

MINUTES

MONTANA SENATE 54th LEGISLATURE - REGULAR SESSION COMMITTEE ON BUSINESS & INDUSTRY

Call to Order: By CHAIRMAN JOHN HERTEL, on February 6, 1995, at
8:00 a.m.

ROLL CALL

Members Present:

Sen. John R. Hertel, Chairman (R)
Sen. Steve Benedict, Vice Chairman (R)
Sen. William S. Crismore (R)
Sen. C.A. Casey Emerson (R)
Sen. Ken Miller (R)
Sen. Mike Sprague (R)
Sen. Gary Forrester (D)
Sen. Terry Klampe (D)

Members Excused: N/A

Members Absent: Sen. Bill Wilson (D)

Staff Present: Bart Campbell, Legislative Council
Carla Turk, Recording Secretary, in absence of
Lynette Lavin, Committee Secretary

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

Committee Business Summary:

Hearing: HB 207, HB 118, HB 193
Executive Action: SB 19 DO PASS
HB 118 BE CONCURRED IN
HB 193 BE CONCURRED IN

HEARING ON HB 207

Opening Statement by Sponsor:

REP. JOE BARNETT, HD 32, Belgrade, stated he came to present HB 207 and to refresh the Committee's memory concerning the interstate banking bill from last session. During the summer the banks had gotten together and worked out a compromise. They asked him to carry the bill in 1993 because they wanted someone who had not been a part of the banking wars to carry it. It was passed and signed by the Governor. In the meantime, the Federal Government passed the Riegle-Neal Bill which gave states the

option to get out of interstate branching after the bill was passed in September of 1994. This opportunity; however, had to be concluded after that date and before June 1, 1997.

REP. BARNETT said Montana had already done this in the 1993 Legislative Session, all that HB 207 would do was have the state come into compliance with the federal legislation. He knew proponents who wanted to delay that until June 1, 1997 to have an opportunity to study it and come back to the legislature in 1997. However, he was opposed to that for two reasons. The first reason was a compromise which had been worked out with the banks and was passed in the 1993 Legislative Session. It was passed before the federal government passed the Riegle-Neal Bill. It had been studied. Anyone wanting to study it further had that opportunity; however, June of 1997 was the deadline. The second reason he opposed it was its relationship to **REP. GRINDE'S** bill. If that bill passed, there would not be assurance that the legislature would meet in 1997. Everyone said they had to meet because the budget would have expired and they would have to balance it. The Governor would call a special session and deal only with the budget in 1997, but they would have lost their opportunity to opt out. They knew getting out would in no way jeopardize the ability to opt back in at a future date.

Proponents' Testimony:

Bruce Spurlock, President, Montana Independent Bankers Assoc. and Senior Vice-President of First Security Bank of Bozeman, represented 47 locally owned community banks and federal savings banks throughout the State of Montana. At its annual meetings in May of 1994 and November of 1994, the association voted to support "getting out of interstate branching" in the 1995 legislation. House Bill 207, if passed, would do just that. The 1993 Montana State Legislature passed a banking bill which was the result of compromise between the Montana Trade Association, the Montana Independent Bankers, and the Montana Bankers Association, as well as the system banks which did business in the State of Montana, First Bank, Norwest and First Interstate Bank of California. The legislation did pass in the 1993 session and was the result of an agreement and compromise, as described earlier by **REP. JOE BARNETT**.

Mr. Spurlock stated it resulted in limited interstate banking but not interstate branching. The Montana Independent Bankers Association and its member banks believed strongly in the dual banking system, state's rights, and state bank charters. House Bill 207 preserved and protected the dual banking system for Montana. The Independent Bankers believed that bank management, loan and general policy decisions should come from Montanans, not out-of-staters who considered a branch bank in Montana an easily expendable item, thus putting jobs and local economy at risk. They took pride in local communities and their economies. Local banks, boards of directors, and local ownership assured Montana communities of banks' commitments and involvement. They didn't

believe in branches; they believed in deep roots and commitment to the communities they served. They respectfully asked the Committee's support for this bill.

Dan Jordahl, Vice-President, First Interstate Bank of Commerce in Billings, Vice-President of Montana Independent Bankers, read his written testimony. **EXHIBIT #1.**

Frank Stock, CEO of Security State Bank and Trust Company, 1993 President of the Montana Independent Bankers Association, stated his Association had a great deal of knowledge regarding the compromise that took place. Some of the opponents to the bill helped hammer out the compromise. They were well informed and he didn't think they needed to study this anymore. The trade magazines from ABA and Independent Bankers Association of America were well aware, as were they, of what went on. As part of the compromise, they agreed to opt out. Both sides knew what they were doing. Neither side was totally happy with the compromise, but that was the nature of compromise. If they opted out, they would be back with the intent of the 1993 legislature. It was important to do that.

