

MINUTES

MONTANA HOUSE OF REPRESENTATIVES  
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON BUSINESS & ECONOMIC DEVELOPMENT

Call to Order: By Rep. Bob Pavlovich, chairman, on January  
25, 1989, at 8:00 a.m.

ROLL CALL

Members Present: All

Members Excused: None

Members Absent: None

Staff Present: Paul Verdon and Sue Pennington

Announcements/Discussion: None

HOUSE BILL 218

Motion: Rep. Thomas moved DO PASS. Rep. Wallin moved an  
amendment be made.

Discussion: Rep. Simon asked Rep. Wallin if he understood  
that this section was talking about special  
examinations not regular examinations. Rep. Simon  
wasn't sure we could make his amendment to this bill.  
Rep. Pavlovich stated that the bill specifically states  
special examinations on line 19.

Paul Verdon, legislative researcher, stated that  
regular examinations were covered under 32-1-211, but  
32-1-211 could be amended to put in what Rep. Wallin  
wants and 32-1-215 would have to be amended also. It  
comes well within the scope of the title. Rep. Wallin  
moved to add this section to the bill.

Amendments & Vote: The amendments to this bill are quite  
long. See the copy in this packet. The amendment was  
approved by a unanimous DO PASS vote.

Recommendations & Vote: None

HOUSE BILL 251

Motion: Rep. Keller moved DO PASS.

Discussion: None

Amendments & Vote: None

Recommendations & Vote: DO PASS motion was approved  
unanimously.

HOUSE BILL 221

Motion: Rep. Thomas moved to table.

Discussion: The motion to table HB 221 failed on a 6 - 10  
vote.

Motion: Rep. Wallin moved DO NOT PASS.

Discussion: Rep. Thomas stated that this is not a partisan  
issue whatsoever. This is something that will not work  
in Montana right now. If California did it, you would  
have a great block of motor vehicles on which to base  
rates.

Amendments & Vote: None

Recommendation & Vote: DO NOT PASS motion was approved by  
12 - 4 vote.

HOUSE BILL 222

Motion: Rep. Thomas moved DO PASS.

Discussion: Rep. Thomas asked Paul if the fine language was  
struck, if that would that eliminate the bill.

Rep. Hansen moved a substitute motion of DO NOT PASS.

Rep. Kilpatrick stated that if you refuse to issue, renew,  
suspend, or revoke the license of a barber shop this  
will put them out of business. A fine of \$500 will  
hurt, but they still have a business. He likes the  
idea of a fine, you give them a fine but do not take  
their business away.

Rep. Johnson said we have had a number of these bills and  
there will probably be more come. This bill gives the  
board the ability to do more than a slap on the wrist,  
they don't want to take the license for a small  
infraction. You have to place trust in the inspectors,

to use their judgment. They want the opportunity to assess a fine rather than take a person's livelihood away.

Rep. Thomas thinks the board should be left as a licensure board.

Rep. Simon stated that for the benefit of some of the new people on the committee the barbers and cosmetologists have been in front of this committee as long as he has served on it. They seem to do a good job of squabbling among themselves and I don't have much confidence that they will use discretion that we might think they would. We have seen a lot of evidence of internal squabbling between barbers and cosmetologists and giving them this additional authority and allowing them to start slapping people scares him.

Rep. Bachini moved to amend to change the fine from \$500 to \$200. Paul stated that this fine is already in the law, and this fine has to be imposed by the court.

Rep. Nelson stated that we are taking the fines out of some bills and others we are changing the fines. We are setting a pattern of inconsistency. Rep. Pavlovich agreed with Rep. Nelson, we killed the others because of the \$500 fine. Here we are going to put \$200, and it is already in the law.

Amendments & Vote: Motion to amend was defeated unanimously.

Recommendation & Vote: DO NOT PASS motion was approved unanimously.

#### HOUSE BILL 247

Motion: Rep. Hansen moved DO PASS.

Discussion: Rep. Glaser asked if this bill would allow the state to set the rates that the insurance companies could charge. What concerns him about this bill is if we set the rates at state level, and the rates are wrong, then we will get ourselves sued. Rep. Pavlovich said that it did not mean they could set the rates, but look at the rates around us, in the states that surround us.

Rep. Bachini understood it that it would be regional rate making and I can't see why anyone could take us to court and say we aren't charging the right rates. We would be using the rates of a regional area, such as

states neighboring us. I don't think there is any basis to this.

Rep. Simon thinks there are some problems. We are talking about areas where not many people offer coverage. He doesn't think this bill will work at all without an actuary. The department should be downstairs talking to the appropriation committee as hard as they can. The funds are there if the department can convince the appropriations committee of the need for an actuary.

Paul Verdon stated in response to Rep. Glaser's question, the state does not set insurance premiums, the premiums are set by the companies themselves. Montana uses a file and use system. The company files its rate with the insurance commissioner and then uses that rate, unless the commissioner challenges it for cause. If this bill is passed, it would give the commissioner a basis to challenge a rate if it was not set on a regional basis. Rep. Thomas said that this is a file and use state, but seems we have received a direct inclination from the department that the extension of authority in this bill would give them the ability to set that rate. The commissioner has broad powers to request this data now and do all these things but the extension of authority is where I believe they feel they are getting the authority to say this regional rate is the most you can charge.

Rep. Bachini moved a substitute motion of DO NOT PASS.

Amendments & Vote: None

Recommendation & Vote: The DO NOT PASS motion was approved unanimously.

#### HEARING ON HOUSE BILL 191

Presentation and Opening Statement by Sponsor: Rep. Stang stated that as a small businessman in a small western Montana town that I am really aware of the advantages of a locally owned bank. I am also sensitive to the problems of small communities when they have no service from financial institutions. I would like to see some of these towns get at least teller facilities. The near-consensus among the bankers includes providing banking services to communities that now lack those services, re-affirming our policies in favor of locally owned and operated banks. HB 191 expresses those areas of consensus. Some bankers may oppose my bill today because they would rather have Rep. Swift's bill, HB 151, I hope that they will support this bill if it were

the only proposal out there. This bill represents the best possible approach to change in our banking laws this year.

List of Testifying Proponents and What Group They Represent:

Doug Morton, President, BankWest, Kalispell  
Larry Jochim, President, Flathead Bank Bigfork, Bigfork  
Al Burr, President, Valley Bank, Ronan  
Don McCarthy, Assistant Vice President, BankWest,  
Kalispell  
Joe Thares, MIB  
Roger Tippy, MIB  
Ron Ahlers, MIB  
Paul Caruso, 1st Security Bank, Helena  
Keith L. Colbo, MIB  
Ray Brandewie, MIB  
Gordon Ochenridel, Mountain Bank  
John R. King, 1st Security Bank, Kalispell  
A. J. King, Valley Bank, Kalispell  
Richard Tamblyn, Independent Bankers  
Mike Burr, First Security Bank, Kalispell  
Frank Stock, Executive Officer, Security State Bank,  
Polson  
Phil Sandquist, 1st Security Bank, Bozeman

List of Testifying Opponents and What Group They Represent:

Bruce Ellis, Montana BankSystems, Inc.  
Alex Zier, 1st Nat'l. Bank, Lewistown  
Bill Leary, MBA  
C. P. Moore, NorWest Bank  
Bob Sizemore, Western Bank, Chinook  
Richard Loegering, Traders State Bank, Poplar  
Citizens State Bank, Scobey  
State Bank of Richey  
John Cadby, MBA  
Martin M. Olsson, Ronan State Bank  
M. K. Graham, 1st Nat'l. Bank, Glasgow  
Larry S. Moore, Stockmen's Bank, Cascade  
Jeff Baker  
Sam. R. Noel, Citizens State Bank, Hamilton  
Gary B. Carlsen  
Thomas R. Atkins, Montana Bank, Circle  
Mark Safty, Hollan & Hart, Billings

Testimony: Mr. Tippy stated that he urges your approval with a couple of amendments. See exhibit 1.

Mr. Tamblyn stated that his group supports this bill. See exhibit 2.

Mr. Maurer stated that his purpose in coming here was to outline two aspects of HB 191, that is to define the

scope or functions that could be performed by an independent teller facility and to point out the geographical differences. What this bill proposes is what already exists in Montana, we have had this for years and that is extended teller facilities. Under the present law this is limited to a distance not further than 1,000 feet from the main banking facility. We are proposing in towns with populations greater than 20,000, that the first extended teller facility geographically be extended to 2,000 feet. This would permit the banks to get the congestion out of the main downtown areas. Functionally, an extended teller facility we feel will serve 99 percent of the people, for 98 percent of their transactions. The distinction of a branch is that, a branch has the ability to do everything that the main office does. Our bill would permit people to cash checks, make deposits, make payments on their loans, transfer money by money orders. The only two distinctions we would make is that in the opening of an account or in the processing of a loan that the authorization to do it must come from the main office. We have prepared a statement of intent to guide the commerce department in that regard because as technology changes so rapidly, authorization could come from telephones, facsimile authorizations, etc. In regards to the geographical scope, our bill would allow extended teller facilities in unserved communities within the county in which the main office is located. It would extend it to an additional 25 miles in radius if it goes into a neighboring county. The MBA bill would permit branching in unserved, questionably serve communities in neighboring counties. In conclusion I believe HB 151 creates more mischief than you would really care to have.

