromise approach to modernizing our state's banking laws.

We welcome your comments and criticisms and, hopefully, your support.

Sincerely,

W.R. Tait
Retired Norwest Bank
Anaconda-Butte, MT

David Clyde, Pres.
MT Bank of Baker
Baker, MT

Stan Klimas, Pres.
Northern Bank of MT
Big Sandy, MT

William Strausburg
Chief Executive Officer
First Bank Billings
Billings, MT

C.P. "Buck" Moore, Pres.
Norwest Region VIII
Billings, MT

John Reichel, Mngng Dir.
Western Montana Region
First Bank Systems
Billings, MT

David R. Michael, Pres.
Norwest Bank Billings
Billings, MT

Randolph Jacobs, Pres.
MT Bank of Billings
Billings, MT

Jim Bennett, Pres.
First Citizens Bank
Billings, MT

Robert Bodin, Pres.
First Bank West Billings
Billings, MT

David Servies, Pres.
First Trust Co. of MT
Billings, MT

Robert Nelson, Pres.
Norwest Trust Co.
Billings, MT

John A. Marvel, Pres.
MT Bank of Bozeman, N.A.
Bozeman, MT

Harry Newlon, Pres.
First National Bank
Bozeman, MT

John Johnson, Pres.
Miners Bank of Butte
Butte, MT

Richard Timmerman, Pres.
First Bank Butte
Butte, MT

G. Vincent Fisher, Pres.
MT Bank of Butte, N.A.
Butte, MT

Howard Torgerson, Pres.
Liberty Bank of MT
Chester, MT

William Larsen, Pres.
Blaine Bank of MT
Chinook, MT

Robert Sizemore, Pres.
Western Bank
Chinook, MT

Tom Atkins, Pres.
MT Bank of Circle
Circle, MT

Tom Taylor, Pres.
Pondera Bank of MT
Conrad, MT

George Waggoner, Pres.
First Interstate Bank
of Glacier County
Cut Bank, MT

Owen D. Shively, Pres.
Norwest Bank Dillon &
Anaconda-Butte
Dillon, MT

Albert A. Martens, Pres.
First Bank of Forsyth
Forsyth, MT

Thomas D. Reed, Pres.
MT Bank of Forsyth
Forsyth, MT

Harold Brown, Pres.
First State Bank
Fort Benton, MT

Kenneth Truesdell, Pres.
First Security Bank
Glasgow, MT

Steve Feurt, Pres.
Central Bank of MT
Great Falls, MT

Frank W. Shaw, Pres.
Norwest Bank Great Falls
Great Falls, MT

M. Patrick Butler, Pres.
Trust Corporation of MT
Great Falls, MT

Robert L. Reiquam, Pres.
First Bank Great Falls
Great Falls, MT

Kevin Clark, Pres.
Eastside Bank of MT
Great Falls, MT

James Borszich, Pres.
First National Bank
Havre, MT

Alan Pearson, Pres.
Citizens Bank of MT
Havre, MT

Earl Johnson, Chairman
First Bank Helena
Helena, MT

Ed Jasmin, Pres.
Norwest Bank Helena
Helena, MT

Richard Hart, Pres.
Bank of Montana
Helena, MT

Stephen Olsen, Pres.
Norwest Bank Kalispell
Kalispell, MT

Robert Gerhardt, Pres.
First Interstate Bank
Kalispell, MT

Dick Zier, Pres.
First Bank Lewistown
Lewistown, MT

Robert Worth, Pres.
Norwest Bank Lewistown
Lewistown, MT

John Carlson, Pres.
Midstate Bank of MT
Lewistown, MT

Robert Gersack, Pres.
First Bank Livingston
Livingston, MT

Donn J. Ross, Pres.
MT Bank of Livingston
Livingston, MT

Roger Ulrich, Pres.
First State Bank
Malta, MT

Malcolm Adams, Pres.
First Bank Miles City
Miles City, MT

Verna Welch, Pres.
Missoula Bank of MT
Missoula, MT

Michael J. Wangen, Pres.
First Bank Missoula
Missoula, MT

William Bouchee, Pres.
MT Bank of So. Missoula
Missoula, MT

Richard Powell, Pres.
MT Bank of Red Lodge
Red Lodge, MT

Richard Swanz, Pres.
MT Bank of Roundup
Roundup, MT

James F. Voll, Pres.
Farmers-Merchants Bank
Rudyard, MT

Richard Westrum, Pre
MT Bank of Sidney
Sidney, MT

Edward Hollenback, Pres
MT Bank of Mineral Co
Superior, MT

Markus Dahl, Pres.
First State Bank of MT
Thompson Falls, MT

Michael Richter, Pres.
Valier Bank of MT
Valier, MT