Mr. Stock worked for 10 years with National Bank in Seattle, a multimillion dollar bank with branches all around the State of Washington. At that time, it had no other branches in the U.S., but it had some in Asia and some in London. This bank was a good bank, but he relocated to work at Security State Bank and Trust Company in Polson. There was an entirely different way of making decisions in a community bank. In a community bank, ownership was in that community, the officers were there, they weren't transferred, they had roots in the community and knew its markets, knew the people and what the needs of the community were and tended to serve it better. There was a real commitment and that situation was better when dealing with farmers and small businesses. Having their decisions made, based on some officer's ability to write up an application and send it out-of-state, wasn't the best.

Mr. Stock said another thing they should know was interstate banking allowed foreign banks to come into the state. The Japanese could open a branch bank here. That, by itself, was not necessarily bad; however, he heard a story in a Pacific Coast banking school, "...a retired man living in California presented a loan application to a loan committee. He thought the application was in order, but it was rejected. The majority of the Board of Directors of the bank were Japanese. Later it became evident the Japanese were going to build a motel there and they didn't want him to be in competition with them...". That was not the correct method of making decisions in this country; in fact, it was a very poor method. Other things should be considered, not only the governmental view. He didn't know if the State of Montana was prepared to have branches of banks whose headquarters were located out-of-state. If the corporate presence resided within the town, it was easier to ascertain

everyone was paying their fair share and it helped them to be competitive. How would they regulate, monitor, and tax fairly out-of-state and foreign banks in Montana? They needed to discuss the parameters between the national and state charters. They would then have a means for their state banks to examine and/or have reciprocity with out-of-state banks. That was what the State Banking Examination Department did. The dual banking system serves Montana well and should be kept that way, giving the state input into the economic future. It would be better to opt out; small businesses and farmers would be served better and it would be easier to take care of taxation and revenue issues.

Doug Morton, President of Bank West, Kalispell, read his written testimony. EXHIBIT #1A.

Tom Hopgood, Montana Independent Bankers Association, read his written testimony. EXHIBIT #2 and presented a short version of his testimony, EXHIBIT #3.

Opponents' Testimony:

John Cadby, Montana Bankers Association, read his written testimony. EXHIBIT #4. He urged that the committee do nothing at that time. There would be a session in 1997. That issue should, however, be addressed in 1995. If they kept the *status quo* it wouldn't hurt anyone in 1995. They should practice patience until the dust settles from the Riegle-Neal Act. Mr. Cadby also presented a newspaper article on Michigan Interstate Branching. EXHIBIT #5.

Larry Yokim, President, Flathead Bank of Big Fork, and presently serving as President of Montana Bankers Association, serving on Board of Directors at Mountain Bank in Whitefish and Valley Bank in Belgrade, reinforced Mr. Cadby's testimony. If HB 207 was a bill to opt in, then the Montana Bankers Association would oppose that. The bill was complex and the Riegle-Neal Act needed to be studied. They realized they had a great opportunity and a two year period. They had members on both sides of the aisle on this issue; their survey of the majority of the bankers indicated they wanted to wait to study this for two years. Bankers had been fighting over structure for years and they would not allow the merging of banks. Finally, in 1989, the bankers came together and a compromise was reached. They finally agreed that in-state banks could merge. In exchange for that, the Independent Bankers were allowed to establish limited branches. What happened when they allowed the merging? Two systems were formed. One system bought out the other and it was still one Montana bank system, which was subsequently acquired by Norwest. For the first time Norwest was allowed to grow. They had a great opportunity to study what the affects of this bill would be. They asked that the Committee vote no. They hadn't had a chance to study the bill when it finally came out in August. They met as groups three different times to study the bill and determined the bill was not that clear. The number of banks, as individual units,

had been reduced from 114 to 100 but the number of banking offices was up. Independent banks had established branches in communities that didn't have services. This was a competitive business and banking in Montana had done well under this structure. It was time to study again and they had a great opportunity to do that in the next few years. They opposed any action either way.

Fred Flanders, President of Valley Bank in Helena, former Banking Commissioner for the State of Montana and currently serving as Chairman of the Government Relations Committee of Montana Bankers Association, said his Association was requesting the committee to oppose the bill as their Government Relations Committee had met and voted unanimously against HB 207. **Mr. Flanders** was personally opposed to the bill because of the reasons previously stated. Valley Bank was a locally owned, independent bank. Enactment of HB 207 would adversely affect the marketability of the bank and many other small independent banks, especially those close to the state borders. For example, if a bank in Froid went on the market and it was determined by the buyers that the bank was not viable as a fully staffed entity, it could very well be that a bank in Williston might buy that bank and operate it as a branch. If HB 207 was passed, it would preclude that happening, and there would be dangers of small towns losing their banking service. There was no need to take action at that time.

