MINUTES

MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON BUSINESS & ECONOMIC DEVELOPMENT

Call to Order: By **CHAIRMAN STEVE BENEDICT**, on January 29, 1993, at 9:00 A.M.

ROLL CALL

Members Present:
Rep. Steve Benedict, Chair (R)
Rep. Sonny Hanson, Vice Chair (R)
Rep. Bob Bachini (D)
Rep. Joe Barnett (R)
Rep. Ray Brandewie (R)
Rep. Vicki Cocchiarella (D)
Rep. Fritz Daily (D)
Rep. Tim Dowell (D)
Rep. Alvin Ellis (R)
Rep. Stella Jean Hansen (D)
Rep. Jack Herron (R)
Rep. Dick Knox (R)
Rep. Don Larson (D)
Rep. Norm Mills (R)
Rep. Bob Pavlovich (D)
Rep. Bruce Simon (R)
Rep. Carley Tuss (~~R~~) D)
Rep. Doug Wagner (R)

Members Excused: Rep. Vicki Cocchiarella

Members Absent: None

Staff Present: Paul Verdon, Legislative Council
Claudia Johnson, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing: HB 201 & HB 358
Executive Action: HB 331

HEARING ON HB 201

Opening Statement by Sponsor:

REP. CHASE HIBBARD, House District 46, Helena, said HB 201 is an act generally revising the laws relating to banking; revising the laws relating to the state banking board; removing the director of the Department of Commerce as the chairman of the board; authorizing the board to elect a presiding officer; and reducing the time between bank inspections; authorizing the acceptance of federal reports in lieu of examinations; clarifying the purpose of the banking laws; applying general corporate law to the formation and reorganization of banks; excluding repurchase agreements from the limitation on borrowing, revising bank investments; removing the limit on safe deposit functions; revising reserve requirements, revising dissolution, closing, and liquidation procedures; and statutorily appropriating unclaimed funds for the payment of claims. He gave a background of HB 201, stating that the Montana state-chartered banks and trust companies are regulated by the Financial Division of the Department of Commerce which currently regulates 127 bank offices, and 3 trust companies with total assets approaching $4 billion. The Commissioner of Financial Institution is the administrator of the Financial Division. Most of Montana's banking laws were written in 1927, and many of them have been amended 1 or more times, but no comprehensive changes have taken place since that time. The amendments have created inconsistencies with other laws and are becoming more difficult for banks, regulators, and the legal system to competently and affectively deal with the Bank Act. He said, in response to the situation, Governor Stephns created the Montana State Banking Code Advisory Council in December of 1991. It was comprised of seven bankers, two accountants, two banking attorneys, two private citizens, and two legislators. He said that most of them were here today and would testify for the bill. The two legislators, Dave Hoffman and Dick Pinsoneault were defeated in their campaigns, and would have carried this bill if they had been successful. He said the council was created to identify outdated language and requirements, as well as admissions or conflicts in statutes that are not conducive to the proper supervision of state banks. A few of the issues addressed were; insuring that the powers and duties of the Commissioner of Financial Institutions are clearly set forth in the banking code; defining a comprehensive mission and purpose of the Financial Division; insuring the Commissioner of Financial Institutions is involved in the legislative process; and insuring that the statutory authority is developed to address the areas where supervision is now lacking. He said that most of the recommendations in HB 201 are of a housekeeping nature. The modernized language, the clarified duties of the responsibilities, the elimination of sections that are obsolete and corrects conflicts with other laws. He said there are several significant changes, but would let the proponents deal with them. He did point out two significant changes; on page 3, section 1, the composition of the state banking board changes the number of members from seven to six by dropping the Director of the Department of Commerce, and will allow the board to elect a presiding officer. It also strikes one banking member and one public member that were appointed from each congressional district of the state. He referred to the impact of the fiscal note. For fiscal year 1994, the impact is $283,700, and $266,700 for 1995. The back page of the fiscal note shows the fiscal impact to be paid for by an assessment on the Financial Institutions. It states that the increase of assessment revenue from regulated Financial Institutions will offset the increase in expenses. He said this is a charge that is assessed to all member banks, and will not be a drain on the general fund. When the fiscal note came out it appeared to be accurate, but after some discussion with the bankers, and the advisory committee members, the commissioner decided it wasn't accurate. The changes in HB 201 are not reflected by the impact shown above, and should be $26,944 for 1994, and $24,869 for 1995, which will pay for the exemption of the commissioner. On page 5, line 18, it states the Commissioner of Financial Institutions will be exempt, and the cost of the exempt position is what the new numbers should accurately reflect. He informed the chairman and the committee members that he would obtain an amended fiscal note to reflect the true costs of the bill rather than the fiscal note that was before the committee. He had spoken with the budget director, David Lewis, who agreed it is appropriate, and will take care of this before executive action is taken on the bill. **Rep. Hibbard** distributed a proposed amendment for HB 201. On page 38, lines 14 & 15, to change the current language from "shares of stock in a Montana Capital Company within limits prescribed by the Montana Capital Company Act" to "shares of stock in a Montana Capital Company or the Montana Small Business Investment Capital Company within limits prescribed by the Montana Capital Company Act". **SEE EXHIBIT 1**

__Proponents' Testimony__:

Don Hutchinson, Commissioner of Financial Institutions, State of Montana, distributed a handout on the statutes and objectives of information from the State Banking Code Advisory Council. He said HB 201 is the result of eighteen months of Governor Stephen's Banking Code Advisory Council, the Department of Commerce, and the Financial Division staff. HB 201 is strongly supported by the Department of Commerce, Montana's eight chartered banks, the Montana Banker's Association, the Montana Independent Banker's Association, and the legal and accounting professions that are actively involved in banking practices. He said the code revision is especially timely, due to recent developments in regulatory procedures occurring at the federal level which effects the operations of the FDIC, NOCC, Federal Reserve, and regulators of every state. He said if the budget committee denied their request, they could still use HB 201 to address the present facilities in their department. Montana's Financial Division needs additional support to perform the statutory workload which has increased dramatically since 1991 due to the following; 1) five national banks have converted their charters to state charters involving $750 million in assets in 1992. The assets in state-chartered banks are estimated to have grown between $700 million to $800 million in 1992, which represents $1.5 billion in new assets to be regulated. He said the examinations are taking longer to complete due to the increased complexity as a result of congressional mandates coming down from the regulatory agencies; and 2) 3 new national banks will be converting to state bank charters in 1993, and represents an additional $105 million in assets. The staff and necessary support to complete these statutory responsibilities will be funded by the adjustments to the state chartered banks in Montana. He urged a do pass for HB 201.

Bill Ruegamer, appointed chairman of the Banking Code Advisory Council at the request of Governor Stephens, MBA-MIB/First Interstate Bank, said the general purpose of the council was to review and clarify standardized banking codes. He said HB 201 is a neutral revision of the banking codes, and is supported by most of the bankers in the state. The revision upgrades and modernizes the banking codes for Montana, and will also make them consistent with the corporate codes. He said the fiscal note became more of an issue than the bill itself, and clarified that the Advisory Council was very concerned in addressing additional expenses to the banking community even though the budget is paid for by assessments to the banks. **Mr. Ruegamer** said the state banking department has been operating at a surplus for the last few years, and with the exemption of Commissioner Hutchinson, the increases would be absorbed by the existing budget. He said the other states that have revised their codes have done so at a cost of $50,000 to $400,000 for consultants and accounting firms, etc. He asked that the committee give HB 201 a favorable do pass motion.

Gary Carlson, CPA, said he was also a member of the Banking Advisory Council. He felt that the council's recommendations would improve and streamline the laws relating to banking by bringing them forward to the 21st century, and inducting them into the Montana Corporate Act. He urged the committee's support for HB 201.

Roger Tippy, Attorney & Lobbyist for Montana Independent Bankers Association, was also a member of the Bankers Advisory Council. **Mr. Tippy** said the council was divided into three subcommittees who worked through the vintage 1927 codes section by section. **Mr. Tippy** chaired the committee that dealt with the day to day operations of the banks. The changes his committee made were to equalize any disadvantages that banks having a state charter might have versus a banks receiving a national charter, i.e., how much a bank can spend on a safe deposit vault; or whether a state bank can participate in the programs of the federal home loan bank boards, which national banks have been allowed to do for the last few years. The committee recommended that anything that was inconsistent with what the national banks were allowed to do be removed from the codes. He said there would be a fair amount of rulemaking published in the administrative register by the Department of Commerce. His committee did not care for the policy of incorporating by recluse many of the voluminous federal regulations that the bankers labor under. If the state adopts this, and the federal government makes changes, then the state can go through a notice process to see if they want to make those same changes state policy. He asked for a favorable consideration of HB 201.

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

Rep. Larson asked **Bill Ruegamer** what the incentives are for a nationally-chartered bank compared to a state-chartered bank? **Mr. Ruegamer** replied that he is with the First Interstate Bank System of Montana, which is a $700 million company. He said First Bank recently converted to the state banking charter systems; two of the banks were national banks, and five were state banks. The state banks will primarily maintain the duel banking system as opposed to federal and state jurisdiction. This area is important for the banking people to talk to the bank commissioner directly, which is lost when dealing with the controller's currency of FDIC, and the Federal Reserve. He said there are still federal banking regulations, but the primary regulator would be the state.

Rep. Ellis asked **Bill Ruegamer** why it will take six more FTE with less regulation. **Mr. Ruegamer** said HB 201 will not need extra staff. If there is a need for more examiners, they will come from the addition of state banks, which is national banks converting to state bank charters. He said the first fiscal note does not apply to this bill.

Chairman Benedict reminded the committee that the fiscal note before them is not correct, and Rep. Hibbard will have the correct one before executive action is taken on this bill.

Rep. Stella Jean Hansen asked **Roger Tippy** about the new language on page 37, line 7, where it states a bank may borrow funds from a federal home loan bank for use in financing home ownership; she asked if they weren't doing that now? **Mr. Tippy** said the federal home loan bank board used to be more involved in regulating until the S & L bailout, now they participate as a correspondent bank for residential lending programs by the banks. He said there were two problems with state-chartered banks: 1) being able to sign up for a federal home loan, a person had to purchase a certain amount of stock in a federally chartered corporation, because there were limits in state law on how much stock and public corporations a state chartered bank could buy, which is 5% of their capital surplus, and the minimum stock purchased from federally home loan banks was greater than that; and 2) the federal home loan bank port office in Seattle said that once the state banks in Montana could buy a minimal amount of stock in their federal home loan bank corporation, they will then have authority to borrow from the port office in Seattle. He said this is not clear language in the state now, but if one section is amended to let state banks join, the other section needs to be amended to let them borrow.

Rep. Herron asked **Roger Tippy** about the two effective dates; one is for Sections 1, 7, 8 and 52 to be effective on passage and approval; and Sections 2 through 6 and 9 through 51 are effective October 1, 1993. **Mr. Tippy** referred the question to **Anne Bartos, legal Counsel for the Department of Commerce**, who said the immediate effective date of July 1, 1993, was for the changes made from 7 to 6 members on the board, and the exempt position of the commissioner. The effective date of October 1, 1993 is for budgetary purposes.

Closing by Sponsor:

Rep. Hibbard said there are additional costs that will be dealt with elsewhere in the legislative and budgetary process. The new fiscal note will accurately reflect the cost of this bill. The purpose of this bill is to bring the 1927 codes up to modern times, and comply with modern corporate law. He said the entire banking community, and the bank associations are in favor of this bill. He asked for the committee's favorable vote on HB 201.

HEARING ON HB 358

Opening Statement by Sponsor:

REP. JOE BARNETT, House District 76, Bozeman, said HB 358 reflects a compromise between the Montana Independent Bankers, the Montana Bankers Association, and the larger corporate chains of banks. This bill will allow for the first time since 1956, out-of-state bank holding companies to buy and operate banks in Montana. **Rep. Barnett** noted to the committee an error on page 1, line 16, it should read "numbers" not "members". He distributed a written statement. **EXHIBIT 3**

Proponents' Testimony:

Bill Ruegamer, MBA-MIA/First Interstate Bank Systems of Montana, said there were 3 banking bills drafted within a 6 month period prior to the Legislature. It was determined at a meeting in Billings in late November of 1992 to put the 3 bills together and make what is now HB 358. **Mr. Ruegamer** asked if it was ok with the committee to have all the bankers stand to give their names and banks they represent, which approximately 35 did stand and introduced themselves. Most of the names are listed on the visitor's register. **Mr. Ruegamer** complimented and thanked the banking members for putting together a compatible bill. He said that HB 358 will serve the needs of Montana and allow the banks to remain competitive on a nation wide basis, and allow Montana the capital they need for business and personal growth. **Mr. Ruegamer** distributed a handout that summarized each section of the bill. **EXHIBIT 4**

Roger Tippy, attorney and lobbyist for the Montana Independent Bankers Association (MIB), presented written testimony to show where the sources of the material came from that went into HB 358 for the purpose of committee minutes. He said the courts and attorney general, etc., are increasingly looking into the minutes to figure out what people have tried to do with legislation. His written testimony set forth the text of the Douglas Amendment to the Bank Holding Company Act of 1956, and reads, "[The Federal Reserve Board may not approve an interstate acquisition of a bank unless the acquisition] is specifically authorized by the statute laws of the state in which such bank is located, by language to that effect, not merely by implication". He said the failure or mismanagement of an individual bank cannot shake the entire economy of a state when there are many small banks. There are less than 150 distinct banks by virtue of the merger and consolidation law approved by this committee and the Legislature in 1989. **Mr. Tippy** said over the years, one state after another has opted in, within the Douglas Amendment framework, to the interstate bank acquisition mode, and now 49 states allow interstate banking in one form or another. HB 358 will require reciprocity from the other states within the region; all seven states on this list should qualify as reciprocating. The region is defined as; Idaho, Wyoming, North Dakota, South Dakota,Minnesota, Wisconsin, Colorado, and First Interstate Bank of California was grandfathered in. He said Congress is increasingly disposed to modify the Douglas Amendment, and the information from our National Trade Association, and the Independent Bankers Association of America, is such that modifications are very likely to be enacted by this Congress in 1994. HB 358 will recognize the possibility that a bank holding company in one of the seven states might be taken over by or merge with another such company outside the region. The compromise language says that if the formerly regional bank holding company held a Montana bank for at least three years before it became a non-regional holding company, it can keep that bank. If the period of control was less than three years it must divest itself of the Montana bank, and will have two years to make the sale, a provision that was borrowed from the Arkansas law. He urged the committee to pass HB 358.