Mr. Stock stated that what his bank was really interested in is the ATM's. These are the machines that provide 24-hour service, and they are shared in networks nationwide and as the law now currently stands, an ATM is limited to an incorporated city that the bank is located in to 3 miles outside the city limits or any place in the city. In an unincorporated area it may be located 3 miles from the main banking house. This bill would increase this to any place in the county that the bank is located or in an adjacent county within 25 miles of the main banking house. The reason we want the 25 mile limit is that experience tells us that these machines need to be serviced, they occasionally malfunction, they will take somebody's card, and you have to have someone on call to go out to service this machine occasionally. This is one of the reasons for the 25 mile restriction. Under existing law an ATM has

to be located at least 300 feet away from someone else's main banking house. ATM's do provide a service to all customers.

Mr. Sandquist wanted to address a different issue, regarding the failed banks that have come about in our state. He mentioned the Browning bank, where the federal reserve was unable to obtain a satisfactory bidder to take over that bank and continue the operation. The bank was closed and remained closed for 4 years before another group was successful in obtaining a charter and reopening the bank. Under HB 191 there would have been an option open where the bank or banks in that area could have gone in, open up an extended facility, and that community would not have been without a bank for the 4 years. The same scenario would have applied in Fromberg, Montana, a bank that failed there. There are a lot of factors involved when a bank fails, management, quality of assets, overextending their service, some cases overextending their geographic trade area, many items become involved in this. When a bank fails these items do not reflect a true picture of the economic conditions of that particular community. Many of these areas are healthy and viable communities. HB 191 will give assistance to many areas of our state that are really in need of paying and receiving facilities and other banking services. This bill is definitely oriented to assist the small communities and is not written for the benefit of out of state holding companies.

Mr. Caruso stated that his bank fully supports this bill. See exhibit 3.

Mr. Cadby stated that many of the banks in the state of Montana are not locally owned. Their owners are all over Montana and out of state. The point is that many banks for the last 50 years have not been locally owned. I don't why that is a factor in this discussion. In respect to Mr. Tippy's remarks, I think it is interesting to note that he feels limiting the powers of state savings and loans is significant, but it is not significant to limit the powers of the federal savings and loans. You can't limit federal savings and loans anyway, that is a waste of time. They ignore your law, The only state S&L in Montana is in Great Falls and it is only \$40 million, but the federal S&L's of which there are 10, having branches with 35 branches. They are \$1.2 billion. I don't think the banks see the one state S&L is much of a competitive threat. I think they do see the 10 federal S&L's with their 35 branches as a competitive threat.

Also, Mr. Tippy said it was not necessary to bring in the credit unions because they are not part of the court ruling. Why not? Credit unions are competition to banks. I admit most of them are federally chartered, too, and you don't have much control over them. They are branching all over the state. They have doubled their market share over the past 5 years, but credit unions are not addressed in HB 191.

Mr. Safty stated that his firm was the drafter of HB 151. At the request of MBA I want to discuss HB 191. The first section of the bill on page 2, says that you can attach a detached teller facility, you can establish a detached teller facility within 3,000 feet of the bank if you are in a city over 20,000 in population. Under current law that limitation is within 1,000 feet. I think you would be hard pressed to find any bank in a city of over 20,000 that does not already have a detached teller facility. This provision also denies to state chartered thrifts the right to any detached facilities as it is presently drafted. This provision relates only to banks. The intention may have been to allow either banks or thrifts to establish these detached teller facilities with these limitations. On page 3 of the bill we get into the real meat and potatoes of the bill. The bill allows for a detached facility in a community which is unserved. But which is also at least 10 miles from the nearest institution, be that a thrift or a bank. You can establish a detached facility in that community that is unserved as long as it is either within the county your bank is in or not more than 25 miles from where you are. This protects the franchise of people within 10 miles of that unserved community, but it protects the franchise not only of banks and state chartered thrifts, it protects the franchise of the federal chartered S&L's and its branches which are not required to operate under the same rules, generally, as the banks and the state chartered thrifts. I think there is a tax issue in this bill. In HB 151, the tax implications are that there would be a stabilization of the revenue base available to the county if, assuming if, there is merging and consolidation, you can't really without assuming a lot of things, get to any conclusions about tax implications. But in this case you can. There is one very important tax implication in this bill. If a bank establishes a detached facility in the next county, an unserved community, is the recipient of a detached teller facility under this bill, which is established by one of the Helena banks, the other county would get no tax as a result of the detached facility located in its county. If it were a branch



located in the county, the deposits would be sourced in that county and allocate the taxes accordingly between the counties. I oppose this bill.

Mr. Sizemore stated that he opposes this bill. See exhibit 4.

Mr. Olsson stated that his bank opposes HB 191 because we do not believe this bill goes far enough in providing the services to our consumers and the necessary tools to our banks to allow us to compete effectively in the financial services industry. See exhibit 5.

Mr. Noel stated that his bank was opposing HB 191 for the same reasons that they are supporting HB 151. See exhibit 6.

Mr. Carlson opposes this bill. See exhibit 7.

Questions From Committee Members: There were many questions from the committee which were answered by both proponents and opponents.

Closing by Sponsor: Rep. Stang stated that this bill will provide unlimited banking services to areas which can not afford a charter. In the cities the size of Billings, a lot of times when these walkup facilities are close to the bank they are sitting on some pretty valuable real estate. Many of these banks would like to take these facilities and move them farther away from their main bank so they can free up that real estate for better use. Most of the opponents said this bill does not do enough, but in my recollection, this bill is better than nothing at all. Most of all I would like to address a statement made by an opponent Mr. Ellis, that this is not a consumer bill. The reason I am here is because I am a consumer and I am a customer at one of Mr. Ellis's banks. When this bank was locally owned and operated it was very easy and the service was very good. Now that it is a holding company bank, for example, you can no longer make your house payment at that bank, now when you go to ask that banker for a loan, you have to wait for information to come out of Missoula, now that information may come from Billings, or who knows where. This is a consumer bill, this bill will allow those communities to, at least, have teller facilities. I feel that it is important that you remember this is a consumer bill and this is the reason I am here with it.

DISPOSITION OF HOUSE BILL 191

Motion: None

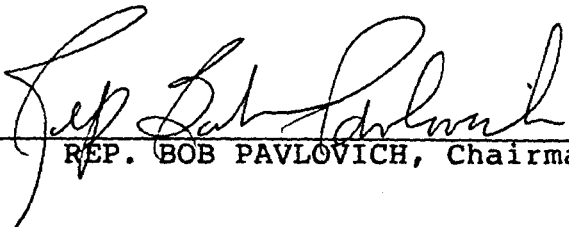
Discussion: Chairman Pavlovich stated that both HB 151 and HB 191 will go to a sub-committee, the two bills will be discussed and looked at very closely. If you can come up with something out of the two bills this will be fine, you can bring them back separate or together, a favorable or unfavorable decision will be left up to you. They can both be passed or kill them both or come up with something good from both of them. He appointed Rep. DeMars to chair the committee, Rep. Thomas and Rep. Bachini to serve on the sub committee.

Amendments and Votes: None

Recommendation and Vote: None

ADJOURNMENT

Adjournment At: 11:25 a.m.

  
REP. BOB PAVLOVICH, Chairman

BP/sp

2103.min



ROLL CALL VOTE

BUSINESS & ECONOMIC DEVELOPMENT

COMMITTEE

DATE 1/25/89

BILL NO. HB 351

NUMBER \_\_\_\_\_

NAME	AYE	NAY
Bob Pavlovich		
Gene DeMars		
Bob Bachini		
Rob Blotkamp		
Stella Hansen		
John Johnson		
Tom Kilpatrick		
Lloyd McCormick		
Don Stepler		
Bill Glaser		
Vernon Keller		
Thomas Nelson		
Bruce Simon		
Clyde Smith		
Fred Thomas		
Norm Wallin		

TALLY

16

Sue Pennington  
Secretary

Bob Pavlovich  
Chairman

MOTION: Do pass

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ROLL CALL VOTE

BUSINESS & ECONOMIC DEVELOPMENT

COMMITTEE

1/25/89

BILL NO.

HB 221

NUMBER

	AYE	NAY
Pavlovich		X
DeMars	X	
Bachini		X
Blotkamp	X	
Ella Hansen	X	
John Johnson	X	
Kilpatrick		X
Lloyd McCormick		X
Don Stepler	X	
Bill Glaser	↓	
Vernon Keller		
Thomas Nelson		
Bruce Simon		
Clyde Smith		
Fred Thomas		
Norm Wallin		

TALLY

12      5

Sue Pennington  
Secretary

Bob Pavlovich  
Chairman

MOTION: Do not Pass

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ROLL CALL VOTE

*Table Issue*

BUSINESS & ECONOMIC DEVELOPMENT

COMMITTEE

DATE 1/25/89

BILL NO. HB 221

NUMBER \_\_\_\_\_

NAME	AYE	NAY
Bob Pavlovich		X
Gene DeMars		X
Bob Bachini	X	X
Rob Blotkamp		X
Stella Hansen		X
John Johnson		X
Tom Kilpatrick		X
Lloyd McCormick		X
Don Stepler		X
Bill Glaser		X
Vernon Keller	X	
Thomas Nelson	X	
Bruce Simon	X	
Clyde Smith	X	
Fred Thomas	X	
Norm Wallin	X	

TALLY

6      10

Sue Pennington  
Secretary

Bob Pavlovich  
Chairman

MOTION: \_\_\_\_\_  
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## ROLL CALL VOTE