{Tape: 1; Side: B;}

Steve Browning, representing First Bank and Norwest, said he had the privilege to be a part of the banking wars in the last 11 years. It was a privilege because he had found bankers to be extremely honorable people. Those people did their best to present the facts about the situation. He said HB 207 was a very short bill which didn't tell them about the matter. He was involved in some of these matters. **Mr. Browning** read his testimony. **EXHIBIT #6.** He referred to the 1993 HB 358. **EXHIBIT #7.** He presented Questions & Answers relating to HB 358. **EXHIBIT #8,** and **EXHIBIT #9,** which was the 1993 testimony of **Roger Tippy, MIB.**

Mr. Browning said in 1993, Montana opted out of any unrestricted interstate banking laws which Congress might subsequently enact, provided that such federal laws allowed states to opt out. Then Congress enacted an interstate banking law which disallowed states to opt out of interstate banking provisions. Montana did not, and could not, opt out of federal interstate banking. What was really being talked about in the opt out provisions, when one looked at lines 19-22 on **EXHIBIT #7,** was that the opt out applied to interstate branching. Although the law passed by Congress disallowed states to opt out of interstate banking, it allowed them to opt out of interstate branching. The 1993 Legislature never addressed the interstate branching. He handed in **EXHIBIT #10,** a copy of proponents testimony. He did not believe, if we chose to opt out, we could opt back in at any time. North Dakota

and Texas interpreted the federal law to say once one opted out, that was it -- no chance to get back in. No action should be taken by the legislature until they knew what they were doing. The sensible thing to do was to kill HB 207 and enact the MBA Study Resolution which was on the table in the House Business Committee.

Bill Strausberg, President and CEO of First Bank Montana, also general manager of banks in North and South Dakota, said most of the people who worked for him in Montana were Montana natives, and if they obtained a tape of the 1989 meeting they would hear the same drivel they heard there today from the proponents. In Sioux Falls, South Dakota, they had an unemployment rate of 6 tenths of 1% and they had that because the banking industry was devoted to building the economy, not protecting interests.

Informational Testimony: None.

Questions From Committee Members and Responses:

SEN. BENEDICT asked **Tom Hopgood** about the man who represented the twins, who said there wasn't any compromise and there was nothing about interstate branching, and perhaps the discussion never occurred. Could that be cleared up? **Mr. Hopgood** replied that was the first session he had represented the Independent Bankers Association and he wasn't able to be there. When he took the job with the Association he asked if interstate banking would be an issue and they replied it would not. They told him it was all compromised in '93 and the bill was passed to opt in for restricted interstate banking. They didn't have interstate branching in the State of Montana. There were people in the room who were privy to those discussions about compromise. All he could do was refer them to exactly what the statute said, which was the interstate banking statutes did not authorize the establishment of a branch bank in Montana by a bank not located in Montana. That was an opt out of interstate branching. It was his understanding, from what he had been told by the members of his committee, that it was decided in the discussions between the Montana Independent Bankers Association, the system banks, and the Montana Bankers Association.

SEN. EMERSON asked **Don Hutchinson, Commissioner of Banking, Department of Commerce**, if bank examiners in the state examined all the banks in the state. Also, were there federal examiners? **Mr. Hutchinson** replied that state examiners examined only state chartered banks, either in conjunction with the federal reserve or the FDIC. **SEN. EMERSON** asked if in-state banks could make a loan outside the State of Montana. **Mr. Hutchinson** replied affirmatively. **SEN. EMERSON** asked if invoking the 10th amendment would ever bring the federal government to a point where it would no longer have a say about banking in Montana? **Mr. Hutchinson** replied he wasn't sure how that would work due to the chartering process. There were only two ways to charter a bank--nationally or locally.

SEN. CRISMORE commented that they had two different reports, one from **Mr. Hopgood** and one from **Mr. Browning**, about what the 1993 bill said. **SEN. CRISMORE** asked what **Mr. Cadby** believed it said? **Mr. Cadby** replied there were 80 independent banks in Montana and many of the small independent banks were National Banks by charter. Any bank from out-of-state could buy a bank in Montana provided the owner wanted to sell. The point was that federal and state law said they couldn't simply come into town and open up a branch bank across the street from a bank already there. That was called "noble branching". Federal law did allow merging and if they opted in, they could merge across state lines.

SEN. SPRAGUE asked **Mr. Cadby** if the industry totally understood this whole process? The Senator sensed confusion and paranoia. Was that true? **Mr. Cadby** replied he had talked with many independent bankers who were confused and did not know how to respond to the survey. They were concerned about the implications of the federal law.

SEN. SPRAGUE asked **Mr. Hopgood** the same question. **Mr. Hopgood** thought the opponents had thrown extra information at the Committee in an effort to confuse them. He did not believe there was confusion among the banking industry. That issue had been before the legislature earlier and they had addressed the issue of interstate branching. If Congress had not passed the law they would not be at the legislature.

SEN. SPRAGUE asked if they left it as it was, would anything really be changed? **Mr. Hopgood** said if that were the case they would have interstate branching on June 1, 1997. The sponsor of the bill stated they had a window of opportunity to reaffirm the choice of opting out of interstate branching. They would have had to pass an express statute.