John Cadby, Montana Bankers Association, said that Riley Johnson with the National Federation of Independent Businesses(NFIB), was here earlier, but had to leave for another hearing. He was asked by **Mr. Johnson** to inform the committee and be recorded for the minutes, of the members surveyed regarding "out-of-state holding companies acquiring Montana banks, and whether the business members of NFIB support it", resulted in a poll of 59.6% of the small businesses in favor of interstate banking. **Mr. Cadby** urged the committee to pass HB 358.

Opponents' Testimony:

A.J. King, Assistant Vice President of the Valley Bank of Kalispell, said that even though there are limitations in the bill, limiting out-of-state ownership and control of banking assets to 49%, Montana will be a loser. The people of Montana will lose jobs and the state will lose needed valued tax dollars. **Mr. King** said he does not represent the Montana Independent Bankers, or the Montana Bankers Association. The bill originated from surveys created by each organization. The organizations failed to include bankers like himself, a key officer in a bank. He also has part ownership in two other banks that the organizations failed to contact. He said the bankers that did not include him in their survey are trying to change the futures for the younger generation. He urged a do not pass. **Mr. King** read written testimony. **EXHIBIT 7 & 8**

Informational Testimony:

Dave Wanzenried, House District 7, Kalispell, wanted to have his name on the bill, but somehow was left off and wanted to be on record in support of HB 358.

Questions From Committee Members and Responses:

Rep. Fritz asked **Bill Ruegamer** how many of the banks in Montana are locally owned? **Mr. Ruegamer** said that over 25% and maybe closer to 30% of the market is out-of-state ownership, and about 70% in-state. He felt that the 70% was a high figure and was probably less than that. **Rep. Fritz** wanted an approximate number of family-owned banks in Montana. **Mr. Ruegamer** said there was probably less than 20.

Rep. Pavlovich asked **Bill Ruegamer** if this bill would affect future generations in Montana? **Mr. Ruegamer** said yes, every bill that the Legislature passes whether it is a banking bill or some other bill will have an impact on future generations.

Rep. Larson asked **Rep. Barnett** about the issue of centralization of services when the merges take affect for the consolidation, and wanted to know how many potential acquisitions will be taking place in the next 2 to 5 years. **Rep. Barnett** asked **John Cadby** if he would reply. **Mr. Cadby** said there was a lot of fear expressed in the 1989 session with regard to branching and the loss of banking services, which he stated did not happen with the extensive branching that has taken place since. He said there are many systems banks in Montana that are taking advantage of current law, and there is nothing to prevent the merging and consolidation of banks. He said banks are merging and consolidating with or without interstate banking. **Rep. Larson** said that did not answer his question. His main concern is the centralization and consolidation of services outside of Montana, i.e., headquarters stationed in Denver, CO, or Minneapolis, MN. and the net loss of jobs when the smaller banks have the opportunity to sell to larger corporations which will remove control from Montana. He asked **Mr. Cadby** how much of this is going to happen? **Mr. Cadby** said this bill does not allow any out-of-state holding company to have their headquarters "per se" out-of-state. They have to have a chartered corporation bank in Montana, i.e., First Bank in Billings is a holding bank, and the rest of the First Banks in Montana are branches of that bank. **Rep. Larson** said that neither credit unions nor S & L's were mentioned in the testimony, and wanted to know how the banking associations felt about them? **Mr. Cadby** said there are 9 Savings & Loans Banks in Montana with 50 to 60 branches that are not currently regulated in the state of Montana. He said there are about 95 credit unions, but 15 are federally chartered, and are not regulated by the state will not be affected by HB 358. He said this bill would probably place them in a more competitive posture with the credit unions and S & L's, because they do not have limitations on people as far as what they can and cannot do in branching or interstate banking.

Rep. Sonny Hanson asked **Mr. Cadby** about deposits in reference to credit unions, savings institutions, and banks; what are the deposits of each of these? **Mr. Cadby** said rounded off assets are one, one, and seven; $1 billion for savings banks; $1 billion for credit unions; and $7 billion for commercial banks.

Rep. Stella Jean Hansen asked **Roger Tippy** about the regional concept over interstate banking? **Mr. Tippy** said with the seven state regions, there aren't a lot of big holding company players other than the two Montana already has, i.e., Minnesota. He said that Colorado doesn't have holding companies that large that are going out and buying other systems of banks.

Rep. Mills asked about page 5, line 4, it states that a bank holding company may not hold more than 49%, did that mean for all holding companies? **Roger Tippy** said once they get to the 46% to 47% level, there is another acquisition, i.e, a brand new bank holding company that has never picked up a bank in Montana, they cannot do it if they pick up 5% of the deposit, and then get the 46% up to 51%. He said these are deposits of all federally insured banks and S & L's, only for the purpose of calculating the deposits cap.

Rep. Ellis asked **Roger Tippy** what kind of interstate banking laws do most of the states in Montana's region have? **Mr. Tippy** said from Montana to the east, the laws are similar to North Dakota, Minnesota, and Iowa. He said that the whole independent bank movement is more centered in the country, but has never been that strong on the west coast. Washington, Oregon, and Idaho are wide open, and usually most banks are owned by a few out-of-state holding companies.

Rep. Larson asked if it were correct that there will be a net flow of capital assets across state lines if this bill passes? **Mr. Cadby** said there is a flow of assets today with interstate banking. **Rep. Larson** asked if it would be accelerated with the multi-state compact out-of-state holding companies acquiring bank assets from Montana? **Mr. Cadby** said that was not a correct assumption. **Rep. Larson** asked what the tax ramifications will be for the out-of-state holding companies? **Mr. Cadby** said taxation in Montana was changed in 1979 so that all Montana banks including the system banks are subject to the state corporate income tax, and were also subjected to corporate income tax on the securities that they invested in. They are paying taxes in Montana whether they are an independent bank or First Bank Billings. He said the banks are paying corporate income taxes just like other corporations that do business in Montana. The question was referred to **George Bennett** who said banks pay a corporation license tax. In the Appropriation Tax Act, there is a uniform division for income tax purposes which deals with interstate income, i.e., corporations doing business in Montana from other states. Currently, Montana banks are headquartered in Montana and all of their income is treated as Montana income even though they may have borrowers in other states.

Rep. Brandewie asked if a bank in Montana was acquired by a corporation out-of-state, and that corporation went out of business, would the bank in Montana also go out of business? **George Bennett** said the failure of an out-of-state holding bank does not necessarily mean the failure of an in-state bank. He said there is precedence that prevents that, but it could cause some problems with in-state banks if it happened.

<u>Closing by Sponsor</u>:

Rep. Barnett closed stating that he had visited with A.J. King's brother the night before, and stated that their father was a part of the compromise meeting. Mr. King had expressed some of the concerns that he had with the bill, but he would not appear as an opponent. He said the limitations give assurance that the banks will not be managed by remote managers who are unaware of Montana's needs. **Rep. Barnett** said in the long run, HB 358 is in the best interest of Montana. He asked that the committee members resist any amendments to the bill, and asked for a favorable passage.

EXECUTIVE ACTION ON HB 331

<u>Motion</u>: **REP. BACHINI MOVED HB 331 BE TABLED.**

<u>Discussion</u>: None

<u>Motion/Vote</u>: The question was called. Voice vote was taken. Motion **CARRIED** unanimously.

<u>Vote</u>: **HB 331 BE TABLED.** Motion **CARRIED** 18 - 0.

ADJOURNMENT

Adjournment: 11:55

STEVE BENEDICT, Chair

CLAUDIA JOHNSON, Secretary

SB/cj

HOUSE OF REPRESENTATIVES
53RD LEGISLATURE - 1993
BUSINESS AND ECONOMIC DEVELOPMENT COMMITTEE

ROLL CALL

DATE 1-29-93

NAME	PRESENT	ABSENT	EXCUSED
REP. ALVIN ELLIS	✓		
REP. DICK KNOX	✓		
REP. NORM MILLS	✓		
REP. JOE BARNETT	✓		
REP. RAY BRANDEWIE	✓		
REP. JACK HERRON	✓		
REP. TIM DOWELL	✓		
REP. CARLEY TUSS	✓		
REP. STELLA JEAN HANSEN	✓		
REP. BOB PAVLOVICH	✓		
REP. VICKI COCCHIARELLA			✓
REP. FRITZ DAILY	✓		
REP. BOB BACHINI	✓		
REP. DON LARSON	✓		
REP. BRUCE SIMON	✓		
REP. DOUG WAGNER	✓		
REP. SONNY HANSON, VICE CHAIRMAN	✓		
REP. STEVE BENEDICT, CHAIRMAN	✓		

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EXHIBIT 1
DATE 1-29-93
HB 201

Proposed Amendment
House Bill 201

The Montana Small Business Investment Company would like to request an amendment to House Bill 201 as follows:

Page 38, **Section 26,** line 14 & 15

Section 32-1-422, (2) (c), MCA,

Current language:

(c) shares of stock in a Montana capital company within limits prescribed by the Montana Capital Company Act.

Proposed language:

(c) shares of stock in a Montana capital company <u>or the Montana small business investment capital company</u> within limits prescribed by the Montana Capital Company Act.

Reason:

When the Montana Capital Company Act was amended during the 1991 Legislative session to create the Montana small business investment capital company, this change in the statute was inadvertently missed. The change is necessary to allow state chartered banks the same right to invest in the Montana Small Business Investment Company (MSBIC) that nationally chartered banks will have. The organizers of the MSBIC expect that a significant portion of their capital will come from investments by banks.

EXHIBIT 2
DATE 1-29-93
HB 201

A. PROGRAM OVERVIEW (Statutes & Objectives)

Mission

The mission of Montana's Financial Institutions Division and the State Banking Board is to allocate, through quality management, available resources to implement effective regulatory programs for the institutions we regulate. Our primary focus is to ensure the continuance of safe and sound financial practices in state chartered banks. It follows that the financial services offered by these sound institutions should foster economic growth, and meet the public demand for these financial services in their communities. To accomplish this mission, the division and board are committed to the development of a work environment conducive to high productivity.

Responsibilities

The division accomplishes its responsibilities through several information gathering sources. However, the principal method is the periodic examination of each state chartered institution by field examiners. The result of an examination is a detailed analysis of an institution's condition. The examiner analyzes the capabilities of officers and directors; adequacy of the bank's policies, capital, earnings and liquidity; the quality of assets, asset/liability mix; and compliance with laws and regulations. The examination may indicate conditions ranging from banks with no problems, ones with potential problems, or to ones with severe and continuing problems. While the majority of Montana banks are financially sound, some do develop problems. Problems frequently encountered are large volumes of poor quality assets (usually loans), that become uncollectible and are a loss to the bank, poor earnings, an unstable or declining deposit base, inadequate capital or liquidity and internal control problems.

"Problem banks" usually exhibit an array of problem areas rather than one specific problem area. The early detection of problems within a bank enables the division to concentrate its resources most effectively to control or eliminate problems. In extreme cases the Commissioner has legal authority to initiate formal or informal actions such as board resolutions, memorandums of understanding, or cease and desist orders. These documents specify the banks problems, require corrective actions, and allow reasonable time for correction.

Institutions regulated and examined by the division include 127 state chartered banks and branches, 3 trust companies, 16 credit unions, 20 consumer loan companies, 86 sales finance companies and 5 private escrow companies. We presently have an authorized staff of 13 field examiners, 2 examiner supervisors, and an office staff of 5. The institutions regulated and examined by the division range from small and relatively uncomplicated institutions with assets of only a few million dollars, to large and highly sophisticated banks with assets in the 5 to 7 hundred million dollar range.

The division's authority to regulate banks extends only to state chartered banks. National banks are regulated by the Comptroller of the Currency. State chartered banks are composed of two groups, those which are members of the Federal Reserve System and those which are not. Membership in the Federal Reserve System is a matter of choice for each state chartered bank. Member banks, in addition to state regulation and examination, are also subject to regulation and examination by the Federal Reserve System. Non-member banks are subject to examination by the FDIC and this division. The division may examine a bank independently or may be joined by examiners from the Federal Reserve or FDIC for a concurrent examination.