BUSINESS & ECONOMIC DEVELOPMENT

COMMITTEE

DATE 1/25/89

BILL NO. HB <sup>229</sup> 238

NUMBER \_\_\_\_\_

NAME	AYE	NAY
Bob Pavlovich		x
Gene DeMars	x	
Bob Bachini	x	
Rob Blotkamp	x	
Stella Hansen	x	
John Johnson	x	
Tom Kilpatrick		x
Lloyd McCormick	x	
Don Stepler	x	
Bill Glaser	x	
Vernon Keller		
Thomas Nelson		
Bruce Simon		
Clyde Smith		
Fred Thomas		
Norm Wallin		

TALLY \_\_\_\_\_

Sue Pennington  
Secretary

Bob Pavlovich  
Chairman

MOTION: Do not pass

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STANDING COMMITTEE REPORT

January 25, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Business and Economic Development report that House Bill 247 (first reading copy -- white) do not pass. Statement OF INTENT IS ATTACHED,

Signed:   
Robert Pavlovich, Chairman



ROLL CALL VOTE

BUSINESS & ECONOMIC DEVELOPMENT COMMITTEE

DATE 1/25/89 BILL NO. HB 247 NUMBER \_\_\_\_\_

NAME	AYE	NAY
Bob Pavlovich		
Gene DeMars		
Bob Bachini		
Rob Blotkamp		
Stella Hansen		
John Johnson		
Tom Kilpatrick		
Lloyd McCormick		
Don Stepler		
Bill Glaser		
Vernon Keller		
Thomas Nelson		
Bruce Simon		
Clyde Smith		
Fred Thomas		
Norm Wallin		

TALLY 16

Sue Pennington Secretary Bob Pavlovich Chairman

MOTION: Do Not Pass

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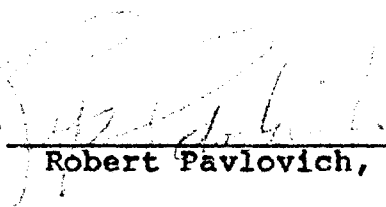
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STANDING COMMITTEE REPORT

January 25, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Business and Economic  
Development report that House Bill 251 (first reading copy --  
white) do pass .

Signed:   
Robert Pavlovich, Chairman

STANDING COMMITTEE REPORT

January 25, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Business and Economic Development report that House Bill 221 (first reading copy -- white) do not pass .

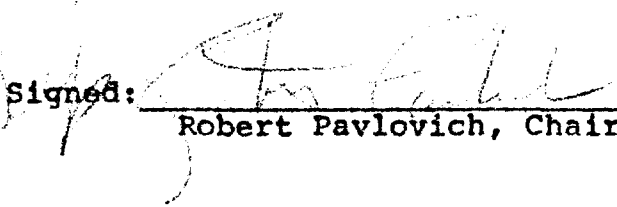
Signed:   
Robert Pavlovich, Chairman

STANDING COMMITTEE REPORT

January 25, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Business and Economic  
Development report that House Bill 222 (first reading copy --  
white) do not pass.

Signed: 

Robert Pavlovich, Chairman

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HB 191  
1/25/89

House Business & Economic Development Committee  
House Bill 191  
January 25, 1989

Testimony in Support  
Roger Tippy  
Montana Independent Bankers Association

Mr. Chairman and committee members, I urge your approval of this bill with a couple of technical amendments I will describe in a moment.

As Representative Stang has indicated, there is a surprisingly large area of consensus among the bankers of Montana over everything but merger and consolidation. The two major differences between HB 191 and the bill you heard last week are (1) that our bill does not contain merger and consolidation while theirs does, and (2) our bill also amends the powers of state savings and loan associations to be consistent with banks' powers in the area of branching, while theirs does not. Our testimony will first cover these two major points of difference and then will cover the smaller points of difference in the consensus areas. The consensus areas are that presently unserved communities like Troy should be able to get some banking services, that a bank buying a failed bank should be allowed to offer some banking services in the failed bank, and that the present limits on ATMs (3 miles) and extended teller facilities (1,000 feet) are too restrictive and should be opened up somewhat.

Savings and loan associations' powers are being amended in the Independent Bankers' bill because of a recent court decision.

For over 50 years, Congress has limited the authority of national banks to open branch banks to whatever state law allows state banks to do with branches (McFadden Act, 12 U.S. Code 36). If a state allows branches within 20 miles or statewide or not at all, that's how far national banks can or cannot put up branches.

In June of 1987 a federal appeals court held that S & Ls had become the functional equivalent of banks and that national banks could therefore open branches as much as either state banks or state S & Ls could branch. The case arose in Mississippi, whose laws allowed banks to branch countywide and allowed thrifts to branch statewide: the national bank was allowed to branch statewide (Miss. Dept. of Banking v. Clarke, 809 F.2d 266).

Montana's law on branching by a state-chartered thrift institution is very unclear. Some, including the Savings & Loan League, read it as prohibiting branching. Others have read this same section as allowing statewide branching. Under the first view, House Bill 191 expands the powers of state thrifts to the same degree all banks' powers would be expanded. In any event, only one savings and loan in Montana is currently state-chartered and it has no branches.

This bill does not try to restrict the branching or other activities of federal savings and loan associations.

The regulations of the Federal Home Loan Bank Board (cf. 12 C.F.R. 545.92, 545.141) would override any state attempts to regulate federal S & Ls, and this bill does not even suggest such controls. The only reason it mentions federal thrifts at all is to provide them with the same number of feet of insulation from a competitor drive-in teller facility or ATM which banks already have.

House Bill 191 doesn't deal with credit unions and their branches because it doesn't have to.

Nothing in the Fifth Circuit's decision in the Mississippi case suggests that the "functional equivalence" of banks and thrifts could be stretched so far as to equate banks with credit unions. There are still major differences between banks and credit unions.

De novo branching by federal S & Ls has been quite limited. The eleven home offices of the eleven Montana-based S & L associations support about twenty branch offices. The new branches are almost all within adjoining counties or 100-mile radii of the home offices. The mergers which have been pushed by the federal government as a partial cure for the problems of the savings and loan industry have resulted in more distant branch offices for some of the thrift organizations, but Montana thrifts generally adhere to the same "locally owned and operated" philosophy to which the Independent Bankers subscribe.

In the banking portions of the bill, we have proposed a definition of "main banking house" which differs somewhat from the definition proposed by the MBA in their bill. Under our original definition (page 5, line 9) a main banking house would be a bank in a county where a majority of its directors live. The other bill defines the main banking house as a bank's principal place of business in the state.

We have heard the comment that the determination of where a majority of a board of directors lives could be a real administrative problem for the Commerce Department. This point is well-taken. We therefore ask you to amend our bill by striking "a majority" and inserting "at least two," so that a main banking house is an office in a county where at least two of the directors with full voting authority are domiciled.

As so amended, our bill would take better care of the Twins than their bill would. Our bill would allow First Banks or Norwest to open extended teller facilities around their banks outside of Billings, as long as the boards they elected for their other banks had at least two directors from the community where the bank concerned was located. Under their bill, the Twins could only open branches in Yellowstone County or those counties which touch Yellowstone: Carbon, Big Horn, Treasure, Musselshell, Golden Valley, and Stillwater. Their bill allows branching only around the county in which the main banking house of a branch bank is located (HB 151, page 9, line 25).



Let us suppose, however, that the word comes down from Minneapolis: the boards for all seven Norwest banks or all twelve First Banks have to live in Billings. Does that mean the existing drive-ups these banks have built in downtown Helena, or Great Falls, or Missoula would have to go under our bill? We intend no such result: any existing drive-up facility should be grandfathered even if the holding company doesn't want to elect any directors from the community. The amendment which would assure that interpretation goes at page 5, line 21, and would insert at the end of that paragraph "or because of the domicile of the directors of the bank."

II  
1

Statement of Intent

HB 191

This bill allows banks and state-chartered thrift institutions to offer customer services in extended teller facilities a number of miles away from the main banking house. The Department of Commerce may adopt rules indicating the scope of those services, defined as "such other services as are normally and usually conducted at teller windows in the main banking house." The Department should be cognizant of modern communications technology such as facsimile transmission and modem-linked computers when it decides what is normal and usual at a teller window. A teller may, in other words, be able to communicate with a bank officer and gain electronic authorization to open accounts, issue checks for approved loans, and the like.

TIPPY

Amendments to House Bill 191

Proposed by the proponents, Montana Independent Bankers

1. Section 1, p. 5, line 9  
Following: county where  
Strike: a majority  
Insert: "at least two"
  
2. Section 1, p. 5, line 21  
Following: institution  
Insert: ", or because of the domicile of the directors  
of the bank"

# 2  
HB 191  
1/25/89

MONTANA INDEPENDENT BANKERS  
REPORT ON TAX IMPLICATIONS OF BANK MERGER  
JANUARY 25, 1989

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Montana Bancsystem, Inc.	
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January 24, 1989

Montana Independent Bankers  
2030 11th Avenue, Suite 22  
Helena, Montana 59601

Dear Sirs:

This report is a result of our study of bank merger as proposed in House of Representatives Bill Number 151. We have prepared this report in three segments. The first segment consists of numerous schedules detailing corporation license taxes distributed to counties under current law, corporation license taxes distributed to counties under the proposed bill, and details of gained and/or lost revenues by county. These schedules are prepared utilizing data from Sheshunoff for the year of 1987. These are book income figures since tax income figures are not available to us. The information has been assembled with the assumption that House Bill 151 passed prior to the last legislative session. The second portion of the report is a discussion of possible tax strategies that banks can use to reduce corporation license tax payments even more than depicted in the schedules of this report. The third portion of the report is a discussion of why House Bill 151 is not tax neutral.