SEN. KLAMPE said to **Bruce Spurlock** it was argued that if a bank decided to purchase five banks in Montana, would they put them together and call them branches? Was there a distinction that they would have to buy more than one bank to do this as opposed to the "noble branches"? **Mr. Spurlock** replied that interstate banking was allowed. If an out-of-state bank wanted to buy a bank in Montana they could do that, but their headquarters must be located in Montana. They could then buy more banks and use the same headquarters. As long as they had headquarters within the state, they could do that.

Closing by Sponsor:

REP. BARNETT indicated they would soon be receiving a bill from the House concerning a court directive wherein everything would be in writing before a person signed, and nothing oral or hearsay would be used in court. He cautioned the Committee that today they heard a great deal of oral material that had absolutely nothing to do with the bill before them. **EXHIBITS #6, #7, #8 & #9** were nothing but confusing. **Mr. Cadby** suggested they let the

dust settle on it and do nothing until 1997. He asked them to let the smoke clear before decisions were made, so they knew exactly what they were voting on in that bill. However, House Bill 207 asked for a reaffirmation of what they originally affirmed in the 1993 compromise bill. Opting out would have already been a *fait accompli* if it weren't for the U.S. Congress. **Mr. Cadby** also stated the Senate would meet in 1997, but the bill did not read that way. There was no guaranty they would meet in that year. He agreed that some material was confusing and should be studied. He also assured them it would be studied again and they could always be opted back in; but he warned them, if they were not opted out before the deadline, then that option was lost.

{Tape: 2; Side: A}

HEARING ON HB 118

Opening Statement by Sponsor:

REP. JOHN DEVANEY, HD 97, Plentywood, opened by saying HB 118 was predicated on the Riegle-Neal Act, but was much more simple. Part of the bill said nationally chartered banks are not required to publish their quarterly call report in the newspaper anymore. Banks had done this for a long period of time. The Federal Government had decided the public disclosures were no longer necessary for federally chartered banks. The essence of HB 118 removed restrictions from the state chartered banks to publish a statement of condition, which was a portion of the call report. The call report was a longer document, and the only part required to be published was the statement of condition. The FDIC used those reports as statistical samplings to publicize and make plans for trends occurring in the banking industry. With the changes and the way the FDIC required the report to be filled out, persons in the community who wanted to track from year to year would have found it difficult.

REP. DEVANEY stated the public's right to know was not lost; however, because the statement of condition report was still public information. If any citizen wanted to see the quarterly call report, he had only to contact the bank to get one. The banks received a minor economic relief by not paying to publish the report. But their main benefit was they no longer had to keep a complete file on these publications, including an affidavit of publication, which had to be signed and notarized by the publisher. They are required to keep these on file forever for the bank examiners. It relieved them of the administrative burden. The public lost nothing and the banks gained a little.

Proponents' Testimony:

John Cadby, Montana Bankers Association, related that the law which required national and state banks to publish their call

reports was passed during the Civil War. It was out of date. Banks which publicly traded stock could be tracked by reading the Wall Street Journal. It allowed the state banks the same advantage as nationally chartered banks. He read call reports and they told very little. The only people who really knew if a bank was solid, were the examiners.

Don Hutchinson, Department of Commerce, commented that publication of call reports took about 3 weeks to a month and a half, every quarter. It was a time consuming, bookkeeping effort for the staff and was of no avail. The call reports were on file in the office if anyone wanted to see them, but the public's concern was still addressed by its right to walk into a bank and ask for the report.

Opponents' Testimony:

Charles Walk, Executive Director of the Montana Newspaper Association, read his written testimony. EXHIBIT #11.

Informational Testimony: None.

Questions From Committee Members and Responses:

SEN. BENEDICT asked **Commissioner Hutchinson** if this bill passed, would the Department of Commerce ask the Finance and Claims Committee and the Appropriations Committee, to be relieved of the "extra" staff which won't be needed to process the call reports? **Mr. Hutchinson** stated that he had plenty for them to do.

SEN. EMERSON asked if the big savings to the bank came as a result of not publishing the report or of not preparing it. **Mr. Hutchinson** stated the banks would still have to prepare it.

SEN. FORRESTER asked **Mr. Walk** what the average paper loss in revenue would be with passage of the Bill. **Mr. Walk** replied that he would guess about \$1,000 per quarter in a town the size of Billings.

Closing by Sponsor:

REP. DEVANEY stated the biggest savings to the bank would be realized by not having to keep up the records which proved the call report was published. The call report would still have to be prepared and kept on file. Since nationally chartered banks were no longer required to publish their call reports, the state chartered banks would be allowed the same advantage. He had a 15-20 minute video on the Riegle-Neal Act that was very objective, if anyone wished to view it to clear up any confusion on that Act.