Authorization

Title 2-15-1803, MCA	Establishes the State Banking Board
Title 31-1-221-222, MCA	Licensing of sales finance companies
Title 32-1-202, MCA	Duties of State Banking Board
Title 32-1-211, MCA	Examination and supervision of banks and trust companies
Title 32-2-205, MCA	Chartering savings & loan associations
Title 32-2-301, MCA	Examination of savings & loan associations
Title 32-3-301, MCA	Chartering credit unions
Title 32-3-203, MCA	Examination of credit unions
Title 32-4-306, MCA	Examination of Development Corporations
Title 32-5-201, MCA	Licensing of consumer loan companies
Title 32-5-403, MCA	Examination of consumer loan companies
Title 32-7-109, MCA	Licensing of escrow companies
Title 32-7-108, MCA	Examination of escrow companies
Title 72-27-203, MCA	Reports on prearranged funeral plans
U.S.C. Sec.10 FDI Act	FDIC Improvement Act requires less time between examinations

EXHIBIT 2
DATE 1-29-93
HB 201

MONTANA STATE BANKING CODE ADVISORY COUNCIL

BACKGROUND

Montana state chartered banks and trust companies are chartered and regulated by the Financial Division of the Montana Department of Commerce. The Division currently regulates 86 banks and 3 trust companies with total assets approaching 4 billion dollars. The Commissioner of Financial Institutions is the Administrator of the Financial Division.

The bulk of Montana's banking laws (the Bank Act, Title 32, Chapter 1, MCA) were written in 1927. Many of the banking laws have been amended one or more times since then, in an attempt to keep pace with changes in the banking industry and public needs. However, no comprehensive review of banking law appears to have taken place since 1927. Amendments to existing laws occasionally have created conflicts or inconsistencies with other laws. Certain laws which are dealt with only infrequently may not have been amended or updated and address archaic concepts. Coupled with very rapid changes in federal laws, and changes in other pertinent state laws (especially the Uniform Commercial Code and the corporate code) it has become increasingly difficult for banks, regulators and the legal system to confidently and effectively deal with the Bank Act.

In response to this situation, Governor Stephens issued Executive Order 34-91 on December 3, 1991, creating the Montana State Banking Code Advisory Council. The Council was created for "...identifying outdated language and requirements as well as omissions or conflicts in statute that are not conducive to the proper supervision of state banks." Issues to be addressed, at a minimum, included:

"(a) Ensuring the powers and duties of the Commissioner of Financial Institutions are clearly set forth in the Banking Code.

(b) Defining a comprehensive mission and purpose for the Financial Division as it relates to the regulation and supervision of state banking institutions.

(c) Ensuring that the Commissioner of Financial Institutions is involved in the legislative process with the responsibility for drafting legislation and determining the impact on the public, the banking community and the Financial Division.

(d) Ensuring that statutory authority is developed to address the areas where supervision is now lacking but deemed necessary for the proper supervision of state banks, including the examination of holding companies, electronic data processing and community reinvestment requirements, etc."

The members of the Council agreed not to address interstate banking, interstate branching or intrastate branching.

The Council is composed of 18 members: 6 from the banking industry, 2 attorneys representing both of the state's banking associations, 2 accountants, 1 member of the State Banking Board, 2 private citizens, the Commissioner of Financial Institutions, the attorney for the Financial Division, the Director of the Department of Commerce, a member of the Montana Senate, and a member of the Montana House of Representatives.

The recommendations of the Council have been reported to and reviewed by the Financial Division of the Department of Commerce, the State Banking Board and are in the process of being reviewed by a committee of the State Bar Association. The report has been submitted to the Governor's Office and to the Legislative Council for drafting.

RECOMMENDATIONS OF THE COUNCIL

Most of the recommendations made by the Council are of a "housekeeping" nature: modernizing language, clarifying duties and responsibilities, eliminating sections of law that clearly are obsolete, and correcting conflicts with other laws. Significant <u>real</u> changes affecting the operation of banks or the Financial Division include:

Section	Change
32-1-211	Reduces from 30 months to 24 months the time allowed between bank examinations by the Financial Division. Also reduces from 120 days to 60 days the time allowed for submitting the completed examination report to the bank.
32-1-218	Broadens the Financial Division's rulemaking authority to better meet its responsibilities and obligations.
32-1-3xx	This Part of the law generally governs the formation and organization of the banking <u>corporation</u>. Wherever reasonable and prudent, general corporation law will be incorporated into this Part. A number of existing sections will be deleted. The intent is to modernize and standardize bank's corporate matters.
32-1-412	Increases, to a certain extent, the ability of banks to borrow money to accommodate the use of repurchase agreements, which possess characteristics of both deposits and borrowings; and to allow participation in certain federal housing programs.
32-1-422	Gives the Financial Division rulemaking authority to permit bank investments in certain types of corporate stock.

32-1-432 Addresses long-time problems and misunderstandings of legal lending limits to borrowers.

32-1-465 &
32-1-467 Reduces restrictions on bank officer, director and employee overdrafts and loans to directors or a bank's managing officer. Brings state law into conformance with existing federal law.

In addition to the legal recommendations, the Council also recognized staff retention problems within the Financial Division and recommended increasing bank examiner salaries and using certain incentives in an attempt to retain experienced examiners.

EXHIBIT 2
DATE 1-29-93
HB 201

EXHIBIT 2
1-29-93
HB 201

BANKING CODE ADVISORY COUNCIL

RECOMMENDATION ON BANK EXAMINER PAY

The history of employing financial institution examiners within the Department of Commerce has been one of frustration and inefficiency. The Financial Division has been able to advertise for and employ entry level examiners with little difficulty. The entry level examiners are usually hired upon graduation in accounting from an accredited university or college. The degree they received in college is basically the minimum qualification required to enter a training period to become a qualified financial institution examiner. After employment, the division will spend over $5,000 in direct training costs for schools administered by the Federal Deposit Insurance Corporation (FDIC) and the Council of State Bank Supervisors (CSBS). Additional funds will be spent on travel, meals and lodging. In addition, this training period greatly reduces the examiner-in-training's ability to perform useful examination work for the division and the financial institutions being examined.

Following this initial training period, examiners spend several years performing progressively responsible duties in the examination process. Ultimately, a seasoned examiner earns the title of "Examiner-in-Charge" and is responsible for the supervision of other examiners while performing an examination of a financial institution. Unfortunately, once the examiners have been educated by the state, their worth in the market place is such that the state can no longer afford to employ these individuals. The tenure with the department is typically 2.5 years which is well before the department receives a return on the training investment cost which has already been committed.

Employees of the Financial Division have opportunities for employment with surrounding states and with federal agencies which include the Federal Reserve Bank of Helena, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the National Credit Union Administration. The comparatively low salaries for examiners working for the State of Montana creates a situation where the state is in many instances a training program for other states, federal agencies, and private financial institutions. This diminishes the quality, effectiveness and timing of the Financial Division in performing its statutorily mandated examination responsibility to financial institutions. It also adversely affects those financial institutions who pay annual fees to the state for examinations.

EXHIBIT 2
1-29-93
HB 201

Since January of 1988, the Financial Division has hired 17 permanent, full-time examiners to fill the 15 legislatively authorized examination positions. Of these 17 new hires, 10 remain with the division but 7 of those have been employed for less than one year. Only two of the existing examiners have been employed with the Financial Division since 1989. This turnover is thought to occur because of two main factors -- travel demands in the job and comparatively low pay for higher level examiners. These two factors combined result in the loss of virtually every new employee hired within the first two and one-half years. These employees leave just at the time they have received sufficient education and experience provided by the state to independently perform the examinations.

Because of the turnover in 1991, the Division attempted to hire two experienced examiners. An advertisement was placed in a trade newsletter that goes directly to the homes of more than 400 examiners and also to every banking department in the U.S. No inquiries were received by the Financial Division as a result of this advertisement and it is assumed that the comparatively low pay for experienced examiners was the reason. The attached schedule compares Montana bank examiner salaries with the average of those paid by other employers in the region. Entry level examiner positions are similar in pay while more experienced examiners in the grade 15 and 16 level are paid substantially less by the State of Montana.

GRADE 14 PAY COMPARISON TO PEER GROUP

EMPLOYER:	*MINIMUM*	*MIDRANGE*	*MAXIMUM*
Montana - 1992	$23,587	$28,627	$34,740
Peer Group Average	$25,305	$30,269	$35,656
Difference	**-$1,718**	**-$1,642**	**-$ 916**

Note: The peer group compared in the analysis consists of the states of North Dakota, South Dakota, Wyoming, Idaho, National Credit Union Association, Office of the Comptroller of the Currency, Federal Reserve Board, and the Federal Deposit Insurance Corporation. All of the peer group federal agencies use salary figures for Montana assigned employees.

EXHIBIT 2
1-29-93
HB 201

GRADE 15 PAY COMPARISON TO PEER GROUP

EMPLOYER:	*MINIMUM*	*MIDRANGE*	*MAXIMUM*
Montana - 1992	$25,694	$31,258	$38,026
Peer Group Average	$29,799	$37,369	$46,803
Difference	**-$4,105**	**-$6,111**	**-$8,777**

See Note on previous page

GRADE 16 PAY COMPARISON TO PEER GROUP

EMPLOYER:	*MINIMUM*	*MIDRANGE*	*MAXIMUM*
Montana - 1992	$28,044	$34,199	$41,706
Peer Group Average	$39,323	$46,994	$55,429
Difference	**-$11,279**	**-$12,795**	**-$13,723**

See Note on previous page

RECOMMENDATION:

It is the recommendation of the Governor's Banking Code Advisory Council that management within the Department of Commerce be given the discretion to;

a) increase the salaries of bank examiners up to the peer group average in accordance with state policy and law;

b) maximize incentives for experienced examiners through salary, recognition, and increasingly responsible supervisory and examination responsibilities.

c) the State Banking Board shall periodically review salary information and establish the current group average.

EXHIBIT 3
DATE 1-29-93
HB 358

PRESENTATION OF HB 358

(Notes for Rep. Barnett)

I PRESENT TO THE COMMITTEE A PEACE TREATY AMONG THE VARIOUS FACTIONS OF BANKERS IN MONTANA. HOUSE BILL 358 REFLECTS A COMPROMISE BETWEEN THE MONTANA INDEPENDENT BANKERS, THE MONTANA BANKERS ASSOCIATION, AND THE LARGER CORPORATE CHAINS OF BANKS. THIS BILL WILL ALLOW, FOR THE FIRST TIME SINCE 1956, OUT-OF-STATE BANK HOLDING COMPANIES TO BUY AND OPERATE BANKS IN MONTANA.

ONE OF THE STRENGTHS OF OUR STATE ECONOMY IS THE DIVERSITY OF BANKS. WE HAVE A LOT OF LOCALLY OWNED AND OPERATED BANKS, AND A FAIR NUMBER OF BANKS OWNED AND OPERATED OUT OF BILLINGS OR MINNEAPOLIS OR LOS ANGELES. THIS BILL AIMS TO MAINTAIN THAT DIVERSITY AS MUCH AS WE CAN IN A RAPIDLY CHANGING WORLD. THE INDEPENDENT BANKERS CAME TO THE CONCLUSION THAT SOME CHANGE WAS INEVITABLE, GIVEN THE FACT THAT EVERY OTHER STATE IN THE UNION ALLOWS SOME DEGREE OF INTERSTATE BANKING AND CONGRESS WAS NOT LIKELY TO CONTINUE GIVING THE STATES A TOTAL VETO OVER INTERSTATE BANKING, JUST FOR MONTANA. THE WITNESSES FROM THE BANKING INDUSTRY WILL TALK AT MORE LENGTH ABOUT THE FEDERAL BANK HOLDING COMPANY ACT OF 1956 AND ITS DOUGLAS AMENDMENT.

A NUMBER OF STATES HAVE OPTED TO ALLOW INTERSTATE BANKING ON A LIMITED AND CONTROLLED BASIS, AND THIS BILL BUILDS ON THEIR LAWS AND EXPERIENCES. THE TOTAL AMOUNT OF BANK DEPOSITS ANY ONE COMPANY CAN CONTROL ARE LIMITED TO 18 PERCENT, WHICH GRADUALLY RISES TO 22 PERCENT. ~~THIS MEANS WE COULD NEVER HAVE FEWER THAN FIVE BANKING~~

~~ORGANIZATIONS IN THE STATE~~. THE TOTAL AMOUNT OF DEPOSITS ALL OUT-OF-STATE BANKING ORGANIZATIONS CAN CONTROL IS LIMITED TO 49 PERCENT, (~~WHICH MEANS WE WILL MOST LIKELY HAVE A GOOD MANY MORE THAN FIVE BANKING ORGANIZATIONS IN THE STATE~~.) THE REGION FROM WHICH OUT-OF-STATE BANK HOLDING COMPANIES CAN COME IS LIMITED TO SEVEN NEARBY STATES WHICH SHARE OUR AGRICULTURAL ECONOMY. IF A BANK HOLDING COMAPNY IN ONE OF THOSE OTHER SEVEN STATES IS ACQUIRED BY A BANK HOLDING COMPANY FROM NEW YORK OR ELSEWHERE OUTSIDE THE SEVEN-STATE REGION, IT WOULD HAVE TO SELL OFF ANY MONTAN BANKS IT HAD NOT OWNED FOR AT LEAST THREE YEARS.

change pg 1 line 16

THESE LIMITATIONS ASSURE THAT WE WILL NOT TUMBLE HEADLONG INTO A NEW BANKING SYSTEM DOMINATED BY REMOTE MANAGERS WHO ARE UNAWARE OF WHAT MAKES MONTANA TICK. WE WILL CHANGE SLOWLY AND CAREFULLY. I KNOW THAT GALLATIN COUNTY HAS A GOOD MIX OF LOCALLY OWNED AND REMOTELY OWNED BANKS, AND I WOULD HOPE THAT IT WILL CONTINUE TO OFFER THAT CHOICE.