Schedules A and B are prepared utilizing information of the First Bank System, Inc. Schedules C and D are prepared utilizing information of Norwest Corporation. Schedules E and F are prepared utilizing information of Montana Bancsystem, Inc. Schedules G and H are summations of the information on

Montana Independent Bankers  
January 24, 1989

schedules A through F. As can be seen on schedule G, total lost county revenue, statewide, is estimated at \$291,000. This represents only 80 percent of the total lost revenue. The State of Montana also loses an additional 20 percent or \$72,770. Total lost revenue is estimated at \$363,850. Schedule H depicts, by county, revenue gained and/or lost. As can be seen on schedule H, Cascade, Missoula, Silver Bow/Anaconda, Lewis & Clark, Mineral, and Carbon counties all will lose money if House Bill 151 passes. Gallitin county and Yellowstone county are the only counties which would gain revenue if House Bill Number 151 passes. As shown in schedule H, Silver Bow/Anaconda counties are the largest losers if the bill passes. The amount lost to Silver Bow and Anaconda would be \$185,000. Missoula county is also a large loser in the amount of \$114,000. Lewis & Clark county would lose an estimated \$68,000, and Cascade county would lose an estimated \$27,000.

None of these counties including Silver Bow/Anaconda can suffer such a loss of local tax revenue. Our local schools share approximately 65 percent of this revenue and they too cannot suffer such a loss. Any changes in banking laws which do not include merger and consolidation are, therefore, preferable from the standpoint of local government finance and, therefore, House Bill 191 is preferable.

Very truly yours,

  
RICHARD L. TAMBLYN, C.P.A.

RLT:drr  
Encs.

FIRST BANK SYSTEM INC.

SCHEDULE A

YEAR ENDED DECEMBER 31, 1987  
STATE CORPORATION TAXES DISTRIBUTED TO COUNTIES UNDER CURRENT LAW

<u>Bank</u>	<u>Net Income Before Taxes - Per Sheshunoff</u>	<u>Applicable Taxes - Per Sheshunoff</u>	<u>Estimate of State Taxes 20% of Col 2</u>	<u>Estimate of State Taxes to Counties 80% of Col 3</u>
First National Bank - Great Falls	\$2,174,000	\$455,000	\$ 91,000	\$72,800
First National Bank - Bozeman	426,000	0	0	0
First Bank - Western - Missoula	1,920,000	543,000	108,600	86,880
First Bank - Butte	1,607,000	572,000	114,400	91,520
First Bank - Billings	( 2,107,000)	0	0	0
First National Bank - Helena	1,922,000	744,000	148,800	119,040
First Westside Nat'l Bank - Great Falls	1,127,000	394,000	78,800	63,040
First Bank - Southside Missoula	918,000	336,000	67,200	53,760
First Bank - West Billings	<u>1,064,000</u>	391,000	<u>78,200</u>	62,560
<b>Totals</b>	<b><u>\$9,051,000</u></b>		<b><u>\$687,000</u></b>	



YEAR ENDED DECEMBER 31, 1987  
 STATE CORPORATION LICENSE TAXES DISTRIBUTED TO COUNTIES UNDER PROPOSED BILL  
 AND ESTIMATED COUNTY TAXES LOST UNDER PROPOSED BILL

Bank	Total Deposits per Sheshunoff	Percentage of Deposits By bank	Taxes Distribtd to counties (Based on %) (Note 1)	Est. Taxes Distribtd to Counties under Current Law	Est. County Taxes (Lost) Gained Under Proposed Bill
First National Bank - Great Falls	\$182,062,000	15.46%	\$ 75,561	\$ 72,800	\$ 2,761
First National Bank - Bozeman	111,848,000	9.50%	46,431	0	46,431
Fist Bank - Western - Missoula	178,677,000	15.18%	74,193	86,880	( 12,687)
First Bank - Butte	121,651,000	10.33%	50,488	91,520	( 41,032)
First Bank - Billings	240,719,000	20.44%	99,901	0	99,901
First National Bank - Helena	123,567,000	10.50%	51,319	119,040	( 67,721)
First Westside Nat'l Bank - Great Falls	79,364,000	6.74%	32,942	63,040	( 30,098)
First Bank - Southside Missoula	65,085,000	5.53%	27,028	53,760	( 26,732)
First Bank - West Billings	74,469,000	6.32%	30,889	62,560	( 31,671)
<b>Totals</b>		<u>100.00%</u>	<u>\$488,752</u>		<u>\$ (60,848)</u>

Note 1 - This is calculated as follows:

Total estimated State tax paid if one tax return is filed - \$9,051,000 x 6 3/4% = \$610,940  
 Less amount retained by the State of Montana - 20% x \$610,940 = (122,188)  
 Total amount distributed to counties - \$488,752  
 This amount of \$488,752 is then applied to the percentages in the second column above.

NORWEST CORPORATION

SCHEDULE C

YEAR ENDED DECEMBER 31, 1987  
STATE CORPORATION LICENSE TAXES DISTRIBUTED TO COUNTIES UNDER CURRENT LAW

<u>Bank</u>	<u>Net Income Before Taxes - Per Sheshunoff</u>	<u>Applicable Taxes - Per Sheshunoff</u>	<u>Estimate of State Taxes 20% of Col 2</u>	<u>Estimate of State Taxes to Counties 80% of Col 3</u>
Norwest Bank - Anaconda/Butte	\$1,755,000	\$601,000	\$120,200	\$96,160
Norwest Bank - Billings	( 354,000)	0	0	0
Norwest Bank - Dillon	( 143,000)	0	0	0
Norwest Bank - Helena	(5,297,000)	0	0	0
Norwest Bank - Great Falls	200,000	0	0	0
Norwest Bank - Kalispell	(1,022,000)	0	0	0
Norwest Bank - Lewistown	<u>316,000</u>	0	<u>0</u>	0
<b>Totals</b>	<b><u>\$(4,545,000)</u></b>		<b><u>\$120,200</u></b>	

NORWEST CORPORATION

SCHEDULE D

YEAR ENDED DECEMBER 31, 1987  
 STATE CORPORATION LICENSE TAXES DISTRIBUTED TO COUNTIES UNDER PROPOSED BILL  
 AND ESTIMATED COUNTY TAXES LOST UNDER PROPOSED BILL

Bank	Total Deposits per Sheshunoff	Percentage of Deposits By bank	Taxes Distribtd to counties (Based on %) (Note 1 )	Est. Taxes Distribtd to Counties under Current Law	Est. County Taxes (Lost) Taxes Gained Under Proposed Bill
Norwest Bank - Anaconda/Butte	\$111,916,000	16.65%	0	\$96,160	\$(96,160)
Norwest Bank - Billings	170,557,000	25.38%	0	0	0
Norwest Bank - Dillon	30,353,000	4.51%	0	0	0
Norwest Bank - Helena	95,769,000	14.25%	0	0	0
Norwest Bank - Great Falls	121,359,000	18.06%	0	0	0
Norwest Bank - Kalispell	83,717,000	12.46%	0	0	0
Norwest Bank - Lewistown	58,372,000	8.69%	0	0	0
Totals		<u>100.00%</u>			<u>\$(96,160)</u>

Note 1 - This amount is a zero balance because of the net operating loss of \$4,545,000 as shown on Schedule C.

MONTANA BANCSYSTEM, INC.

SCHEDULE E

YEAR ENDED DECEMBER 31, 1987  
STATE CORPORATION LICENSE TAXES DISTRIBUTED TO COUNTIES UNDER CURRENT LAW

<u>Bank</u>	<u>Net Income Before Taxes - Per Sheshunoff</u>	<u>Applicable Taxes - Per Sheshunoff</u>	<u>Estimate of State Taxes 20% of Col 2</u>	<u>Estimate of State Taxes to Counties 80% of Col 3</u>
Montana Bank of Sidney	\$(1,362,000)	\$ 0	\$ 0	\$ 0
Montana Bank of S. Missoula	1,082,000	465,000	93,000	74,400
Montana Bank of Billings	( 729,000)	0	0	0
Montana Bank of Circle	( 28,000)	0	0	0
Montana Bank of Forsyth	( 171,000)	0	0	0
Montana Bank of Butte	745,000	299,000	59,800	47,840
Montana Bank of Bozeman	( 820,000)	0	0	0
Montana Bank of Livingston	( 152,000)	0	0	0
Montana Bank of Minern County	143,000	54,000	10,800	8,640
Montana Bank of Red Lodge	83,000	20,000	4,000	3,200
Montana Bank of Baker	( 48,000)	0	0	0
Montana Bank of Roundup	(1,229,000)	0	0	0
<b>Totals</b>	<u>\$(2,486,000)</u>		<u>\$167,600</u>	

YEAR ENDED DECEMBER 31, 1987  
 STATE CORPORATION LICENSE TAXES DISTRIBUTED TO COUNTIES UNDER PROPOSED BILL  
 AND ESTIMATED COUNTY TAXES LOST UNDER PROPOSED BILL

Bank	Total Deposits per Sheshunoff	Percentage of Deposits By bank	Taxes Distribtd to counties (Based on %) (Note 1 )	Est. Taxes Distribtd to Counties under Current Law	Est. County Taxes (Lost) Gained Under Proposed Bill
Montana Bank of Sidney	\$31,791,000	11.45%	\$ 0	\$ 0	\$ 0
Montana Bank of S. Missoula	44,146,000	15.91%	0	74,400	( 74,400)
Montana Bank of Billings	17,562,000	6.32%	0	0	0
Montana Bank of Circle	21,171,000	7.63%	0	0	0
Montana Bank of Forsyth	5,076,000	1.83%	0	0	0
Montana Bank of Butte	41,056,000	14.80%	0	47,840	( 47,840)
Montana Bank of Bozeman	35,782,000	12.89%	0	0	0
Montana Bank of Livingston	9,881,000	3.56%	0	0	0
Montana Bank of Mineral County	1#,820,000	4.98%	0	8,640	( 8,640)
Montana Bank of Red Lodge	21,251,000	7.66%	0	3,200	( 3,200)
Montana Bank of Baker	19,717,000	7.10%	0	0	0
Montana Bank of Roundup	16,297,000	5.87%	0	0	0
<b>Totals</b>		<b>100.00%</b>			<b>\$ (134,080)</b>

Note 1 - This amount is zero because of the net operating loss of \$2,486,000 as shown on Schedule E.