HEARING ON HB 193Opening Statement by Sponsor:

REP. DON LARSON, HD 58, Seeley Lake, remarked HB 193 was a simple bill with no amendments. The bill provided the addition of two members each to the board of directors of the Montana Property Casualty Guarantee Association and the Montana Life and Health Guarantee Association. Those associations were the ones which made the decisions for an insurance company that was insolvent. Their purpose was to confirm that those insured were adequately treated. Both of those boards had exclusively insurance industry executives as members. The Auditor's Office believed it would be appropriate as a good consumer protection measure to have two consumer members on each board.

Proponents' Testimony:

Frank Cote, Deputy Insurance Commissioner, Auditor's Office, commented that currently in Montana there were two boards of directors of the Guarantee Association; one was for the Montana Life and Health Guarantee Association, and the other was for the Montana Property Casualty Guarantee Association. If an insurance company was licensed in Montana and became insolvent, the consumers who bought policies from that company were affected. The Life and Health Guarantee Association determined the amount of the insolvency; they then assessed carriers which operated in the state and deposited the money into the Life and Health Guarantee Association. They used that money for the consumers who purchased from the insolvent company. Why was it important to have a consumer on those boards? They thought it was important because decisions made by those boards affected directly the policy holders who purchased from those companies. Consumer input was important for the board which had originally only insurance industry personnel.

Mr. Cote stated that consumer perspective was particularly important for the Life and Health Guarantee Association because every decision made by the board affected the policy holders and the General Fund of the State of Montana. For every assessment made by the Life and Health Guarantee Association, those insurance companies that were assessed were allowed a tax credit to offset their premium paid to the state. They knew that in fiscal year 1995 there would be about a \$3 million drain from the General Fund because of past insolvencies; therefore, they believed it was very important that both consumers and the State of Montana be represented on those boards.

Opponents' Testimony: None.

Informational Testimony: None.

Questions From Committee Members and Responses:

SEN. SPRAGUE asked Mr. Cote the number of members on the board. Mr. Cote replied the Life and Health Guarantee Association had five members, to be increased to seven. For the board to operate efficiently they believed it was important to have the consumer representation with the expertise of the industry. SEN. SPRAGUE asked if the public would be diluted on a board that size. He stated, if they wanted true representation, they should replace two of the five industry personnel with the consumers instead of adding two. Mr. Cote replied under that situation they still wouldn't have the majority, so the result would be the same. Having expertise on the board was very important, but they wanted also the consumers to make their issues known. From their experience they found those boards were reasonable; however, they needed input from the consumer viewpoint.

SEN. KLAMPE asked why some boards required a majority of members from an industry, while others required the opposite. Mr. Cote replied it depended on the individual boards. For instance, insurance boards would be constrained without the expertise of individuals from the industry.

SEN. SPRAGUE asked about merely replacing two of the board members. REP. LARSON replied that suggestion had not been a consideration in the House, there was no fiscal impact because members are paid from fees and dues of the Association members. It was not a significant budget item. He said, in respect to terms of "dilution", he was inclined to agree with Mr. Cote. Insurance issues were complex which made it important to have a board representation of the various types of insurance on the board.

Closing by Sponsor:

REP. LARSON stressed this was a simple bill which increased the number of members on the board from five to seven, adding two members to represent the public, who were not from the industry. It would empower citizens, although in a small way, to be more involved in the government. SEN. FORRESTER agreed to carry the bill.

EXECUTIVE ACTION ON HB 193

Motion: SEN. CRISMORE MADE THE MOTION HB 193 BE CONCURRED IN.

Discussion: SEN. EMERSON stated that what SEN. SPRAGUE mentioned had some merit. If two on two lay people were added to the boards, they might be out-talked and out-voted. Two years from now that can be changed.

Vote: The motion HB 193 BE CONCURRED IN CARRIED unanimously.

EXECUTIVE ACTION ON HB 118

Motion: SEN. BENEDICT MADE THE MOTION HB 118 BE CONCURRED IN.

Discussion: SEN. KLAMPE stated he liked HB 118 with the House Amendment and voted for do pass.

Vote: The motion HB 118 BE CONCURRED IN CARRIED unanimously. SEN. MILLER agreed to carry HB 118.

EXECUTIVE ACTION ON SB 19

Motion: SEN. CRISMORE MADE THE MOTION SB 19 DO PASS.

Discussion: SEN. KLAMPE regretted the Committee had not heard from everyone who was interested in the bill. After the meeting, he conversed with some people who were involved in eliminating gambling in Montana. The comment made that gambling did not in some way encourage dog racing in the country was not correct. It motivated more people to have an interest in it and lent more money to the activity. Dog racing was not a good thing and he discouraged its presence in Montana. It stimulated more gambling in the state. He opposed the bill for those two reasons.

SEN. FORRESTER told of a call he received from a lady in Missoula who was concerned about the dog racing because they killed the dogs when they were no longer capable to run competitively. He heard no more about the issue, so he guessed he would support the bill. However, the lady did have a point that dog racing was quite different from horse racing. Inasmuch as they lent their support to dog racing, as SEN. KLAMPE stated, the dog racers got a portion of the money. The lady was very concerned and he told her he would bring it to the attention of the Committee.