SAVE FOR CLOSE

EXHIBIT 4
DATE 1-29-93
HB 358

HOUSE BILL 358

INTERSTATE BANKING

MONTANA BANKERS ASSOCIATION & MONTANA INDEPENDENT BANKERS

I. **INTERSTATE BANKING** Authorizes out-of-state bank holding companies, headquartered in this "Region", to purchase (not branch) Montana banks and Montana banks to purchase banks in neighboring states.

II. **REGION** The Region is defined as Idaho, Wyoming, North Dakota, South Dakota, Minnesota, Wisconsin, Colorado (First Interstate Bank of California grandfathered).

III. **SIX YEAR CHARTER** Authorizes bank holding companies to purchase only banks that have existed at least 6 years.

IV. **DEPOSIT CAP** Limits bank concentration to % of total deposits:

1993	18%	1996	21%
1994	19%	1997 & beyond	22%
1995	20%		

V. **AGGREGATE CAP** Limits ownership of Montana banks by all out-of-state bank holding companies to 49% of total deposits.

VI. **APPROVAL PROCESS** Acquisitions are subject to review and approval by the Federal Reserve. The State Commissioner may enjoin any acquisition deemed to be in contravention of Montana law.

VII. **DIVESTITURE** If a regional bank holding company, e.g. Norwest or First Bank, is acquired by a holding company outside the region, all Montana banks held less than 3 years must be sold off within 2 years.

VIII. **DETACHED FACILITIES** The number of authorized detached teller facilities (drive-ups) is increased from 1 to 2 in Billings, Great Falls, Missoula, Helena, Butte and Bozeman.

EFFECTS OF BILL

A. Interstate financial transactions are a fact of life and needed in a world market by some Montana businesses.
B. Preserves and protects locally owned independent banks (there are still 12,000 banks in the nation).
C. Keeps Montana in step with the rest of the nation (48 states have had interstate banking for years).
D. More access to capital for lending and economic development.
E. Greater flexibility in designing financial packages to meet specialized needs of individual businesses and consumers.

EXHIBIT 5
DATE 1-29-93
HB 358

BEFORE THE COMMITTEE ON BUSINESS & ECON. DEVELOPMENT
MONTANA HOUSE OF REPRESENTATIVES

Re: House Bill 358

Mr. Chairman and Committee members, I am Roger Tippy, attorney and lobbyist for the Montana Independent Bankers Association (MIB). The community bankers of MIB support this legislation before you today, not because it will improve the structure of the banking industry in Montana but because it will manage and control the rate of change to that structure and no action by the legislature this year might subject that structure to more rapid change and concentration of banks.

For 37 years, the acquisition of banks in Montana by bank holding companies in other states has been held in abeyance by this provision of federal law, known as the Douglas Amendment to the Bank Holding Company Act:

> [The Federal Reserve Board may not approve an interstate acquisition of a bank unless the acquisition] is specifically authorized by the statute laws of the State in which such bank is located, by language to that effect not merely by implication.

For 37 years, as Montana communities and their economies grew, new banks were chartered to meet new needs for banking services. We eventually came to have over 150 separate banks in Montana, each governed by its own board of directors and responsive to the needs of the community. Community bankers see such a decentralized structure as good, as a positive benefit to the economy and as a stabilizing influence. The failure or mismanagement of an individual bank cannot shake the entire economy of a state when there are many small banks. Today, we have less than 150 distinct banks by virtue of the merger and consolidation law approved by this committee and the legislature in 1989.

More changes are afoot than just consolidation, however. Over the years, one state after another has opted in, within the Douglas Amendment framework, to the interstate bank acquisition mode. You have heard it before and it is true: 49 states now allow interstate banking in one form or another. Montana is indeed the Last Best Place, but in this regard it cannot remain the last best place forever. Congress seems increasingly disposed to modify the Douglas Amendment, and our information from our national trade association, the Independent Bankers Association of America, is that such modifications are very likely to be enacted in this Congress, by 1994. One possible scenario is that full, unrestricted interstate bank acquisition will be the norm unless a state opts out of such a system.

MIB therefore drew up a proposal, and then came to the bargaining table with the other elements in the banking industry, with the idea in mind that we would present you with a bill to opt in, with limits, under the present Douglas Amendment, and to opt out, except within those limits, if the Douglas Amendment changes. The bargaining was spirited and intense. The compromise which emerged allows a bit more interstate bank acquisition than we would have liked, and no doubt allows a bit less acquisition than the other elements would have liked to see.

Representative Barnett has presented the main points of the compromise: a regional limitation, asset limits on any one bank holding company's acquisitions and on the aggregate acquisitions of all out-of-state holding companies, and a limited divestiture formula. All these ideas have been borrowed from other states who have ventured cautiously into the arena of interstate banking. They have been approved by the U. S. Supreme Court in a 1985 decision interpreting the Douglas Amendment (*Northeast Bancorp. v. Board of Governors*, 472 U.S. 159).

Limiting the direct acquisition authority to holding companies headquartered within a region of nearby states is a feature of some 17 states' laws. Our bill also requires reciprocity from the other states within the region; all seven states on this list should qualify as reciprocating. It is certainly possible that this list might expand in future years: the Minnesota legislature began interstate banking with just four states and has gradually amended that law to where it now names 14 states. For now, we urge you to enact the bill with the seven states named.

The bill recognizes the possibility that a bank holding company in one of those seven states might be taken over by or merge with another such company outside the region. The compromise language says that if the formerly regional bank holding company held a Montana bank for at least three years before it became a non-regional holding company, it can keep that bank. If the period of control was less than three years, it must divest itself of the Montana bank. It has two years to make the sale, a provision we borrowed from the Arkansas law.

The two sets of asset limitations apply at the time of a proposed acquisition. They do not limit natural growth beyond these limits. The Federal Reserve applies other factors, a complicated formula known as the Hirschfield-Herfindahl Index, in deciding whether a proposed acquisition would result in too much market concentration in a given community. In our view, the Fed's formula could still allow three or four holding companies to acquire all the banks in the state, and asset caps are a means of maintaining a greater degree of diversity than that.

These limits are to be applied by the Federal Reserve. We conceded the point that state agencies did not have to conduct separate hearings; that the application and opportunity for hearing before the Fed was enough administrative procedure.

EXHIBIT 6
DATE 1-29-93
HB 358

Small agricultural corporations, with ten or fewer employees, particularly want this exemption because they have a $20,000-per-payroll-quarter threshold. By including corporate officers in the assessment, the payroll threshold is frequently exceeded by small farms and ranches in Montana, thereby providing an added expense to doing business.

Proponents say unemployment insurance is something which smaller, closely held family corporations do not want and never use. Agricultural corporations argue that UI expenses can add dramatically to their costs. These proponents also say this proposal would be a positive step forward in improving the business climate in Montana.

Opponents say that such an exemption would have a substantial fiscal impact on the state's unemployment trust fund. In addition, they contend that enforcement of this exemption would be costly to the state's UI agency.

ENVIRONMENT

Federal vs. State Regulations

8. Should state agencies be prohibited from enacting environmental rules and regulations that would be more stringent than existing federal rules and regulations on the same subject?

☐ Yes ☐ No ☐ Undecided
59.6 31.9 8.5 23

Background: Environmental issues will be important small-business concerns in 1993 as Montana seeks to implement new federal laws on air quality, water quality, and hazardous waste. Federal laws dictate certain requirements to small business, but state compliance laws can exceed federal regulations.

Proponents argue that state agencies, prodded by environmental activists, often set stricter standards than federal requirements, which are very expensive and burdensome to small businesses. They say this undermines the intent of the federal laws, particularly in a state such as Montana with limited resources. These proponents contend that while stricter state laws might be appropriate for major polluting states such as California, they are unnecessary and a kind of "overkill" in states such as Montana.

Opponents say federal standards do not address specific environmental issues that are unique to Montana. These opponents argue that Montana needs to protect its natural resources in order to prevent the state from becoming like the larger states that are now experiencing environmental crises.

GENERAL BUSINESS

9. Should legislation be passed that would allow out-of-state holding companies to acquire and/or open instate banks and operate them as branch banks?

☐ Yes ☐ No ☐ Undecided
59.6 31.9 8.6 24

Background: Currently, any holding company owning banks in Montana must be headquartered in the state. Out-of-state companies cannot own branch banks within the state. A bill that will be introduced in January would change this system.

Proponents argue that Montana's banking system is antiquated. They say that opening Montana to out-of-state branch banking would provide more convenience and a variety of professional banking services to customers, particularly to small businesses in smaller communities.

In addition, proponents argue that branching could offer more sophisticated financing plans, additional sources of money, legal and accounting expertise, and newer types of related services, such as brokerage, insurance, and financial planning. They point out that these services are now available only to those customers who take their banking business out of local community banks.

Opponents argue that bigger banks are not necessarily better banks for local communities and small business. They claim that branching would give ultimate control of Montana banking to out-of-state interests, which could funnel Montana money to out-of-state investments. Opponents also contend that local personal banking relationships would be lost to small businesses, as emphasis was placed on higher-interest consumer loans and credit cards, instead of small-business loans.

Opponents also note that branching would open the door to consolidated corporate tax returns for out-of-state companies, which could reduce Montana revenue. In addition, they say this proposal would allow Norwest Banks and First Bank Systems to close their corporate headquarters in Billings and move them to Minneapolis, which would result in the loss of jobs

COMMENTS

EXHIBIT 7
DATE 1-29-93
HB 358

STATEMENT

OF

A.J. KING

ASSISTANT VICE PRESIDENT

OF THE

VALLEY BANK OF KALISPELL

BEFORE THE

HOUSE BUSINESS AND ECONOMIC DEVELOPMENT

MONTANA HOUSE OF REPRESENTATIVES

ON

80 Million

H.R. 358

INTERSTATE BANKING BILL

JANUARY 28, 1993

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. MY NAME IS A. J. KING AND I REPRESENT MANY INDIVIDUAL INDEPENDENT BANKERS AND CITIZENS OF THE STATE OF MONTANA. I AM HERE TODAY AS AN OPPONENT OF HOUSE BILL NO. 358.

AS A GRADUATE OF THE UNIVERSITY OF MONTANA, I TOOK A CLASS CALLED MONTANA AND THE WEST, THE TEACHER WHO TAUGHT THE CLASS IS NOW SENATOR HARRY FRITZ. IN THE CLASS I LEARNED ABOUT THE RAPING OF OUR STATE'S PRECIOUS METALS, OUR GREAT GRASS LANDS AND MANY OTHER ASSETS WHERE LARGE OUT OF STATE CORPORATIONS CONTROLLED STATE ASSETS AND STRIPPED THE STATE OF ITS RESOURCES. HOUSE BILL NO. 358 WILL OPEN THE DOOR FOR MORE OUT OF STATE SYSTEM BANKS TO CONTROL MONTANA ASSETS. EVEN THOUGH THERE ARE LIMITATIONS IN THIS BILL LIMITING OUT OF STATE OWNERSHIP AND CONTROL OF BANKING ASSETS TO 49%, YOU CAN BE ASSURED MONTANAN'S WILL BE THE LOSERS. PEOPLE OF MONTANA WILL LOSE JOBS AND THE STATE WILL LOSE NEEDED VALUED TAX DOLLARS.

YOU CAN BE ASSURED IF THIS BILL IS PASSED MANY OUT OF STATE SYSTEM BANKS WILL BEGIN TRYING TO PURCHASE THE INDEPENDENT BANKS THROUGHOUT THE STATE OF MONTANA. CURRENTLY, THESE INDEPENDENT BANKS ARE OWNED BY LOCAL SHAREHOLDERS, HAVE LOCAL DIRECTORS AND ALL TAXES ARE PAID TO THE STATE OF MONTANA. THE PURCHASE OF THESE INDEPENDENT BANKS COULD IN TURN LOSE THE TAXES FROM DIVIDENDS, DIRECTOR'S FEES AND PROFITS. BECAUSE THIS BILL IS A COMPROMISE THERE ARE OBVIOUSLY INDEPENDENT BANKERS IN FAVOR OF INTERSTATE BANKING. MANY OF THESE INDEPENDENT BANKERS FAVORING THE BILL, WANT THE BILL TO PASS FOR THE SOLE PURPOSE OF PROVIDING A BROAD MARKET OPPORTUNITY FOR SELLING THEIR BANKS. THESE BANKERS ARE ONLY THINKING OF THEMSELVES. KEEP IN MIND, MONTANA DOES NOT HAVE A SIZEABLE POPULATION AND MONTANAN'S DO NOT HAVE NEAR THE CAPITAL THESE LARGE CORPORATE BANKS HAVE TO PURCHASE BANKS. THE WINDOW OF OPPORTUNITY FOR EMPLOYMENT, PROMOTION AND OWNERSHIP WILL BE LOST FOREVER. IN ALL PROBABILITY, THE INDEPENDENT BANKERS SELLING WILL MOST LIKELY TAKE THEIR PROFITS FROM THE SALE AND RELOCATE TO ANOTHER STATE, LIKE NEVADA, WHERE

EXHIBIT 7
DATE 1-29-93
HB 358

THERE IS NO STATE CAPITAL GAINS TAX. I ALSO DOUBT THESE INDEPENDENT BANKERS CARE ABOUT WHAT HAPPENS TO THEIR FORMER EMPLOYEES AND CUSTOMERS. MONTANA LOSES AGAIN.