SCHEDULE G  
SCHEDULE OF SUMMATION  
OF ESTIMATED COUNTY TAXES LOST UNDER PROPOSED BILL  
FOR THE ENTIRE STATE

First Bank System (from Schedule B)	\$( 60,848)
Norwest Corporation (from Schedule D)	( 96,160)
Montana Bancsystem, Inc. (from Schedule F)	( <u>134,080</u> )
Total lost county revenue	<u>\$(291,088)</u>

This represents only 80 percent of the total lost revenue. The State of Montana loses an additional 20 percent or \$72,770. Total lost revenue is \$363,850.

SCHEDULE OF (LOST) AND GAINED REVENUE  
BY COUNTY

SCHEDULE H

	(LOST) GAINED REVENUE			
	Cascade (two banks)	Missoula (two banks)	Galitin	Silver Bow Anaconda
First Bank System (Schedule B)	\$ 2,761	\$( 12,687)	\$46,431	\$( 41,032)
Total First Bank System	<u>( 30,098)</u>	<u>( 26,732)</u>	<u>0</u>	<u>0</u>
	( 27,337)	( 39,419)	46,431	( 41,032)
Norwest Corporation (Schedule D)	0	0	0	( 96,160)
Montana Bancsystem, Inc. (Schedule F)	<u>0</u>	<u>( 74,400)</u>	<u>0</u>	<u>( 47,840)</u>
Total (lost) gained revenue	<u>\$(27,337)</u>	<u>\$(113,819)</u>	<u>\$46,431</u>	<u>\$(185,032)</u>
		(LOST) GAINED REVENUE		
	Lewis & Clark	Yellowstone (two banks)	Mineral	Carbon
First Bank System (Schedule B)	\$ (67,721)	\$99,901	\$ 0	\$ 0
Total First Bank System	<u>0</u>	<u>( 31,671)</u>	<u>0</u>	<u>0</u>
	(67,721)	68,230	0	0
Norwest Corporation (Schedule D)	0	0	0	0
Montana Bancsystem, Inc. (Schedule F)	<u>0</u>	<u>0</u>	<u>( 8,640)</u>	<u>( 3,200)</u>
Total (lost) gained revenue	<u>\$(67,721)</u>	<u>\$68,230</u>	<u>\$( 8,640)</u>	<u>\$( 3,200)</u>

POSSIBLE TAX STRATEGIES  
WHICH MAY BE USED BY THE BANKS UPON MERGER

House Bill Number 151, as presently written, allows the banks to merge as many banks as they wish. Also, the net operating loss carry forward is entirely lost when the banks are merged. This allows for some unique tax strategies in merging certain banks within a system. As an example, the Norwest Corporation will have to sacrifice net operating loss carry forwards in a few banks, but not all. They could merge only enough banks to reduce the profit in Butte to zero or near zero. The remaining banks probably would then not be merged, thus utilizing the net operating loss carry forwards in these banks. This type of strategy would save the banks considerable more taxes than what is depicted in schedules G and H in the long run.



DISCUSSION OF HOUSE BILL NUMBER 151 NOT BEING TAX NEUTRAL

Proponents of the House Bill Number 151 have stated that in the long run, the bill is tax neutral. This is untrue when considering the time value of money. Utilizing an interest rate of eight percent and also assuming that the total lost revenue on Schedule G of \$363,850 will be recovered five years from now, the amount in current dollars that will be recovered is only \$244,220. This is a net loss in current dollars of \$119,630 assuming that the 363,000 will be recovered in five years. To recover the 363,850 in current dollars, five years from now, the total taxes paid back to the counties would have to be \$542,080. Therefore, we can only conclude that this bill is not tax neutral when considering the time value of money.

JANUARY 18, 1989

# 3  
HB 191  
1/25/89

TESTIMONY BY PAUL D. CARUSO, CHAIRMAN OF THE FIRST SECURITY BANK OF HELENA  
BEFORE THE BUSINESS AND ECONOMIC DEVELOPMENT COMMITTEE IN FAVOR OF HOUSE BILL  
#191 TELLER FACILITY EXPANSION OF BANKING IN MONTANA.

FIRST: WE ALL MUST UNDERSTAND HB #191 IS DESIGNED TO SERVICE THE CONSUMERS  
OF ALL OF MONTANA. THIS IS NOT DESIGNED TO BE FOR THE BETTERMENT OF THE BANKERS-  
JUST CONSUMERS.

THE MONTANA INDEPENDENT BANKERS' PRESENT THE BILL TO MONTANA COMMUNITIES FOR  
THEIR BETTERMENT AND CONVENIENCE. THE BILL WAS NOT WRITTEN BY JUST A FEW BANKERS,  
BUT WE ASKED THE PUBLIC IN DIFFERENT AREAS OF MONTANA WHAT THEY THOUGHT WAS  
NECESSARY FROM THEIR VIEWPOINT FOR FINANCIAL SERVICES NEEDED FOR THEM AND BY  
THEM IN THEIR TOWNS AND CITIES. WE SOUGHT OUT CONSUMER GROUPS FOR THEIR OPINIONS,  
NECESSITIES, AND REQUIREMENTS OF BANKING SERVICES. THIS IS THE BILL IN FORM THAT  
YOU HAVE BEFORE YOU TODAY.

SECOND: THE MONTANA INDEPENDENT BANKERS DID NOT TAKE INTO CONSIDERATION IN ANY  
MANNER HB #151, WHICH WAS PRESENTED BY THE MBA. WE FOUND THEIR LEGISLATION TO  
BE SELF-CENTERED FOR A SELECTED GROUP OF BANKERS WITH BRANCHING, MERGING AND  
TAX BENEFITS. MIB DID NOT AND WILL NOT ADDRESS, NOR APPROVE THEIR PURPOSED  
LEGISLATION, IN OUR BILL. MERGER DOES NOT BENEFIT THE CONSUMER OR PUBLIC FOR  
ANY PURPOSE IN MONTANA.

THIRD: MIB BILL #191 DOES NOT REDESIGN THE BANKING SYSTEM IN MONTANA. IT  
WILL GUARD AGAINST UNDUE CONCENTRATION, AND BE EQUITABLE, UNBIASED AND HONEST  
TO ALL BANKS AND BANKERS IN MONTANA. WHETHER THEY ARE INDEPENDENT BANKERS OR  
CORPORATIONS, HOLDING COMPANY ASSOCIATIONS, STATE BANKS AND NATIONAL BANKS DOING  
BUSINESS IN OUR STATE OF MONTANA.

AS AN INDEPENDENT BANKER AND SUPPORTING THE MONTANA INDEPENDENT BANKERS GROUP,  
I REQUEST YOUR CONSIDERATION TO COMPREHEND THE SUPPORT OF "DO PASS" ON

HB # 191.

THANK YOU.

PAUL D. CARUSO

#4  
1/25/89  
HB 191

TESTIMONY ON HB-191

BY BOB SIZEMORE

OUTLINE OF STATEMENT

- Pg. 1      Need merger to survive - HB-191 does not allow it - HB-151 does.
- Pg 1-2     County domiciled directors discriminates against state banks. Federal law only requires state domiciled directors for national banks.
- Pg. 2      Discriminates against non-incorporated towns - can't have detached teller drive-up facility - HB-151 allows branches.
- Pg. 3      Discriminates against banks - S&L's and credit unions can branch anywhere.
- Pg. 4      Does not assist regulators in sale of failed bank - HB-151 allows branch.
- Pg. 5      Discriminates against towns beyond 25 miles or within 10 miles of bank or S&L - HB-151 allows branches in any barren town within county or adjoining county.
- Pg. 6      HB-151 already a compromise - HB-191 further dilution.
- Pg. 7      Banks losing market share and jobs to competition.
- Pg. 8      Big banks cannot gobble up little banks in HB-151.
- Pg. 8      HB-151 good economic policy - HB-191 does nothing to make loans, create jobs, enhance competition, or help economy.