SEN. EMERSON stated that worries of that nature were the same thing as when they were shooting the buffalo that came out of Yellowstone Park. Some individuals became excited because it wasn't a hunt, it was a slaughter. They did all sorts of things to animals, so what if they did shoot dogs after the race. What difference was there to chopping off chicken heads and then eating the chickens. They needed to stand up to those types of people and say .."Hey, we were put here on earth to run things".

Vote: The motion SB 19 DO PASS CARRIED 7-1 with SEN. KLAMPE voting no.

Discussion: SEN. SPRAGUE stated he did more checking on SB 246 and two years ago SEN. CRIPPEN introduced a bill that was in question, SB 246 would supersede that bill and there was a \$250,000 law suit pending. His suggestion was to refer that bill to the Judiciary Committee. It did have cause and effect and rewrote the new law. It was complicated because of the law suit.

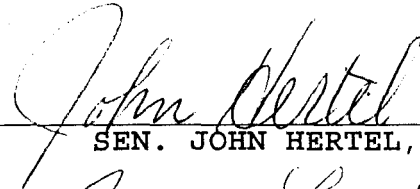
CHAIRMAN HERTEL stated the time limit was almost up and he was not sure.

SEN. FORRESTER inquired about the status of the Dial-up bill.

SEN. BENEDICT stated he had some things each side would like. He was not sure how **Attorney General Joe Mazurek** would feel about it. Everyone else had agreed to it and whether the Attorney General liked it or not **SEN. BENEDICT** stated he believed it was a good way to reach a compromise on the bill.

ADJOURNMENT

Adjournment: The meeting adjourned at 10:20 a.m.



SEN. JOHN HERTEL, Chairman



CARLA TURK, Secretary



LYNETTE LAVIN, Secretary

The minutes were recorded by Carla Turk and edited and proofed for content by Lynette Lavin.

JH/ct/11

MONTANA SENATE
1995 LEGISLATURE
BUSINESS AND INDUSTRY COMMITTEE

ROLL CALL

DATE 2-6-95

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SENATE STANDING COMMITTEE REPORT


Page 1 of 1
February 6, 1995

MR. PRESIDENT:

We, your committee on Business and Industry having had under consideration SB 19 (first reading copy -- white), respectfully report that SB 19 do pass.

Signed:


Senator John R. Hertel, Chair

 Amd. Coord.
Sec. of Senate

311248SC.SPV

SENATE STANDING COMMITTEE REPORT

Page 1 of 1
February 6, 1995

MR. PRESIDENT:

We, your committee on Business and Industry having had under consideration HB 118 (third reading copy -- blue), respectfully report that HB 118 be concurred in.

Signed: John Hertel
Senator John R. Hertel, Chair

PS

Amd. Coord.
Sec. of Senate

Senator Miller
Senator Carrying Bill

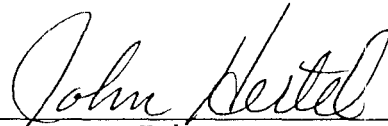
SENATE STANDING COMMITTEE REPORT


Page 1 of 1
February 6, 1995

MR. PRESIDENT:

We, your committee on Business and Industry having had under consideration HB 193 (third reading copy -- blue), respectfully report that HB 193 be concurred in.

Signed:


Senator John R. Hertel, Chair


Amd. Coord.
Sec. of Senate


Senator Carrying Bill

311242SC.SPV

MONTANA SENATE
1995 LEGISLATURE
BUSINESS AND INDUSTRY COMMITTEE
ROLL CALL VOTE

DATE 2/6/95 BILL NO. SB 19 NUMBER 1

MOTION: Senator Crissmore moved
SB 19 Do PASS

NAME	AYE	NO
STEVE BENEDICT, VICE CHAIRMAN	X	
WILLIAM CRISMORE	X	
CASEY EMERSON	X	
GARY FORRESTER	X	
TERRY KLAMPE		X
KEN MILLER	X	
MIKE SPRAGUE	X	
BILL WILSON		
JOHN HERTEL, CHAIRMAN	X	

HOUSE BILL 207 TESTIMONY
FEBRUARY 6, 1995

MY NAME IS DAN JORDAHL. I AM A VICE PRESIDENT OF FIRST INTERSTATE BANK OF COMMERCE IN BILLINGS, MONTANA. I AM ALSO 1ST VICE PRESIDENT OF THE MONTANA INDEPENDENT BANKERS. OUR BANK IS AN ACTIVE MEMBER OF BOTH THE MONTANA INDEPENDENT BANKERS AND THE MONTANA BANKERS ASSOCIATION. I AM TESTIFYING THIS MORNING ON BEHALF OF OUR BANK, IT'S MANAGEMENT AND OWNERSHIP.

WE SUPPORT THE PASSAGE OF HB 207.