IN KALISPELL, WE HAVE BOTH THE FIRST INTERSTATE AND NORWEST BANKS, SYSTEM BANKS, CONTROLLED BY LARGE OUT OF STATE CORPORATIONS, WHICH ARE IN THE PROCESS OF CONSOLIDATING THEIR OPERATIONS. THESE BANKS NOW APPEAR TO HAVE THEIR MAIN OFFICES, BOOKKEEPING, ESCROW SERVICES, LOAN PROCESSING AS WELL AS DECISION MAKING LOCATED IN ANOTHER AREA. IN THIS CONSOLIDATION, KALISPELL HAS LOST 130 JOBS. THERE SEEMS TO HAVE BEEN A MUCH LARGER LOSS OF JOBS IN MISSOULA, GREAT FALLS, BILLINGS, BOZEMAN, HELENA AND BUTTE. NATIONWIDE, CONSOLIDATION EFFORTS THROUGH LARGE CORPORATE BANKS HAS CAUSED THE LOSS OF 56,595 JOBS TO DATE. THROUGH CONSOLIDATION AND THE CONVERSION OF A BANK TO A BRANCH, A SYSTEM BANK ONLY NEED A BRANCH MANAGER AND A FEW EMPLOYEES, MAINLY TELLERS, IN THE OLD LOCATION. THE BRANCH DOES NOT NEED VICE PRESIDENTS, ASSISTANT VICE PRESIDENTS, CASHIERS, ASSISTANT

CASHIERS OR AN OPERATIONS OFFICER, COMPUTER OPERATORS OR OPERATIONS DEPARTMENT. MANY COMMUNITIES ACROSS MONTANA COULD LOSE A NUMBER OF THEIR BETTER PAYING JOBS.

AS THE BANKING INDUSTRY IN MONTANA REMAINS STABLE, MANY OF THE LARGE SYSTEM BANKS HAVE HAD THEIR PROBLEMS WITH FOREIGN LOANS AND OTHER TYPES OF LOANS. IN OUR STATE, WE HAVE WITNESSED SYSTEM BANKS FAILURE TO GENERATE LOANS TO INDIVIDUALS EMPLOYED AS LOGGERS, FARMERS AND CONSTRUCTION SOLELY BECAUSE THESE SYSTEM BANKS DECISIONS ARE OFTEN THE RESULT OF PROBLEM LOANS GENERATED IN OTHER STATES. SOME OF YOU HAVE LINES OF CREDIT AS YOU ARE WORKING CITIZENS. IMAGINE YOURSELVES WALKING INTO A LARGE SYSTEM BANK AND BEING TOLD BY THE OFFICER THEY WILL NOT RENEW YOUR LINE OF CREDIT BECAUSE THEY ARE GETTING OUT OF THE FARMING AND RANCHING LENDING BUSINESS.

AS I SAID BEFORE, I AM A SECOND GENERATION INDEPENDENT BANKER AND I AM ALSO A FORTH GENERATION MONTANAN. I PLAN TO STAY IN BANKING

UNTIL MY RETIREMENT. BEING A MONTANAN I AN VERY CONCERNED FOR THE WELFARE OF OUR PEOPLE AS WELL AS MYSELF AND MY FAMILY. YOU AS REPRESENTATIVES ARE ELECTED BY THE PEOPLE OF MONTANA. I WOULD ASK, IS THIS BILL REALLY GOOD FOR MONTANAN'S? I WOULD HOPE YOU WILL RECOGNIZE IF THIS BILL PASSES WE CAN LOSE VALUABLE TAX DOLLARS, JOBS AND THE COMPETITIVE CHOICES CURRENTLY ENJOYED BY OUR CONSUMERS. IN ADDITION, SYSTEM BANKS DO NOT ALWAYS HIRE FROM THE MONTANA POPULATION AND OUR MONTANA SCHOOLS OF HIGHER EDUCATION. MANY SYSTEM BANKS UPPER MANAGEMENT DID NOT GROW UP IN THE STATE OF MONTANA OR ATTEND ONE OF OUR COLLEGES OR UNIVERSITIES. YOU ALL HAVE SONS AND DAUGHTERS AND, THEIR WINDOW OF OPPORTUNITY MAY BE MAY BE LOST SHOULD THEY WISH TO STAY IN MONTANA TO WORK AND PROGRESS IN A COMMERCIAL BANK. THE OPPORTUNITIES FOR OUT LOCAL OWNERSHIP COULD BE TREMENDOUSLY DECREASED OR ELIMINATED. I ASK YOU TO JUST DO ONE THING, DO YOUR JOB FOR THE PEOPLE OF MONTANA AND VOTE AGAINST THIS BILL. THIS BILL IS JUST ANOTHER WAY THAT MONTANA'S PRIVATELY OWNED ASSETS CAN BE SOLD AND CONTROLLED BY OUT OF STATE CORPORATIONS. WE ARE

THE ONLY STATE WHICH DOES NOT ALLOW INTERSTATE BANKING. TODAY, IDAHO HAS FULL INTERSTATE BANKING AND ONLY 24 BANKS. IDAHO HAS THE SAME POPULATION AS MONTANA. MONTANA STILL HAS 145 BANKS. I HOPE YOU WILL SEE YOUR WAY CLEAR TO REPRESENT THE PEOPLE OF MONTANA AND VOTE AGAINST HOUSE BILL NO. 358.

WITH MY TESTIMONY I AM SUPPLYING A LETTER FROM MY FATHER, AND SEVERAL OTHER CONCERNED BANK EMPLOYEES REGARDING THIS BILL. WE WOULD ASK YOU WOULD READ MY FATHER'S LETTER TO SENATOR ED KENNEDY AND THE OTHER BANKERS BEFORE YOU REACH ANY DECISION ON THIS BILL. AT STAKE IS THE FINANCIAL WELFARE OF MONTANA AND A LARGE GROUP OF MONTANA CITIZENS. THERE ARE OTHER BANKERS IN THIS ROOM WHO WILL FEEL THE SAME WAY I. WE WOULD BE HAPPY TO ANSWER ANY QUESTIO

EXHIBIT 7
DATE 1-29-93
HB 358

VALLEY BANK
OF KALISPELL
BOX 48
KALISPELL, MONTANA 59901

A.J. KING
VICE PRESIDENT

PHONE 406-752-7123
FAX 406-756-9120
MEMBER F.D.I.C.

EXHIBIT 2
DATE 1-29-93
HB 358

January 21, 1993

The Honorable Ed Kennedy
Montana State Senate
Helena, MT 59626

Dear Ed:

When last we visited, I advised you that the Montana Independent Bankers, Montana Bankers Association and the out of state owned and operated chain banks have reached a compromise on a bill which would provide Montana with an expanded degree of interstate banking. I was a party to the compromise effort; however, as I stated to you, I came away feeling that the loser would be Montanans, Montana consumers, Montana individuals employed in Montana's community owned and operated independent banks and the State of Montana. For the life of me, I cannot visualize how moving into interstate banking, whether it be through interstate ownership of unit banks or interstate branching can be of any advantage anywhere or to any individual or organization which calls Montana its home.

In as few words as possible, I will make an effort to try to explain my reasoning for opposing any change of our Montana laws. I will start first with Montanans as individuals.

(1) Acquisition of banks by large out of state owned and operated holding companies are for profit. Personal employment opportunities for Montanans wishing to continue living and working within the boundaries of Montana in individual branches will be limited to the position of branch manager. A branch does <u>NOT</u> need Vice Presidents, Assistant Vice Presidents, Cashiers, Assistant Cashiers or an operations officer, computer operator or an operations department. (local operations will be largely the responsibility of the Head Teller.) Most branches have their accounting on-line in a computer center located in a faraway place, probably out of state. Supervisors are primarily order takers inasmuchas they will take loan applications, fill out financial forms and direct the faxing of this information to a centralized decision maker, also located in a faraway place. You do not need a qualified bank lender in any of these positions.

In this manner, a great deal of operating costs can be limited by owners. On site expensive officers charged with credit line decision making capabilities are not required. The managing officer, which was formerly a president, is now charged with opening and closing the branch, seeing that all tellers and secretaries arrive at work each day and that these individuals are replaced should performance be lacking. A branch manager is not a high paid individual and will not be paid anything approaching the management salary scales in a local unit bank. Like the manager, advancement within the workplace can be limited or eliminated.

A lot of this boils down to jobs. Believe me, jobs in Montana are important. Important to individuals as well as the tax dollars they generate. Nationwide to date, the consolidation of the Banking industry has caused the loss of 56,595 jobs. In Kalispell alone, we have lost 130 jobs so far through the consolidation of First Interstate and the Norwest Bank. Montana as a whole has lost a great deal more in Missoula, Great Falls, Billings, Bozeman, Helena and Butte.

It seems to me, an expanded consolidation in the hands of the larger,. more affluent, corporations, will have an on-going impact on Montana job opportunities in the field of banking. Remember, there are few bank presidents in Montana working for out of state chain organizations who are graduates of Montana's university system. Keep in mind, banks generally hire a large number of young married women as well as many single mothers. Many of these jobs are at stake.

(2) Montana consumers wishing to establish a line of credit will find that they may be required to deal with an individual which is not knowledgeable of their personal position, business or assets. The individual responsible is a servicer required to fill out the proper forms. Forms to be faxed to an unknown face, the decision maker, often located out of the area, and unfamiliar with what makes your community function. That individual's decision is final.

(3) Escrow services and individual institution's safety and soundness are not the responsibilities of those in charge of the branch.

EXHIBIT 8
DATE 1-29-93
HB 358

(4) A branch office does not need to be designed for full service banking. The main office, wherever it may be, will probably be large, beautiful and functional. Your branch in your community may well take on the appearance of a service station. Your county tax base covering schools, roads, police and fire protection will be affected accordingly. The corporate savings will accrue to the bottom line of the parent and taxed in the state of ownership.

(5) Finally, can you tell me of any Montana individuals who have made a sizeable stake by investing in an out of state holding company? I cannot, although I am sure there are a few. On the other hand, I can give you the names of a number who have been successful investing in Montana owned and operated community banks.

Now, let us consider how the State comes out? Does the fact that banking is consolidated in the hands of a large corporation guarantee huge loans which will create jobs? Does the large bank guarantee there will be <u>ANY</u> loans made in Montana to Montana Corporations or individuals? Remember again, a Montana owned and operated community bank can only be successful by making loans available within its county of residence or its immediate trade area.

Is Montana's tax structure in place to guarantee that Montana bank earnings accruing to out of state ownership will not be consolidated with out of state operating losses and/or loan losses or be impacted by the desire to continue expansion? A fact of record, large multi-bank corporations generally earn one half to one percent of assets. Individual unit banks, such as Montana's community banks, will earn one to two percent on assets. Taxes accrue accordingly. Keep in mind, <u>this law transfers bank assets to the large out of state holding companies</u> based on the fact that deep pockets usually prevail. Is Montana ready and able to sacrifice this tax revenue to out of state entities?

By the way, if all of this turns out to be a financial loss to Montana, has there been any effort made to require that ownership of Montana's banks become available to be returned to Montanans or Montana corporations should out of state ownership attempt to merge or be acquired by another out of state entity? History has demonstrated that once our banks are sold, they only become available to mega money center institutions capable of acquiring their total organization such as Seattle First National to the Bank of America, Rainer Bank to Security Pacific, Puget Sound to Key Bank of New York. There is no provision in this bill or any other to require individual facilities be made available to Montanans and Montana corporations on a "Right of First Refusal" basis. Once a bill like this is in place and the legislature has not provided a mechanism, future Montana ownership and taxable resources are lost <u>forever</u>.

In a final analysis, what is the real purpose behind the bankers placing such a bill in the hopper. Obviously, there are out of state bank corporations located in Montana who wish to buy banks and expand their branch system. Since the Montana owned and operated banks <u>have the right</u> to expand in this manner, their support has to be based on their wish to create the <u>best market available to sell</u>. To these individuals the future of Montana people as well as Montana cannot mean much.

Ed, as I told you here in Kalispell, I first was active in fighting branch banking in 1962. For thirty years, off and on, I have regularly traveled to Helena to testify against the out of state ownership of our banking system. During that period, I have taken the opportunity only once, along with 90 Montanans, to charter the First Security Bank of Kalispell some 18 years ago. Since I was part of this compromise I will <u>not</u> be back in Helena. I can only hope you and your colleagues will sincerely have the best interest of Montana at heart when you consider this bill. Our consumer service, tax base and the future opportunities of my children, yours and all Montanans who may wish to consider careers in banking, is at stake. But there you have it. IF THERE ARE NO ADVANTAGES FOR THE MONTANA CONSUMERS; THE STATE OF MONTANA OR MONTANA'S BANKERS WHO WISH TO LIVE AND WORK IN THIS STATE, WHY ARE WE DOING THIS???

EXHIBIT 8
DATE 1-29-93
HB 358

The compromise which was crafted has three issues which need protection:

1. Out of state ownership of Montana's banks will not exceed 50% of the state's banking assets.

2. State reciprocal interstate acquisition agreements will not be entered into with any states other than Idaho, Wyoming, North Dakota, South Dakota, Colorado, Minnesota and Wisconsin. Protection must be in place to prevent a New York corporation from buying a bank in one of these states and using that bank to expand into Montana.

3. The bill includes the provision the Montana elects to "OPT OUT" of any federal interstate legislation requiring any form of interstate banking and/or interstate branching.

Have a good session and many thanks for your interest.

Sincerely,

Jack K.

A.J. King

AJK:vm

P.S. Ed, on page 52 in the December 28, issue of <u>Business Week</u> is an article strongly indicating the concentrated assets held in Europe's Mega banks appear to be in serious trouble. Likewise, many of our USA money center financial institutions have experienced major on-going problems. The concentration of banking assets provides a mechanism which <u>concentrates risk</u> far beyond anything that has occurred in the Savings and Loan fiasco.