TESTIMONY ON HB-191

MONTANA INDEPENDENT BANKERS ASSOCIATION BANK BILL

House Business &  
Economic Development Committee

Wednesday  
Jan. 25, 1989

Mr. Chairman and Members of the Committee:

I am Bob Sizemore, President, Western Bank, an independent community banker in Chinook, a town of 1800. I've been in banking for 31 years. I was a member of the Montana Independent Bankers Association along with many of my peers who use to belong, but have dropped our membership due to their refusal to accept change. Ten years ago I would be opposed to branch banking, but with changes in the market place today, I have to seek out opportunities such as merger and branching. I have to accept change to survive whether I like it or not.

The Montana Independent Bankers Association Bill does next to nothing. It does not allow merger and consolidation of banks which would allow small rural community owned banks to merge, branch and survive the earnings squeeze. It does not help any communities now without a bank because a teller window is of minor value to any small community. They need loans to grow, not a place to make change. It does not enhance competition to any degree and is therefore of little value to the public.

The definition of a "main banking house" on page 5, line 9, doesn't make any sense. It says the "main bank house" means an office of a bank or a thrift institution (savings & loan) in a

county where a majority of the directors holding full voting authority over all lending decisions are domiciled."

In the first place, many banks do not have all directors coming from within the county. Some banks serve a multi-county trade area and, therefore, want directors from neighboring counties. All banks have a 2/3 majority of their boards as residents of Montana as required by state law, but some only use local directors as an advisory board. This is likewise true of savings and loan associations who have branches all over the state of Montana and out-of-state. Also to require state banks "county" domiciled directors is more restrictive and discriminatory when national banks only need "state" domiciled directors. Also, credit unions and all other financial providers are not required to have county domiciled directors.

On the same page, line 13, "thrift institution" means a building and loan association (state chartered) or a federal savings and loan association. Evidently this bill is trying to tell all savings and loan associations they must have a majority of their directors from within the county of their main banking house. A federal savings and loan association cannot be governed by state law, so I am sure they will turn their noses up at this attempt to regulate them at the state level. Since they branch statewide, it would be ridiculous to expect them to have a majority of their directors from one county. It is my understanding federal savings and loan may choose to have all of its directors domicile out side of Montana if they wish. The Montana Savings & Loan

League will not even oppose this bill because they don't care what you write into Montana law.

There is one state chartered savings and loan association in Great Falls who is hamstrung by this bill. Not only can that S&L not branch so as to be competitive with his peers, but in addition that S&L will have to have a majority of their directors from Cascade county.

The definition of community on line 5, page 5, means an incorporated city or town, or a census enumerator district. Does this mean non-incorporated towns are excluded from this bill?

On page 2, HB-191 tries to limit banks and S&Ls to only one detached drive-in facility within 1000 or up to 3000 feet in cities over 20,000 population. Again the state chartered savings & loan in Great Falls will be the only S&L effected because the federal savings and loans and credit unions will totally ignore this law and do whatever they please, as they have in the past.

Banks of course will be prohibited from placing a detached teller facility up to 200 feet away from any other facility, but federal S&Ls, and credit unions can place their branches next door to a bank. Isn't this discriminatory?

It says on page 3, line 13, any bank may have a drive-up facility in the same county as its "main banking house." Once again, they are attempting to regulate state and federal chartered savings and loans in the placement of detached drive-up facilities. And once again, the only one effected will be the state chartered

S&L in Great Falls. The other 10 savings and loans with their 35 branches and credit unions will continue to do as they please.

They also try to limit the placement of a detached facility to within 25 miles of the main banking house as long as it is no closer than 10 miles to the "main banking house" of a bank or savings and loan. Are they measuring the 25 miles by road or as the crow flies. That could mean the difference between whether or not a little town would get a detached teller facility.

They also try to exclude on line 24 First Bank, Norwest, and First Interstate Bancorporation from acquiring a failed bank and running it as a detached teller facility. Personally, I don't know why any bank, whether it's in state or out-of-state, would buy any failed bank or S&L and then have to make it into a detached teller facility. Banks don't make money making change, they make money making loans. This does absolutely nothing to help the regulators convert a failed bank to a branch. Even Wyoming allows at least a failed bank to be a branch.

On the bottom of page 6, line 24, they make it clear that a drive-up facility is not a branch. That's like saying a savings and loan is not a bank. Take a survey of consumers and I believe you will find 99 out of 100 think an S&L is a bank. For that matter, most S&L's call themselves savings banks. Some people are starting to think that a credit union and a stock broker are banks too. It doesn't make much difference what the law says if the public perceive it as something different.

On page 7, line 20 and 21, they change the limits for placement of automated teller machines from 3 miles beyond the city limits to within a county. Our bill allowed placement of ATMs within adjoining counties, again to do some good for little towns that don't have a place to obtain cash or make a deposit. At least on line 21 they do admit there are branches in existence and they are allowing the one state S&L to have ATMs within Cascade county. Seems to me they are giving the federal S&Ls who have 35 branches and credit unions a pretty big edge over the banks.

This bill does not only do very little for small towns within 25 miles of a "main banking house" what ever that is, but it does nothing for little towns that are more than 25 miles away depending on how you calculate the mileage.

For example, Westby sits on the North Dakota border, and I understand there is a little North Dakota Bank there. Maybe Plentywood could get some Westby business with a branch.

Froid is 24 miles from Culbertson and about 40 miles away from Plentywood. If Froid should be forced to close, it looks like Culbertson would be the only bidder who might even be interested because they are the only ones that could put a drive-up facility in Froid. I am sure the regulators would not be too excited about such a limitation because without competitive bidding between banks, it would end up costing FDIC and you and I as taxpayers more money.

Other towns that are beyond the 25 mile limit that might be large enough to sustain a branch are Saco, Alzata, Lodge Grass,



Sunburst, Monida, Drummond, St. Mary, Noxon, Wisdom, and more.  
True, Troy is within 25 miles of Libby, but people in that little town want to be able to borrow money, as well as make change. Pablo is only 6 miles from Ronan, so it would not even qualify for a detached teller facility because it is too close to another bank. Further, I doubt it would be feasible for any bank to construct a detached teller facility and make it profitable.

This bill is simply a smoke-screen by the Independent Bankers Association to buffalo you into thinking they are trying to do something for the consumers of Montana, when, in fact, it does nothing.

The Montana Bankers Association Bill was already a compromise between the extremes of interstate banking and statewide branching and doing nothing. It is still the only bill that has a majority support of all bankers in Montana. It is still the only bill that will create new jobs by the installation of branches in communities where they are needed. It is still the only bill that will enhance competition between financial providers thereby providing higher interest rates to savers.

Why is it the school districts in 1987 passed a bill to allow them to take bids from banks, S&Ls, credit unions statewide? Why is it that the counties and cities in HB-175 are asking for the same opportunity? It is because they are not receiving a competitive rate of interest on their savings from their local financial institution. Do you think this is fair to the taxpayers in those communities? How about the consumers in those markets?

Don't you think those consumers will take advantage of higher interest rates provided by the American Association of Retired Persons, credit unions, Citicorp CD's offered by Edward D. Jones, Merrill Lynch and D.A. Davidson? Don't you think banks are going to continue to lose market share because they are not competitive in price? Don't you think this will result in fewer jobs in banks and in Montana? Most of the states \$2.8 billion is invested out-of-state. Most financial institutions are only 50% loaned up in Montana due to poor loan demand, so another \$5 billion is flowing out-of-state. Virtually all of the billions put into the stock brokers and annuities sold by insurance agents likewise goes out of state.

When will we stop the exodus of dollars and unleash the economic forces of competition to keep that money at work in Montana.

This business about First Bank, Norwest Bank and First Interstate Bancorporation not being good citizens in Montana is baloney. If they have been so bad, why have they been here the last 50 years? Why are they still here after losing millions of dollars in 1985, 1986 and 1987, when our economy went to hell? Why are they any worse than First Interstate Bancsystem, a \$600 million bank and the 3rd largest bank system in Montana, or for that matter, an independent bank like First Security Bank of Bozeman which is \$170 million and the 7th largest in Montana or The Yellowstone Banks which are the 14th largest when combined?

Charges of concentration of power, fewer independent banks by being gobbled up by the bigs, along with all the rest of the opponents arguments, are simply not true. Study after study, including all the material we have given you over the last 3 weeks is factual evidence refuting every argument they have provided to date.

Finally, it is your jobs as policy makers of Montana to set an economic policy that will benefit the 800,000 people who live here. We believe you will conclude that the Montana Bankers Association Bill, HB-151, is good economic policy.

# 5  
1/25/89  
HB 191

TESTIMONY

January 25, 1989

Martin M. Olsson - Vice President, Ronan State Bank

Subject: House Bill 191

My name is Martin M. Olsson and I am a vice president with Ronan State Bank, a \$50 million independent bank chartered in 1910. We are opposed to HB 191 because we feel this bill does not go far enough in providing the services to our consumers and the necessary tools to banks to allow us to compete effectively in our financial services industry.

In testimony this morning and last week the MIB has expressed fear of undue concentration of power in our banking system. This fear was expressed by a representative of the First Interstate group which currently is the third largest holding company in Montana (they control 8.2% of Montana's banking resources as compared to Norwest's 10.5% and First Bank's 27.6%). We feel the fear of concentration is over stated for two reasons. First the MBA bill (HB 151) does not allow out of state holding companies to buy banks in Montana except in the case of failed banks. Second, First Bank System has sold four profitable banks in Montana because they recognize they can not compete effectively with well run community banks.