OUR HOLDING COMPANY, FIRST INTERSTATE BANCSYSTEM OF MONTANA, IS A PRIVATELY OWNED ORGANIZATION OPERATING TWO BANKS IN MONTANA AND ONE BANK IN WYOMING. OUR MONTANA LOCATIONS INCLUDE OUR HEADQUARTERS AND MAIN BANK IN BILLINGS, TWO ADDITIONAL BRANCHES IN BILLINGS, TWO BRANCHES IN MISSOULA, AND SINGLE BRANCHES IN COLSTRIP, HARDIN, AND MILES CITY. WE ALSO, RECENTLY, ACQUIRED A BANK IN BOZEMAN. OUR BANKS ARE STATE CHARTERED BANKS, EXAMINED AND REGULATED BY THE STATES OF MONTANA AND WYOMING TOGETHER WITH FEDERAL RESERVE EXAMINATION TEAMS.

OUR BANK SUPPORTS "IN-STATE" BRANCHING AND INTERSTATE BANKING, BUT WE DO NOT SUPPORT INTERSTATE BRANCHING. HB 207 "OPTS OUT" OF FEDERAL LEGISLATION AUTHORIZING INTERSTATE BRANCHING. SOME OF OUR THOUGHTS ON HB 207 ARE:

PASSAGE OF HB207 AFFIRMS THE INTENT OF THE BANK LEGISLATION PASSED IN 1993. WE SUPPORTED THAT LEGISLATION AND WERE INSTRUMENTAL IN BRINGING ALL BANKS TO NEGOTIATE THE FINAL PRODUCT.

PASSAGE OF HB207 WILL ASSURE THAT REGULATORY APPROVED LEVELS OF CAPITAL WILL STAY WITHIN THE BANKS DOING BUSINESS IN MONTANA. FAILURE TO "OPT OUT" WILL JEOPARDIZE THE CAPITAL STRUCTURE OF THE MONTANA BANKING COMMUNITY.

PASSAGE OF HB207 WILL ASSURE THAT EACH BANK CONTINUES TO BE EXAMINED AND RATED, IN SAFETY, SOUNDNESS AND COMMUNITY REINVESTMENT, ON THE PERFORMANCE IT ACHIEVES WITHIN THE STATE. FAILURE TO "OPT OUT" WILL ALLOW REGIONAL AND NATIONAL BRANCHES TO MEET CRA REQUIREMENTS WITH LOAN-TO-DEPOSIT RATIOS AT 50% OF THE STATE AVERAGE. MONTANA DEPOSITS WOULD FUND PROJECTS OUTSIDE OF MONTANA.

PASSAGE OF HB207 WILL PROTECT THE OPPORTUNITY FOR MONTANA-OWNED BANKS TO CONTINUE TO DO BUSINESS WITH COMMERCIAL BUSINESSES HEADQUARTERED OUT OF MONTANA. CURRENTLY, THE WALMARTS, THE K-MARTS, THE TARGETS, THE COSTCOS, THE SHOPCOS AND THE EAGLES DO THEIR EXTENSIVE DEPOSIT BUSINESS WITH MONTANA-OWNED BANKS. THIS BUSINESS IS A SOURCE OF FEE INCOME FOR MONTANA FINANCIAL INSTITUTIONS AND RESULTS IN MONTANA JOBS. FAILURE TO "OPT OUT" WILL PROVIDE THESE BUSINESSES A STRONG INCENTIVE TO "NATIONALIZE" THEIR BANKING AND ITEM PROCESSING WITH BRANCHES OF BANKS FROM THE NATIONAL FINANCIAL CENTERS.

PASSAGE OF HB207 MAY SLOW DOWN THE LOSS OF EMPLOYMENT IN REGIONAL AND NATIONAL BRANCH BANKING ORGANIZATIONS. JOBS HAVE MOVED OUT OF STATE. ONE MINNESOTA BASED HOLDING COMPANY HAS MOVED THEIR STATEMENT PROCESSING TO COLORADO AND ANOTHER HAS MOVED THEIRS TO ST. PAUL, MINNESOTA. I AM SURE THEY WILL CONTINUE TO REGIONALIZE FUNCTIONS WITHIN THEIR ORGANIZATIONS. THESE SAME TWO ORGANIZATIONS JUST CENTRALIZED THEIR CHECK COLLECTION POINT TO HELENA. THIS ACTION HAS RESULTED IN BILLINGS AREA BUSINESSES AND BILLINGS AREA BANKS BEARING SLIGHTLY LONGER COLLECTION TIMES ON CHECKS THEIR CUSTOMERS DEPOSIT ON BANKS OF THESE TWO MINNESOTA COMPANIES.

ALONG WITH INCREASED COLLECTION TIME, MOVING THIS POINT TO HELENA HAS INCREASED THE COST OF TRANSPORTATION TO PRESENT THESE CHECKS FOR COLLECTION. OUR COSTS HAVE INCREASED ABOUT \$1,000 PER MONTH AND ABOUT 15-20% OF OUR CUSTOMERS DEPOSITS ARE AVAILABLE A DAY LATER THAN THEY WERE IN 1994. **FAILURE TO "OPT OUT" MAY MAKE PRESENTMENT OF CHECKS MORE DIFFICULT AND EXPENSIVE, AS WE ARE NOT AWARE OF ANY REGULATION THAT WOULD PREVENT COLLECTION POINTS FROM MOVING OUT OF MONTANA TO MONEY CENTER LOCATIONS.**

WE RESPECTFULLY REQUEST A "DO PASS" FOR HB207!!!