PRESS RELEASE

EXHIBIT 8
1-29-93
HB 358

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To The Business or Finance Editor:

U.S. Banking Consolidation: 56,595 Lost Jobs

December 11, 1992 - Coral Gables, Florida, Bauer Financial Reports, Inc., a research firm that specializes in analyzing the performance of banks, thrifts and credit unions, reports that the nation's banks & thrifts reduced their work force by 56,595 employees during the one year period ending June 30, 1992.

In compiling the data, the firm combined employment data on both banks and thrifts, by state, to reflect the shift in employees from the thrift industry to the banking industry - through the many acquisitions during that period. "This loss of jobs represents the net effect of the consolidation of the banking and thrift industries," said Paul A. Bauer, president of the research firm.

The states with the highest number of lost banking jobs: New York - 15,674, Florida - 9,855, Texas - 6,162 and New Jersey - 4,531. In some cases, such as Florida, although the headquarters for the bank has moved to a different state, the employee remains in that state. That loss, however, is not reflected in a corresponding gain. Much of Florida's loss should show up as a gain in California or North Carolina. Yet, California posted a net loss of 2,682 jobs. North Carolina lost 281 banking jobs.

Employment data on specific banks, states or regions is available to members of the press by calling Paul A. Bauer or Karen Dorway, Director of Research, at 1-305-444-3125. To expedite your request, we suggest you FAX it to: 1-305-441-0691

WALL STREET JOURNAL.

MONDAY, JANUARY 11, 1993 ORLANDO, FLORIDA

'Jack the Ripper'

A CEO for New Era Prospers by Practicing Tough Art of Firing

John Grundhofer Salvages A Minnesota Bank, Makes No Apology for the Misery

Pink Slips and Tissue Boxes

By CHRISTINA DUFF
Staff Reporter of THE WALL STREET JOURNAL

MINNEAPOLIS — Some of the most sought-after corporate chiefs these days are men like John F. Grundhofer, the chairman of First Bank System Inc.

As a manager, Mr. Grundhofer bears little resemblance to the conglomerate-builders of the 1960s, the team players of the 1970s or the financial engineers of the 1980s. His nickname, "Jack the Ripper," loosely suggests his specialty: firing people.

Since Mr. Grundhofer unpacked his bags here three years ago, he has ordered the dismissal of 2,000 First Bank employees, or 20% of the work force. Afraid the soft-hearted Minnesotans he'd retained would somehow sneak their former colleagues back in, he even devised a computerized blacklist, using Social Security numbers, to keep fired employees from returning. "I'll do whatever I have to do, however Draconian," the 54-year-old executive declares. "Shareholders are looking for someone to protect their livelihood. You have to manage tough to survive."

John F. Grundhofer

Under Mr. Grundhofer's management, First Bank's share price has risen to $27.375 from about $14 on the New York Stock Exchange. (On Friday, the company agreed to buy back 900,000 shares in a private transaction; the price wasn't disclosed.) The company's net income was $178 million in the first nine months of 1992; it was $1.9 million in all of 1989, the year before Mr. Grundhofer took over.

"First Bank is one of the greatest turnarounds in banking history," says J. Richard Fredericks, a Montgomery Securities analyst. Mr. Grundhofer "did a spectacular job of taking expenses from high levels to low levels. . . . How refreshing."

Not everyone, however, has been a fan. Few of those employees given pink slips will defend Mr. Grundhofer's management style.

A New Kind of Hero

What has happened at First Bank is emblematic of the hard psychological adjustments that have attended the white-collar recession. About 2.8 million white-collar workers lost their jobs in the five years ended January 1992, by the Labor Department's latest count, and legions more have been fired or laid off since. Citicorp has chopped 13,000 white-collar jobs. Sears, Roebuck & Co. is axing nearly 48,050. At least half of the 25,000 jobs that International Business Machines Corp. will cut this year are expected to be white-collar ones. Besides instilling widespread dread in a work force accustomed to job security, the strategy of profits-through-firing is creating a new and curious model for managers: the axman as hero.

"A lot of CEOs in the last few years have gotten ahead by acting like butchers when they come into a crisis situation," says James O'Toole, executive director of the University of Southern California's Leadership Institute. And some who have resisted that role have found themselves out of work. General Motors Corp. pushed out Chairman Robert C. Stempel partly because he couldn't bring himself to fire his colleagues. Even while the troubled auto maker posted gargantuan losses, Mr. Stempel favored early-retirement offers and other buyout packages.

In a management specialty that often calls as much for brass as for vision, experts say, a track record is especially important. "You need [to be] someone with the courage to take lonely actions because you're going to find yourself without a peer group," says Jeffrey Sonnenfeld, director of Emory University's Center for Leadership and Career Change. "Few companies will put someone in who's untested."

'The Greater Good'

Mr. Grundhofer came from Wells Fargo & Co., where slashing jobs had been a religion. "You've got to be able to [fire people] or *you* won't be around," he says. "It's for the greater good." He often tells the story of a First Bank shareholder who came to him in tears, distressed by the stock's low price. "It only furthered my resolve" to fire people, he says.

Still, he isn't insensitive to the misery of mass firing. "You ought to go to a psychiatrist if you like it," he says. When he is troubled, Mr. Grundhofer says, he talks it over with his wife. Outdoor sports, especially fly-fishing, help him forget. (He says he cried all the way through "A River Runs Through It," a film about a father and two sons who fly-fish together.)

Mr. Grundhofer doesn't find himself distressed by the unpleasantness at First Bank as often as one might think, because he leaves the actual firing to others. He decides how many people need to be trimmed from each department — sometimes entire departments are cut — and

Please Turn to Page A4, Column 4

8
1-29-93
HB 358

'Jack the Ripper': CEO Prospers By Specializing in Firing People

Continued From First Page

then leaves the execution up to the managers. "I don't want to usurp" their authority, he says.

It is this remoteness, as much as anything, that leaves some people he has fired shaken to the core. "No one was trying to help Jack understand the importance of what we were performing," says Diane Merrifield, who lost her job as a bank vice president in March 1990. She says she and her colleagues were told to be at their desks at 8:00 one morning, and as they sat there, several of them were called into a room, one at a time, and fired. "It was sort of like bringing sacrificial lambs to the slaughter," Ms. Merrifield says.

Ron Iverson, fired that same March from his $100,000-a-year job as a marketing manager, never even met Mr. Grundhofer. "Because he's so remote, it's easy to assume he's just an S.O.B.," says Mr. Iverson, who is now a substitute teacher making $70 a day.

'The Angel of Death'

For a while after Mr. Grundhofer took over, firing "did become almost a mass-production thing," says Mary Melbo, a former personnel official. When firing time came, her job was to accompany a manager into his department, explain the severance package and, when needed, hand out tissue. Some days she did dozens of firings. Soon the mere sight of her getting off the elevator would send a tremor around the floor. One soon-to-be-fired banker blurted out "'Oh my God, it's the Angel of Death'" upon sighting Ms. Melbo. "That day I went home and told my husband, 'I've done enough,'" she says. She left the bank in June 1990.

First Bank, a regional bank-holding company with operations in seven states, almost seemed to ask for the Grundhofer treatment. In the 1980s, then-Chairman George Dixon called First Bank "The Enterprise" and steered the ship on a national lending binge that led to big losses. The next chief, Hamm's beer family scion D.H. Ankeny Jr., presided over a multibillion-dollar bond-market gamble that went bad. All the while, costs were high. A chastened board of directors found Mr. Grundhofer and appointed him chairman and chief executive in January 1990.

Mr. Grundhofer learned early on that banking isn't entirely a gentleman's business. About 30 years ago, working as a clerk for Union Bank of Los Angeles, he was trying to repossess a car when its owner, a delinquent borrower, opened fire. The bullets missed, but the incident helped persuade Mr. Grundhofer to go back to school for a masters in finance.

Early Influences

The son of a bartender and a maid, he struggled more than many of his contemporaries in Glendale, Calif. "We showed him how to make ends meet," says his 81-year-old mother, Laura Grundhofer. She recalls how her eldest son took her hands when his father, also John, had fallen ill and was being administered the last rites (he recovered). "We won't lose our house," 16-year-old Jack told her. "We'll work together to help put [siblings] Joan and Jerry through school." He was working in a dry-goods store at the time.

His parents say those years helped mold Mr. Grundhofer into a tough businessman. "He doesn't mess around; business is business," says his 82-year-old father with a raspy laugh. The elder Mr. Grundhofer, who eventually worked his way up to steakhouse manager in California, passed on to Jack this family canon: "Do your job well, but remember: You can always be replaced."

It wasn't hard to remember. Jack Grundhofer says he fired his first employee as a 27-year-old regional vice president at Union Bank. "It wasn't that traumatic. It was my job. There was a cause," says Mr. Grundhofer, who has never been fired himself.

Lessons of Wells Fargo

He learned more about firing at Wells Fargo, where he went to work as an executive vice president in 1978. Under Chairman Carl Reichardt, Wells Fargo popularized the notion that simply cutting costs can be an effective business strategy. On May 30, 1986, the day Wells Fargo bought Crocker National Corp. and immediately fired 1,600 managers, Mr. Grundhofer was on hand. Because of the aggressive cost-cutting, Crocker National was one of the most successful bank acquisitions ever.

The logistics of firing — when, where, door open, door closed — don't much matter, Mr. Grundhofer says, as long as you don't drag it out. Of course, the best planning won't stop the tears. "It's just part of the process," he says. "You hope it doesn't get out of hand."

Before firing someone, he makes sure his resolve is strong. "It's an unnatural act," he says. "You've got to firm yourself. Any halfway decent person can easily be talked out of it."

A Test of Mettle

Mr. Grundhofer acknowledges that when people are fired en masse, merit is sometimes overlooked. "When you have layoffs, there's some very good people who end up being fired," he says. "You don't always make the right decision about individual people. There's no way that you can."

Though Mr. Grundhofer leaves the firing to others at First Bank, he hastens to defend his record, saying "I've done it lots of times" in the past. Besides, he says, as chief executive it's important for him to know if a subordinate can handle the job. "If you can't do it [fire people], then I don't need you," Mr. Grundhofer says.

He wasted no time at First Bank. Besides firing 20% of its workers, he knocked off high-risk lending and focused on marketing loans and services to consumers and small business. The stocky executive, who walks with a strut and bears a startling likeness to Wayne Newton without the mustache, oversaw many loan approvals himself. "If you came to me with something illogical, I'd beat you up," he says.

Mr. Grundhofer's fast-talking, in-your-face style didn't endear him to many people in Minnesota, where calling attention to yourself is considered in poor taste. As he describes his 3,000-bottle wine cellar, made to resemble something he saw in France, a public-relations assistant fidgets.

Compared with Minnesotans, "he cusses a lot more. He boasts a lot more. He starts a lot more sentences with the word 'I.' That's just not the way it's done up here," says a former First Bank executive, fired days after Mr. Grundhofer arrived.

"There is a Minnesota nice," Mr. Grundhofer says, trying not to sound condescending. "At times you have to deal with it."

Mr. Grundhofer began tracking fired employees by Social Security number because some of them, it seemed, wouldn't *stay* fired. They'd get rehired for a post somewhere else in the bank.

Emotions ran high as the firings continued, but sometimes there was no shoulder to cry on. One day in late 1990, the personnel office was crowded with weeping pink-slip recipients. But Louise Routhe, a personnel officer normally designated to talk people through their firing, had just gotten the ax herself, according to people in the department.

Foiled Abduction

One morning in November 1990, after the worst of the bloodbath, Mr. Grundhofer was kidnapped. After the executive had wheeled his Mercedes into First Bank's parking garage, a well-dressed, middle-aged man confronted him with a gun. Mr. Grundhofer swiftly knocked it away. The two wrestled on the garage floor, but the assailant regained control and forced Mr. Grundhofer to drive out of town.

During the drive, the kidnapper fastened to the chairman's wrist what FBI agents now believe was a fake bomb, and ordered him to call his secretary on the car phone and ask for a $3 million ransom. When they reached a wooded area in Wisconsin, the abductor tied Mr. Grundhofer's hands, taped his mouth and forced him to climb into a sleeping bag. Tying the chairman to a tree, he told him to "try to get some sleep" and left with the car.

The chairman told the FBI that the abductor had "more than a passing knowledge about Mr. Grundhofer, his family and First Bank," says Nicholas O'Hara, an FBI special agent. "We're looking at ex-employees" or "people with a possible animosity toward Mr. Grundhofer."

Mr. Grundhofer escaped and walked to a farmhouse. No ransom was paid, and the case is unsolved. In a lineup, Mr. Grundhofer picked out a man who wasn't a First Bank employee; there wasn't enough evidence to make an arrest.

Salaries Frozen

Mr. Grundhofer and the other top executives have frozen their salaries over the past three years. He has a base salary of $525,000, and on top of that he had bonuses and other payments totaling $755,119 in 1991. He also has stock options worth an indicated $3.3 million.

Mr. Grundhofer travels between First Bank branches by corporate jet ("I can't justify the cost," he confesses), and now uses a limousine with a bodyguard. But his office is a shrine to austerity: of modest size, with three plants he paid for himself. "And we water them ourselves, don't we?" he says to his secretary.

When First Bank moved its headquarters into this building last spring, executives found they didn't automatically have offices waiting for them. Anyone who wanted one had to make a case in writing. Few dared. "They knew I'd put 'em through the grind," the chairman says. Now, only about 60 people who proved they needed privacy have offices, down from about 400 before the move.

The others, like international banking head John S.C. Leavitt, sit in cubicles. Framed by the cloth-covered dividers, Mr. Leavitt recalls his old office: the big desk; the credenza behind it; bookshelves along one wall; the conference table ringed by chairs. "It was an adjustment for all of us, learning the courtesies of being in a cube environment," Mr. Leavitt says.