We feel the merger/consolidation issue is important to community

banks of our size. Sure it would be a benefit to the major holding companies, but realistically those banks have already completed their consolidation through loopholes in existing laws. In the case of First Bank System, Norwest Corporation, Bank of Montana System and Montana Bank System, the lending function, operations departments, administrative functions and other customer support services such as escrow departments have already been consolidated. Representative Hansen's concerns of loss of jobs, noted last week, has already happened in most cases.

We feel the three groups harmed most through the consolidation by loophole currently practiced are small community banks like us who want to broaden their market share, smaller banks in marginal areas that now do not have an effective market, and the customers of our banks statewide. We currently are looking at a couple of markets that we feel would provide a profitable branch operation (providing it is a full service branch) but it is unlikely those markets would provide a reasonable return on the investment for a "De Novo" bank. We will be submitting an application shortly for one of those markets, since we currently enjoy a capital ratio of 12% but we certainly are an exception in this regard. Most banks who would chose to expand their operations would need to be more concerned about the effective use of their capital. We are also pursuing this project with the full expectation that in the not too distant future, we would be able to merge.

The prospects of sales for many banks - especially in eastern Montana - get slimmer each year as the drought, ag outlook, and energy problems continue to take their toll. We feel that merger/consolidation may be the only reasonable opportunity to keep these banks operating in their communities as branches.

As noted earlier, the consumers seem to be the last - but not the least - forgotten group in the current battle of the banks. Even though larger bank groups have been able to consolidate by loophole, the consumer can not enjoy the benefits of taking care of their banking business except at the specific bank where they have an account. Why should they not have the opportunity to stop by any First Bank or Bank of Montana "store" and transact their business? You can bet that is now possible with Sears, DAD, or any branch of a credit union or a savings and loan. Also, it seems to us that providing a protectionist environment for a selected group of banks while requiring the folks in towns like Darby, Pablo and Troy to travel significant distances for full service banking is not in the best interest of our economy.

The tax issue is one that can - and probably will - be debated until the cows come home. Depending upon who decides the ground rules and the years that bank earnings are measured, a very effective case can be made for either side. If there is really a problem, then it should be addressed by a tax committee and the rules evenly applied to the banks as well as the savings and

loans.

In conclusion, this disagreement is not over control of the banking assets by the Minnesota twins. With average loan to deposit ratios in Montana of approximately 50% there is sufficient funds for bankable deals. The real issue is providing a protective environment for a selected number of banks who really oppose any change in Montana's banking laws vs. providing those banks who want to modernize, the ability to provide better, more convenient services to our consumers. We've heard testimony that across the nation the majority of funds provided for small to medium sized business come from small community banks. We agree, but also remember those community banks are competing in a branching environment. In Montana, the majority of the loans funded under the "I - 95" program have been provided by small community banks. We know that to be true, and in fact at last count, Ronan State Bank has funded more loans (number not dollar volume) than any other bank in the state under that program. We are not afraid to compete in our market and want to be able to expand to more effectively serve our customers.

Please help us and our customers by opposing HB 191 and passing HB151.

#6  
1/25/89  
HB 191

TO: THE MEMBERS OF THE HOUSE, BUSINESS,  
AND ECONOMIC DEVELOPMENT COMMITTEE  
MONTANA HOUSE OF REPRESENTATIVES

Chairman Pavolvich & Members of the Committee:

My name is Sam Noel, and I am the President of the Citizens State Bank in Hamilton, Montana -- Ravalli County. I am also a Director of the bank. The bank is, as I indicated in my testimony last week in support of House Bill #151, 100% owned by residents of Ravalli County. The Citizens State Bank was formerly a member of the Montana Independent Bankers. It is currently a member of the Montana Bankers Association and the Independent Bankers of America. The majority shareholder of our bank is Mr. Vern C. Hollingsworth, who at one time was also a member of this legislative body from Ravalli County. Mr. Hollingsworth resigned the Citizens State Bank membership in Montana Independent Bankers because he no longer felt that the Montana Independent Bankers represented the bank. Basically, Citizens State Bank felt that the Montana Independent Bankers were anti any change in banking laws in the State of Montana. That is not realistic and it was felt that the opposition continually voiced by Montana Independent Bankers was strictly protectionism of individual members "exclusive" franchises and was very anti-consumer.

As I mentioned in my previous testimony, I have been in banking for 33 years, 12 of them in Montana. As the Manager of the Correspondent Bank Division at Seattle First National Bank, I covered the following states: Alaska, Colorado, Idaho, Montana, Oregon, Utah, Wyoming, and Washington. All of those states have less restrictive banking structure. It's interesting to note that their economies are moving forward at a faster pace than Montana's.

I am testifying today in opposition of the Montana Independent Bankers' introduced bill HB-191. I am opposing it for the same reasons that we are supporting HB-151 introduced by the Montana Bankers Association. We oppose HB-191 for the following reasons:



The Members of the House, Business,  
and Economic Development Committee

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1. It will not allow merger and consolidation of existing banks in the State of Montana.
2. It will not allow extended banking services for communities not now possessing a banking facility.
3. It will not permit <sup>relaxation of distance limitations</sup> a detached teller facility unless the main bank is in a city with a population of over 20,000 population.
4. It will not <sup>facilitate</sup> ~~permit~~ the acquisition of a failed bank by any existing bank in the State of Montana or any outside bank.

Each of you on this committee have to ask yourself why the Montana Independent Bankers oppose the features of HB-151 by introducing their own HB-191. Who are they trying to protect? Are they considering the consumer and his ability to get quality banking services in convenient locations? Are they considering the cost to the FDIC and eventually the taxpayer in eliminating the potential for another bank located in the State of Montana or a bank located outside the State of Montana to buy a failed bank? If the failed banks has no buyers, as was the case in Browning, the FDIC and the taxpayers and consumers pay the cost of the liquidation of that bank. The cost of FDIC insurance premiums are passed on in service charges to bank customers. Why would the MIB restrict the placement of automatic-teller machines? Why would the Montana Independent Bankers wish to restrict a banking bill that would allow banks currently under common ownership to consolidate and become more efficient? Some members of the Montana Independent Bankers, in fact, do own two or more banks and they would benefit from merger and consolidation through more efficient operation. Why are they against that? Each one

of you, as businessmen, must ask yourself these questions, and I'm sure the answer you're going to come up with is that none of your businesses would want to operate under the restrictions that banks are subject to in the State of Montana.

Citizens State Bank's majority shareholder is 84 years old. He does, at some point, desire to sell the bank. The marketability of the Citizens State Bank would be enhanced if a possible acquiring bank, headquartered in the State of Montana, would be able to merge the Citizens State Bank into the acquiring organization. The savings in such a move is substantial: Back-room operations or computer processing could be merged. There would not have to be a separate Board of Directors. There would not have to be significant time spent in complying with individual bank regulatory reporting requirements. If the acquiring bank were larger and more sophisticated, the bank being acquired (in this case, Citizens State Bank) would be able to offer all of these services available through the more-sophisticated bank. That benefits the consumer.

Competitive Equality: What is that? I mentioned in my presentation on January 18th, as a proponent of HB-151, that Hamilton, Montana, is a town of approximately 3,000 people. In a three-mile radius, the population probably increases to around 12,000. In that competitive arena, we have:

1. Piper, Jaffray & Hopwood, Inc., headquartered in Minneapolis -- the Hamilton office is a branch of Missoula.
2. D. A. Davidson, headquartered in Great Falls operating out of the Missoula Branch.

3. Edward D. Jones & Co., headquartered in the Midwest with branches all over the United States.
4. Destiny Planning Group, Inc.
5. First Federal Savings and Loan, a branch of Missoula.
6. Western Federal Savings and Loan, a branch of Missoula and the recent acquiror of Great Falls Savings and Loans, a failed savings and loan.
7. Ravalli County Federal Credit Union in Hamilton.
8. Bitterroot Federal Credit Union in Darby.

All of the above may branch anywhere they please in the State of Montana. In addition to those competitors mentioned above, we also have commercial bank competition in Ravalli County. They are:

1. Ravalli County Bank, Hamilton.
2. Farmers State Bank, Victor.
3. First State Bank of Stevensville.

In this competitive environment, the commercial banks are the only ones that are restricted in physical location to provide quality banking services to the consumer. Is this really what Montana wants?

We cannot predict whether the towns in Ravalli County or the towns in contiguous counties that do not currently have a banking

The Members of the House, Business,  
and Economic Development Committee

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facility will have branches established immediately should HB-151 pass. What we can say with certainty is that if the Montana Independent Bankers' HB-191 passes, the consumers in those towns will not have the opportunity for a banking facility unless a group is able to raise capital in the amount of at least \$1,500,000.00 to \$2,000,000.00 to establish a unit bank. Does that make sense when there are existing banking facilities, already capitalized, already staffed, who could establish a facility in those towns for a fraction of the expense required to separately capitalize a unit bank? The towns that are surrounding Hamilton that currently do not have banking facilities are Darby, Corvallis, Florence, and Wisdom. Driving distances from towns without banking facilities in Montana is significant in many cases. Is that something that the consumer should have to put up with in Montana? Under the Montana Bankers Association's HB-151 there could be ATM's or drive-in facilities, as well as full-service facilities, in these unbanked communities, none of which is available under the HB-191 proposed by the Montana Independent Bankers.

Conclusion: The management of Citizens State Bank opposes HB-191.

Thank you for your consideration.