Mr. Grundhofer also closed First Bank's cafeteria and executive dining room. "We're not in the restaurant business," he says.

The firing has slowed now, but it will continue. First Bank recently acquired Marquette Bank Minneapolis and said it will cut people whose jobs overlap. Several recently fired First Bankers now work at Marquette, and it isn't far-fetched to think that some of them could end up dismissed by Mr. Grundhofer twice.

It wouldn't be the first time such a thing has happened. Mr. Grundhofer recalls firing a man years ago at Union Bank, and then firing him again as a Wells Fargo executive during the Crocker takeover. "The poor guy," he says.

THE WALL STREET JOURNAL

EXHIBIT 8
DATE 1-29-93
HB 358

★★ Western Edition MONDAY, JUNE 22, 1992 Federal Way, Washington

Gathering Steam

As National Banking Nears, Mergers Sweep Across State Borders

Major Independents Dwindle, Forcing Some to Decide Whether to Buy or Sell

Local Businesses Are Fretting

By Steven Lipin and Mari Charlier
Staff Reporters of The Wall Street Journal

There's a new look to the merger wave washing across the banking industry. It's not just consolidation of banks in the same cities. It's an aggressive push by large regional banking companies to expand their spheres even wider by acquiring big out of state banks and becoming dominant players in new markets.

In recent months, the largest banks in Washington, West Virginia, Indiana and Arizona have been acquired by banking companies headquartered far away.

While these deals and a dozen or so others this year are bringing into focus the banking companies that aspire to operate nationwide, they also are putting pressure on hundreds of other big banks to step up their own acquisition strategies. Now, some business leaders and state regulators fear that communities will be hurt if key decisions on lending and local charities are made from afar.

Jockeying for Position

"The race is on for market share," says Edward Annunziato, an investment banker in charge of financial institution mergers at Merrill Lynch & Co. As the improving economy makes some bank-loan portfolios seem less risky, "banks are jockeying for the coming world of nationwide banking," he adds.

With a series of acquisitions in Michigan and nearby states, Daniel Smith, for instance, has built what had been a stodgy little bank in Kalamazoo, Mich., into a regional player with assets of $19 billion. Now, the chairman of First of America Bank Corp. views the current wave of interstate bank mergers as both a big opportunity and a bit of a threat.

On the one hand, Mr. Smith sees "a possibility of breaking out of the Midwest for diversification." Citing such far-flung states as Arizona and California, he adds: "Distance is no real factor."

But he also realizes that distance might not deter another bank from trying to buy First of America. Though "we don't have an offer in hand" and he prefers to remain independent, he says that in the interests of his stockholders he keeps his lines of communication open to possible bidders. "That's always an option," he acknowledges.

Nationwide banking is coming even though repeal of the McFadden Act's long-standing ban on bank expansion across state lines still is being debated in Congress. Federally sanctioned nationwide banking would allow the companies to save money by running out-of-state units under the same flag, without the current nuisance of duplicate accounting systems,

Right now, acquisitive banks can jump state lines because of deals that individual states cut with each other, mostly in the 1980s. Sales of troubled banks by the federal government also are open to out-of-state bidders — a key reason that New Hampshire, for example, hasn't any large independents with more than a few billion dollars in assets.

Prices High

Accelerating the trend are lofty sale prices. The market value of the 10 largest

Top 10 Bank Deals in '92

[illegible]	[illegible]	[illegible]
Banc One	Valley National	$1,247.8
NBD Bancorp	INB Financial	912.0
Barnett Banks	First Florida	885.0
KeyCorp	Puget Sound	807.0
Banc One	Team Bancshares	782.0
Banc One	Key Centurion	557.4
Boatmen's	SunWest	335.7
First Bank Sys.	Bank Shares Inc.	247.9
First Bank Sys.	Western Capital	159.7
First TN Nat'l	Home Financial	146.3

Source: SNL Securities, most deals are pending.

deals announced so far this year, all for more than $100 million, already exceeds $6 billion, according to SNL Securities, a Charlottesville, Va., research firm. In the corresponding period a year ago, only three deals topping $100 million had been announced, and the top 10 totaled only $1.4 billion. Moreover, the ratio of the acquisition price to book value of those acquired banks jumped to 1.85 from 1.61.

Early this month, Banc One Corp. of Columbus, Ohio, announced the purchase of Key Centurion Bancshares, the largest bank in West Virginia, just six weeks after agreeing to buy Valley National Corp., Arizona's largest and last independent bank. In Florida, Barnett Banks Inc. and First Florida Banks Inc. joined forces last month, leaving that state, like Colorado and Oregon, with only one large independent. In Texas, the troubled First City Bancorp of Texas Inc. is expected to be sold with government assistance; that would leave Cullen Frost Bankers Inc., a $3.1 billion institution, as the only large independent in the state.

But concern is growing in states and communities where banks have been bought out. Some state regulators and local leaders worry that out-of-state banks will siphon away deposits and earnings and diminish the funds going back into local lending and charities. Distant holding companies "really aren't in the business of maintaining a relationship with small businessmen," says Barbara Walker, Colorado's bank commissioner.

That's what happened in Texas after most large local banks failed and were taken over by outsiders in the mid-1980s, some bankers say. "They just didn't have as much at stake in pulling the region out of recession," says Robert Mahoney, a senior vice president at Bank of Boston Corp. He believes New England has a better chance of recovering now than Texas did in the 1980s because several major banking institutions, including Bank of Boston, Fleet Financial Group Inc. and Shawmut National Corp., are headquartered in the area and recognize the need to lend money to ensure economic revival and their own well-being.

But the biggest impact of all the border-hopping is to spur additional consolidation. Frank Anderson, a banking analyst at Stephens Inc. in Little Rock, Ark., notes the pressure on Colorado National Bankshares, the last remaining large independent in Colorado. "Their competitors have been acquired, and when that happens, it's awfully hard to remain independent," he says.

Many chief executives of banks with assets of $1 billion to $10 billion wonder whether they can go head-to-head against the big new regionals. Explaining the decision to sell Valley National, Richard Lehmann, its chief executive, told analysts that the Arizona bank was too large to operate as a niche player and too small to become a regional bank.

Other executives know how he feels. If they don't acquire a neighboring bank to gain market share, an out-of-state rival might. And if they hope to remain independent, they have to grow to superregional size by joining the acquisition derby.

Nationwide Players

All the action is putting in focus the lineup of nationwide players. Some 70 years after BankAmerica Corp. founder A.P. Giannini dreamed of creating a national network of banks, his heirs in BofA management run a sprawling empire in many Western states and Texas, and they have considered bidding for troubled institutions in Chicago and New England. Similarly, Banc One's chairman, John McCoy, has created a network stretching from its Midwestern stronghold to dominant franchises in fast-growing Western states.

From the East, KeyCorp is spread across the Northern tier of the country, including its recent acquisition of Puget Sound Bancorp, while NationsBank is taking a dominant position in the Southern tier and Mid-Atlantic states. Including banking, consumer finance and mortgage operations, Minnesota's Norwest Corp. has nearly 1,700 offices in 49 states.

While these are perhaps the hungriest U.S. banks, a dozen or so other strong regionals also are pushing into new markets. They include First Bank System Inc. in Minneapolis, Boatmen's Bancshares Inc. in St. Louis, U.S. Bancorp in Oregon, PNC Financial Corp. in Pittsburgh and First Fidelity Bancorp. in New Jersey. In addition, California's First Interstate Bancorp has teamed up with Kohlberg Kravis Roberts & Co., which holds a 9.9% stake in the company, to scout for acquisitions.

Gathering Steam: As Nationwide Banking Nears, Mergers Cross State Lines, Absorb Big Independents

Although the surge in bank mergers is reminiscent of the takeover craze among industrial companies in the 1980s, the big difference is that few of the current bank deals are hostile. And few are for cash. Typically, the suitor bank's high stock price makes it easy to persuade a target bank's management and board to negotiate a stock swap. One exception: Cincinnati's Star Banc Corp. board rebuffed a $1.2 billion bid from its cross town rival, Fifth Third Bancorp, in April. Fifth Third hasn't ruled out a hostile tender offer.

Also unlike many bank mergers in the mid-1980s, the current wave of consolidations is "not driven by wanting to plant the flag in every state," says Philip Duff, of Morgan Stanley & Co. Acquiring banks now are paying more attention to profitability than mere size.

Changing Economics

And the economics of many deals today differ from those of intramarket mergers, which increase profits primarily through cost-cutting. Interstate deals can wring out some costs, but they are mainly predicated on the ability to expand the parent's financial products through the new bank's customer network and to widen the customer base with the parent's muscle. Boatmen's Bancshares, for instance, expects its recent purchase of New Mexico's SunWest Financial Services Inc. to enable it to expand Boatmen's profitable trust business as well as consumer products.

Community leaders across the country, however, are worried. They fear that the money might not be available when they need to fix up a local park, build a new wing on a museum or fund United Way.

"We're losing headquarters operations in banking and oil and gas in Denver," says Bonnie Downing, a fund-raiser for the Denver Museum of Natural History. "What that means is the decision-making on charity moves from a more personal network of people to having to deal long distance. That makes it more difficult." However, she has yet to see evidence that out-of-state banks have cut off support.

An even greater worry is the possible damage to local companies. Denver, which is unusually dependent on small businesses, got its first taste of out-of-state ownership when First Interstate Corp. bought American National Bank in the 1970s and then First National Bank of Denver in the early 1980s. In 1989, First Bank System bought Central Banks, the state's fourth-largest bank. And in 1991, Norwest bought United Banks of Colorado, the state's largest, followed quickly by Banc One's still-pending deal to buy Affiliated Bankshares.

Now, state bank regulators say they are taking a steady stream of frantic calls from Denver businessmen that have lost close, longstanding ties with local banks and have been turned down by merged institutions. The new banks "want to be consumer banks" rather than serve small businesses, says Ms. Walker, Colorado's bank commissioner.

A Dentist's Problems

The bankers disagree, but the experience of Ronald Yaros suggests there is a real problem. The Denver dentist, who started his practice 20 years ago, banked with United Banks of Colorado, where his business included a line of credit, numerous mortgages and about 10 separate accounts. But in the year following the bank's acquisition by Norwest, he had three different loan officers, none of whom, he says, understood his financial needs.

When Dr. Yaros's loan on his vacation home in Vail matured, he was told the bank no longer did business in Vail. He believes decisions were no longer made by his loan officers, but by a committee or by someone in another city. The bank also cut his line of credit, telling him his debts were too high. That made no sense, he says, because "the only thing that changed in my financial situation was improvement."

Though declining to discuss individual cases, John Nelson, chief executive of the new Norwest Colorado Inc., says customers aren't "indiscriminately" dropped. "If we have a legitimate business-purpose loan, and it's continuing to generate earnings and is in compliance with agreements made and current in payments, they're not getting kicked out of the bank."

Dr. Yaros decided to switch to Belcaro Bank, a small community bank owned by a local industrial conglomerate. He says he likes his new bank. "Last month," he says, "we put a new computer system in. I just called . . . and said I needed $40,000. Bang! The check was there."

Such banks, usually under $1 billion in assets, are benefiting from these moves. "We have lots of applications coming to us from FBS [First Bank System] and Norwest," says Fred Artes, a vice president at Union Bank, a small bank in Denver.

Commissioner Walker also fears that the money now coming into Colorado will eventually "get funneled out of the state" under out-of-state ownership. And a controversial House Banking Committee study issued in March charged that 40% of multistate bank holding companies do drain funds from states where they aren't based. As summarized by the Conference of State Bank Supervisors, the report showed "the level of commitment to lending and development in a host state is controlled by the parent company."

Bankers, however, argue that the small and midsized companies are just the business they want. "The highest spread we can get is on a loan in a smaller market," says Norwest Colorado's Mr. Nelson. "Our bread and butter is not multimillion dollar loans to Fortune 500 companies. It's Main Street U.S.A."

Acquisitive banks such as Banc One and KeyCorp often retain existing managers and directors, helping to preserve community ties. And "if some small town needs a fire truck, we'll finance it," says William Dougherty, executive vice president at KeyCorp.

The effects of bank mergers on the availability of credit to small businesses have caught the attention of the Justice Department. Lately, it has been requiring merging banks to spin off some overlapping sectors to preserve competition in consumer and business services. It also has broadened its definition of "concentration" in a market to include small-business lending. But there isn't any clear mathematical formula on whether a merger would raise antitrust issues.

In any event, the department isn't likely to fight geographic expansion deals in which the acquirer wants to enter new markets rather than add to existing market share. In fact, its concern about local competition could tip the scale toward regional and national acquisitions rather than "in-market" mergers.

Eventually, the next wave of bank consolidations could see acquisitions of the current crop of acquirers by even-bigger banks or mergers among regionals to create a truly national bank. While many chief executives say they want to stay on the buyer's side of the negotiating table, banks such as First of America could find their acquisition plans fitting hand-in-glove with a larger bank's strategy, in a sort of ecological food chain for banks.

Bank and thrift managements that traditionally wanted independence or were acquirers themselves are rethinking that strategy in view of the rich premiums acquirers are paying. Financier Ronald Perelman has been building First Gibraltar Bank FSB, a Texas thrift, from the ashes of the savings-and-loan mess, but he knows a seller's market when he sees one. His investment bankers are said to be quietly peddling the thrift for $700 million to $900 million. A spokesman for Mr. Perelman declines to comment.

The acquisition game is "going a lot faster than what many people had anticipated," says Gail Rogers, an investment banker at J.P. Morgan & Co. "Banks who we never would have thought of selling are selling or thinking about it."

EUROPE

HAMBURG SKYLINE: OVERBUILDING IN EUROPE RESULTED IN SOURED LOANS

WOLFGANG STECHE/VISUM

EXHIBIT 8
DATE 1-29-93
HB 358

IT'S EUROPE'S TURN TO BAIL OUT THE BANKS

A deepening recession and high interest rates have lenders seeking aid

For decades, Continental Europe's megabanks were the models of triple-A financial strength and rock-solid stability. Not any longer. Stubbornly high German interest rates, deepening recession, and a worsening real estate market are battering lenders from Stockholm to Sicily.

One after another, bankers in many countries are trooping to their governments to demand bailouts and other emergency aid. Even the ones that aren't seeking handouts are hunkering down as profits dwindle and bad loans mount. Warns Robin Monro-Davies, managing director of London credit-rating agency IBCA Ltd.: "Loan losses will go up more than anyone thinks, and they'll go up fast."

JOLTED. Europe's banking mess may finally push the Bundesbank to cut interest rates. If Germany's central bank doesn't budge, all of Europe will feel more pain. Property prices are sure to fall further, and lending will dry up. The resulting credit crunch could mire Europe in recession into the mid-1990s. Several European countries, desperate to spur growth, have been shaving interest rates. But that has done little to prop up their financial systems or boost lending.

The squeeze is prompting some banks to shrink money-losing retail operations and order layoffs. In addition, many lenders are seeking state aid, threatening to bloat government deficits. As much as $20 billion of French lenders' $60 billion in property loans have gone sour. So in mid-December, the banks asked the government for tax relief and, possibly, credit guarantees.

But in Scandinavia, rising losses have already led governments to take on a life-support role in most of the region's big banks. The Swedish government has taken over banks that control 25% of the industry's assets, and, on Dec. 10, Skandinaviska Enskilda Banken, the country's largest privately owned lender, got in line for government guarantees. The Swedish government has hired McKinsey & Co. and Financière Crédit Suisse First Boston to help it restructure the industry. It's also "trying to assure creditors that all obligations will be met in due time," says Bo Lundgren, Fiscal & Financial Affairs Minister.

Even as economic conditions deteriorate, Germany's high interest rates are denying many banks the opportunity to improve profit margins and ease the burden of carrying problem loans. Not only is the recession dampening loan demand but banks are also having a rough time making a profit on their massive portfolios of government debt. Banks finance part of these portfolios with short-term borrowings. But short-term rates, now around 9.4%, are nearly two percentage points above the yields the banks are earning on 10-year bonds.

Worse yet, losses are rising on existing loans. Lenders were jolted on Dec. 11 when steelmaker Klöckner-Werke, with debts of $1.7 billion to Deutsche Bank and others, became the first major German company to declare itself insolvent since 1982. Deutsche Bank's operating profits for the first 10 months of 1992 were already down 5% from 1991 levels. And even before Klöckner's filing, Deutsche CEO Hilmar Kopper had indicated that he would make new and "substantial loan-loss provisions."

Even Switzerland is seeing banking strains mount. Geneva real estate prices have fallen as much as 40% recently, and Moody's Investors Service Inc. has stripped Swiss Bank Corp. and Crédit Suisse of their triple-A ratings. Hans Kaufmann, head of research at Zurich's Bank Julius Baer, figures that as much as 15% of the $120 billion of mortgages banks issued since 1987 may turn bad. As a result, money-losing smaller regional lenders are being swallowed up at a rapid clip by bigger rivals. Around the capital city of Bern, for example, the number of such lenders has fallen by half, to around 30, in 1992 alone.

Heavy loan-loss reserves, which were supposed to decline around Europe next year, could stay at peaks for some time. A "quite dramatic" deterioration of Germany's commercial property market, says BHF-Bank Managing Partner Heinz-

SOME BIG HEADACHES FOR EUROPE'S BANKERS

BRITAIN Big banks may take loss provisions totaling $7.3 billion

FRANCE Nonperforming real estate loans soar to $20 billion

GERMANY Steelmaker Klockner-Werke's bankruptcy jars banking system

ITALY Weak balance sheets threaten privatization plans

SWEDEN Government takes over two of the four largest banks

DATA: BW

Gernot Reiners, will eat into Frankfurt bankers' profits. Britain's recession and sagging home prices will force the nation's four big lenders—National Westminster Bank, Barclays, Midland Bank, and Lloyds Bank—to make $7.3 billion in provisions for 1992, estimates Goldman Sachs International Ltd. analyst Rod Barrett. French banks have already socked away $4 billion in reserves this year.

In 1993, the slump could claim more casualties. Italy's plan to privatize banks, beginning with Credito Italiano, the country's sixth-largest, could go awry. Italian industry is suffering its biggest slump in two decades. The recent $12.5 billion bankruptcy of state-controlled industrial holding company EFIM left Italian banks holding the bag for an undisclosed sum.

A similar scene could unfold in France. Legislative elections next March are expected to oust the country's Socialists. Until recently, bankers expected that would accelerate privatization efforts. But falling profits will likely push privatization on the back burner. Concedes a manager at Crédit Lyonnais: "Our balance sheet would never permit it." For stressed-out European bankers, getting those balance sheets back in shape will be priority No. 1.

By Bill Javetski in Paris, with John Templeman in Bonn, John Rossant in Rome, and William Glasgall in New York

history, and the royal family," says Peter Hennessy, a professor of contemporary history at Queen Mary & Westfield College.

Then there's foreign tourism. Britain draws about 18 million visitors every year, and they spend a total of about $10 billion. What's the big attraction? Royalty-saturated sights such as medieval castles, horse-drawn carriages, and Beefeater guards. Alan Jefferson, international marketing director for the British Tourist Authority, shudders to think of what would happen to tourism if there were no royal family. "Britain's appeal as a destination would be much diminished," he says.

NIXED MEDIA. There's no denying snob appeal, either. A century ago, retailers noticed that consumers like to buy products that Buckingham Palace considers good enough to stock. Thus was born the Royal Household Tradesmen's Warrants Committee. The group decides which companies and products get to bear the royal arms and the phrase, "by appointment to Her Majesty the Queen." Companies clamor to get on the list, which now numbers about 700 and includes Harrods department store and the Guinness brewery. Each company can boast that it has been a trusted supplier to Buckingham Palace for at least three consecutive years.

Naturally, the British press jumps on every coming and going of the royal family. London's 11 daily newspapers, for example, have given wide play to royal dalliances, and their motivation is not just voyeurism. They are in a fierce struggle to attract a dwindling number of advertisers in Britain's longest recession in 60 years. Market opportunities aren't lost on the royal family, either. Princess Anne recognized her value to the press when she banned photographers from her wedding, then charged newspapers $1,100 per snapshot.

Some may think that the dysfunctional royal family has cheapened the currency. But Nedtron's Lovett says it's just the opposite. When he travels abroad, more people are aware of, and ask about, the royal family than ever before. True, the British will have to endure months of painful introspection about the monarchy's future. But in the end, says Hennessy, "The Italians are more likely to evict the Pope from the Vatican than the British are to abolish the monarchy."

By Paula Dwyer in London

FROM ALBANY TO YAKUTAT

At the end of 1985, KeyCorp was an obscure $7.8 billion, Albany-based institution operating primarily in Upstate New York. Now, it is approaching $30 billion in assets, its offices stretch from Albany to Yakutat, Alaska, and it has become a favorite of investors.

Behind this expansion is 60-year-old Victor J. Riley Jr., its hands-on chairman, president, and CEO. His strategy is unique, focusing KeyCorp's expansion across the nation's northern tier. In the following interview with Editor-in-Chief Robert A. Bennett, Riley outlines his game plan.

USB: *KeyCorp began as a New York State holding company based in Albany. Now you have banking subsidiaries in Wyoming, Idaho, Utah, Oregon, Washington, Alaska and Maine. How did that happen?*

RILEY: Our first move out of the state of New York was to the state of Maine in 1984. Shortly after that, the regional compact among the New England banks effectively locked us out of that market.

It was apparent that it would be a considerable period of time before we could expand outside of New York again. So we looked to see where we could find regions that were very similar to where we were already operating — Upstate New York, on Long Island and in the state of Maine.

We asked ourselves, if the law allowed us to go anywhere in these United States, where would we go? We determined that the place for us, other than New England, was in the Northwest. That region was very similar to ours.

USB: *In what ways?*

RILEY: In almost every respect. Whether you're talking about climate, whether you're talking about geography, whether you're talking about ethnic backgrounds, whether you're talking about the habits, foods, products produced.

We felt that the size and types of towns in that region were similar to those in Upstate New York, and that we could probably be successful there with our form of consumer bank. So we embarked on a five-year program, earmarking a number of states that we were interested in — the six that we're already in plus Colorado and Montana.

USB: *Was it legal to go into those states at that time?*

RILEY: No. It was not. We're still not allowed to e[nter] Montana, and with all the banks that are moving into C[olo]rado, we figure that it's overbanked and we'll stay out o[f]

USB: *So when were you allowed in your target states?*

RILEY: Well, each state moved at a different pace. We went to Alaska because Alaska had arranged special legi[sla]tion with the Oregon legislature to allow Alaska bank[s to] acquire a defunct bank in Oregon, called the Bank of O[re]gon. We saw that as an opportunity to enter Oregon by acq[uir]ing a bank in Alaska.

From then on, one target state after another passed legi[sla]tion allowing for full interstate banking — not going the r[oute] of regionalization, as other parts of the country had.

USB: *At least until recently, your entry into those states [has] largely been through smaller banks, am I correct?*

RILEY: They were of varying sizes, depending on what [was] available and what we thought would fit our style of banki[ng]. For example, when we acquired the bank in Wyoming, [it] became the largest bank in the state.

USB: *What size was that bank?*

RILEY: Oh, I think it was about $800-$900 million.

USB: *Where do you rank in size in Alaska?*

RILEY: We're third.

USB: *What kind of market share do you have in the weste[rn] states?*

RILEY: We don't look at market share. We look at profitab

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DATE 1-29-93 SPONSOR(S) Rep. Hibbard

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Phil Sandquist	1st Sec BK - Bozeman	✓	
Joe Thares	MT Independent Bankers	✓	
Frank S Stock	Security State Bank - Polson Montana Independent Bankers	✓	
Roger Tippy	MT Independent Bankers	✓	
Kurt Bolander	Terry Mont	✓	
Dean Nelson	1st Interstate of Mt.	✓	
Joel Harris	Yellowstone Banks	✓	
Ron Ahlers	First Citizen - Bz	✓	
JOHN CADBY	MT BANKERS ASSN	✓	
Bogie Strausburg	First Bank Montana	✓	
John L Franklin	1st United Bank Sidney	✓	
Rodney L. Smith	U.S. Nat'l B Red Lodge	✓	
Ron Scott	1st State Bank Malta	✓	
LEON LANGEMEIER	BK of BRIDGER	✓	

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Business & Ec. ~~COMMITTEE~~ COMMITTEE BILL NO. 201

DATE Jan. 29 1993 SPONSOR(S) Rep Hubbard

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
GARY B CARLSON	Self	✓	
Gene Burcal	Garfield Co Bank	✓	
DON HOTCHINSON	FINANCIAL DIV ST OF MT	✓	
Robyn Young	DCN / MSBIC	✓	
Bill Ruegamer	MBA-MIB / 1st Interstate Bank	✓	
[illegible]	MBA / MCB	✓	
John R. King	1st Security Bank of Kalispell	X	
Bruce B. Feller	Montana Bank	X	

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Business & Economics COMMITTEE BILL NO. HB 358

DATE 1-29-93 SPONSOR(S) Rep. Barnett

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Bruce D. Ellis	Montana Bank	X	
Phil Sandquist	1st Sec Bank - Bozeman	X	
Bruce Gerlach	" " " "	X	
Frank S. Stock	Security State Bank Polson Montana Independent Bankers	X	
Joe Thaler	MT INDEPENDENT BANKERS	X	
Ed Jasmin	NORWEST BANK	✓	
LAUREL MCATEE, ENNIS	FIRST MADISON VALLEY BK	X	
Fred Stradinger	Norwest Bank - Dillon	X	
Bruce Parker	Norwest Bank Anaconda - Butte	X	
Tom Ellis	Norwest Bank - Helena	X	
Roger Tippy	Mt Independent Bankers	X	
Kent [illegible]	Terry Montana	X	
Dean A Nelson	1st INTERSTATE of Mt.	X	
Joel HARRIS	Yellowstone Bank	✓	

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Ron Ahlers	First Citizens	✓	
[illegible] Gt Falls	Bank of Montana	✓	
John R. Franklin	1st United Bank Sidney	✓	
Rody L. Smith	U.S. Nat'l Bk. Red Lodge	✓	
[illegible]	Bk of Bridger	✓	
Don Scott	1st State Bank Malta	✓	
GARY B CARLSON	Self	✓	
Gene Buxcel	Garfield Co Bank	✓	
[illegible]	First Bank Montana	X	
Don Hutchinson	ST. OF MONTANA BANKING COMMISSIONER	✓	
Riley Johnson	NFIB	X	
[illegible]	Valley Bank of Kalispell		X
Bill Ruegamer	MBA/MIB	X	
[illegible]	MBA/MIB	✓	

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DATE Jan. 29 1993 SPONSOR(S) Barnett

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
John R. King	1st Security Bank of Kalispell		X
Steve Browning	Norwest Bank	X	
JOHN DELANO	MONT BANCSYSTEM	+	

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