Sincerely yours,

Samuel R. Noel  
President and C.E.O.  
Citizens State Bank

SRN/kg

WITNESS STATEMENT

NAME Aly B CARLSON BUDGET HB # 191

ADDRESS P.O. Box 1147 Helena MT

WHOM DO YOU REPRESENT? Self / Association of Montana Bankers

SUPPORT \_\_\_\_\_ OPPOSE XX AMEND \_\_\_\_\_

COMMENTS: Mr Tamblin's comments were focused on HB 151 which was appropriate last week, when it should have and could have been openly discussed before the committee. The fiscal note states the tax conclusion clearly - not feasible to study and actual effects is unknown and will be dependent on the profitability of merged banks, if in fact merges takes place.

We would be available to the committee to provide a response to the NHEP report distributed on Jan 25, 1989 which apparently relates to HB 151, which we believe misrepresents the current tax revenues and makes comparisons inaccurate.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

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125/89  
NB 191

14<sup>th</sup>  
in size when  
Combined

# STATEMENT OF CONDITION

December 31, 1988

ASSETS	Laurel	Columbus	Absarokee	Billings	Combined
Cash and Due from Banks .....	\$ 2,232,000. ....	\$ 1,599,000. ....	\$ 500,000. ....	\$ 2,272,000. ....	\$ 6,603,000.
U.S. Government Securities .....	17,809,000. ....	8,938,000. ....	6,320,000. ....	2,713,000. ....	35,780,000.
Other Securities .....	4,288,000. ....	3,550,000. ....	1,682,000. ....	1,594,000. ....	11,114,000.
Loans .....	25,616,000. ....	12,630,000. ....	3,568,000. ....	4,937,000. ....	46,751,000.
Less Reserve for Loan Losses ...	225,000. ....	221,000. ....	54,000. ....	44,000. ....	544,000.
Federal Funds Sold .....	2,440,000. ....	4,525,000. ....	655,000. ....	1,300,000. ....	8,920,000.
Fixed Assets .....	482,000. ....	445,000. ....	124,000. ....	585,000. ....	1,636,000.
Other Assets .....	2,117,000. ....	1,255,000. ....	420,000. ....	411,000. ....	4,203,000.
<b>TOTAL ASSETS .....</b>	<b>\$ 54,759,000. ....</b>	<b>\$ 32,721,000. ....</b>	<b>\$ 13,215,000. ....</b>	<b>\$ 13,768,000. ....</b>	<b>\$ 114,463,000.</b>
<b>LIABILITIES</b>					
Demand Deposits .....	\$ 4,447,000. ....	\$ 3,275,000. ....	\$ 824,000. ....	\$ 3,176,000. ....	\$ 11,722,000.
Time Deposits .....	43,760,000. ....	24,852,000. ....	10,461,000. ....	8,477,000. ....	87,550,000.
Total Deposits .....	48,207,000. ....	28,127,000. ....	11,285,000. ....	11,653,000. ....	99,272,000.
Federal Funds Purchased .....	-0- ....	-0- ....	-0- ....	-0- ....	-0-
Other Liabilities .....	902,000. ....	762,000. ....	111,000. ....	309,000. ....	2,084,000.
<b>TOTAL LIABILITIES .....</b>	<b>\$ 49,109,000. ....</b>	<b>\$ 28,889,000. ....</b>	<b>\$ 11,396,000. ....</b>	<b>\$ 11,962,000. ....</b>	<b>\$ 101,356,000.</b>
<b>CAPITAL</b>					
Capital Stock .....	\$ 1,000,000. ....	\$ 1,000,000. ....	\$ 500,000. ....	\$ 600,000. ....	\$ 3,100,000.
Surplus .....	2,500,000. ....	2,000,000. ....	500,000. ....	600,000. ....	5,600,000.
Undivided Profits .....	2,150,000. ....	832,000. ....	819,000. ....	606,000. ....	4,407,000.
<b>TOTAL CAPITAL .....</b>	<b>\$ 5,650,000. ....</b>	<b>\$ 3,832,000. ....</b>	<b>\$ 1,819,000. ....</b>	<b>\$ 1,806,000. ....</b>	<b>\$ 13,107,000.</b>
<b>TOTAL CAPITAL AND LIABILITIES .....</b>	<b>\$ 54,759,000. ....</b>	<b>\$ 32,721,000. ....</b>	<b>\$ 13,215,000. ....</b>	<b>\$ 13,768,000. ....</b>	<b>\$ 114,463,000.</b>

Members of Federal Deposit Insurance Corporation

Members of Federal Reserve System

# STATEMENT OF CONDITION



## OFFICERS AND DIRECTORS

- ✓ \*B. Meyer Harris, Chairman of Boards
- ✓ \*Joel S. Harris, President and Director

### LAUREL

J.C. Martin, Vice President  
Jim M. Glasgow, Asst. Vice President  
✓ \*Kent J. Harris, Asst. Vice President and Director  
Gary M. Johnson, Asst. Vice President  
James M. Taylor, Asst. Vice President and Ag. Rep.  
Donald J. Cahill, Asst. Vice President  
Julie K. Taylor, Cashier  
Jim A. Grosskop, Asst. Cashier and Ag. Rep.  
Janet L. Seymour, Operations Officer

### COLUMBUS

Dean H. Simons, Vice President and Ag. Representative  
Clay J. Landry, Asst. Vice President and Ag. Representative  
Bruce W. Nathan, Cashier  
Rickey E. Arnold, Ag. Representative  
✓ Judy K. Harris, Director

### BILLINGS

Jay E. Jensen, Vice President  
Jay S. Harris, Asst. Cashier

### ABSAROKEE

Robert D. Blanchet, Asst. Vice President  
Shirley M. Campbell, Operations Officer  
✓ \*Bessie M. Harris, Director

\*Directors of all banks

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# MOUNTAIN BANK

Gordon H. Ochenrider  
Executive Vice President

January 20, 1989

Representative Clyde Smith  
Capitol Station  
Helena, Montana 59620

Representative Smith,

Mountain Bank frequently makes loans in excess of it's loan limit through participations with other banks. Although Mountain Bank's lending limit is only \$350,000, it has made loans up to \$1,850,000 in the past year. This loan was participated with six other banks in Montana.

Mountain Bank also assists other banks in oversized loans. It has purchased up to it's loan limit in agricultural lines of credit from other independent Montana banks.

Mountain Bank has participated loans with the banks listed below:

- First Madison Valley Bank, Ennis, Montana
- First Boulder Valley Bank, Boulder, Montana
- Valley Bank of Kalispell
- Valley Bank of Belgrade
- First National Bank of Whitefish
- Flathead Bank of Bigfork
- First National Bank of Cutbank
- Security State Bank of Plentywood
- First Security Bank of Livingston
- Interwest Bank of Montana, Bozeman, Motnana
- First Security Bank of Big Timber

If you have any questions, please contact me at your convenience.

Sincerely,



Gordon Ochenrider  
Executive Vice President

GO/cm



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HB 191

INDEPENDENT BANKERS AND OTHERS

TESTIFYING AGAINST HB-191

BANK BILL BY MONTANA INDEPENDENT BANKERS ASSOCIATION

House Business &  
Economic Development Committee

Wednesday, 9 a.m.  
January 25, 1989

- Mark Safty, Attorney, Holland & Hart, Billings
- Bob Sizemore, President, Western Bank of Chinook
- Marty Olsson, VP, Ronan State Bank
- Sam Noel, EVP, Citizens State Bank of Hamilton
- Larry Moore, Cashier, Stockmens Bank, Cascade
- Dr. Jeff Baker, Director of Academic Affairs, Carroll College,  
Helena
- Dick Zier, President, First National Bank, Lewistown
- Dick Loegering, EVP, Traders State Bank, Poplar
- Tom Atkins, President, Montana Bank of Circle
- Maury Graham, SVP, First National Bank of Glasgow
- Bruce Ellis, CEO, Montana Bancsystem, Inc., Billings

VISITORS' REGISTER

Business & Economic COMMITTEE

BILL NO. HB 191

DATE 1/25/89

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
<del>JOE THARES</del>	<del>MIB</del>	<del>X</del>	
Bruce B. Ellis	Montana Bancsystems, Inc.		X
Alex R. (Dick) Zier	1st Nat. Bank Lewistown		X
Bill LEARY	Montana Bankers Assn		X
C. P. "Buck" Moore	Norwest Bk. - Mont		X
<del>Bob Sizemore</del>	<del>Western Bank Chinook, MT</del>		<del>X</del>
RICHARD C. HOEGGERING	TRADERS STATE BANK - PILLAR CITIZENS STATE BANK - SCOBAY STATE BANK of AULEY		X
TOLYN CADDY	MT BANKERS ASSN		X
MARTIN M. OLSON	PONAN STATE BANK		X
M. K. Graham	1st Nat Bank Glasgow		X
James S. Moore	Stockman's Bank	<del>X</del>	X
Roger Lippy	M. I. B.	X	
Jeff Bahr			X
Ron Ahlers	MIB	X	
Paul W. ...	MIB - 1ST SEC BANK	X	
Samuel R. Noel	Citizens State Bank Hamilton		X
Gary B. Carlson	Self		X
Keith L. Colbo	MIB	X	
Ron B. Lewis	MIB	X	
GORDON OCHENRIEDEL	MOUNTAIN BANK	X	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM  
 PLEASE PREPARE STATEMENT WITH SECRETARY.  
 John R. King  
 A.A. (Jack) King  
 Mike BURR  
 Thomas R. Atkins  
 Ann Pomeroy  
 MAPP  
 MARKSAFTY, HOLLANDHART,