HOUSE BILL 207

STATEMENT IN SUPPORT

Mr. Chairman & Members of the Committee

MY NAME IS DOUG MORTON AND I AM PRESIDENT AND CHAIRMAN OF THE BOARD OF BANKWEST, A SMALL INDEPENDENT OWNED COMMUNITY BANK IN KALISPELL WHICH I HELPED FOUND ABOUT 8 YEARS AGO. OUR BANK IS ALSO A MEMBER OF BOTH THE MONTANA INDEPENDENT BANKER'S ASSOCIATION AS WELL AS THE MONTANA BANKERS ASSOCIATION.

AS AN OFFICER IN THE MIB, I WAS PART OF THE COMPROMISE MEETING THAT WAS HELD JUST BEFORE THE 1993 LEGISLATURE. I FELT THAT A PART OF AGREEING TO RESTRICTED INTERSTATE BANKING WAS THAT THE BANKING COMMUNITY IN MONTANA WAS OPTING OUT OF ANY FUTURE FEDERAL INTERSTATE BANKING OR BRANCHING LEGISLATION. AS AN INDEPENDENT BANKER, I FEEL A LITTLE BIT BETRAYED THAT ALL OF THE BANKING GROUPS ARE NOT ABIDING BY THE AGREEMENT AND COMPROMISE THAT WAS MADE AT THAT TIME. I REALLY THOUGHT THAT THE COMPROMISE BILL IN ¹⁹⁹³ ~~1993~~ FULLY ADDRESSED THE NEEDS OF BOTH THE BIG SYSTEM BANKS ~~AND HOLDING COMPANIES~~ AND THE INDEPENDENT BANKS AND AM SURPRISED THAT WE ARE BACK BEFORE YOU AGAIN TO READDRESS THIS ISSUE.

THE SECOND POINT THAT I WOULD LIKE TO MAKE IS THAT IN ORDER TO BEST MEET ^{ALL} THE BANKING NEEDS OF THIS STATE, WE NEED BOTH THE BANKING SERVICES THAT CAN ONLY BE PROVIDED BY THE BIG SYSTEM BANKS AS WELL AS THE "RELATIONSHIP BANKING SERVICES" THAT YOU RECEIVE FROM THE COMMUNITY LOCALLY OWNED INDEPENDENT BANKS. PRESENTLY WE HAVE A GOOD BLEND AND MIX OF BOTH BANKING GROUPS, AND WITH THIS NEW RIEGEL-NEAL BANKING AND BRANCHING EFFICIENCY ACT OF 1994, WE WILL SOON HAVE FULL INTERSTATE INTERSTATE BANKING

HERE IN MONTANA TO HELP US MEET THE STATE'S BANKING NEEDS.
BUT I QUESTION WHETHER MONTANA WILL BE BETTER SERVED IF WE
GO THE FURTHER STEP AND ALLOW INTERSTATE BRANCHING AND SUBMIT
THAT THE STATE WILL NOT BE BETTER OFF.

WHY DO WE NEED INTERSTATE BRANCHING? IN A RECENT QUESTION &
ANSWER MEMO SENT OUT TO MONTANA BANKS RECENTLY BY JOHN CADBY
ON BEHALF OF THE MONTANA BANKERS ASSOCIATION, IT IS STATED AS
FOLLOWS:

Q. WHY DO SOME BANKS WANT TO OPT-IN?

A. 1. SOME INDEPENDENT BANKS WOULD LIKE TO PURCHASE BANKS
IN NORTH DAKOTA, WYOMING AND IDAHO AND RUN THEM AS
BRANCHES RATHER THAN CHARTERING A NEW BANK IN THAT STATE.

2. SOME INDEPENDENT BANKS BELIEVE THEY ARE MORE MARKETABLE
AND CAN RECEIVE A HIGHER VALUE FOR THEIR STOCKHOLDERS IF
THEY ARE ALLOWED TO BE SOLD AND RUN AS BRANCHES BY AN OUT-
OF-STATE BANK.

I DO NOT HAVE SYMPATHY FOR EITHER OF THESE STATED REASONS. I
FEEL THAT THE LEGISLATURE NEEDS TO BE MORE CONCERNED ABOUT ITS
CITIZENS IN THIS STATE AND WHAT BANKING SERVICES ARE PROVIDED
THEM AS OPPOSED TO WHETHER SOME SELLERS OF BANKS WILL RECEIVE
A HIGHER VALUE FOR THEIR STOCKHOLDERS. THESE DO NOT SEEM TO
BE VERY IMPORTANT REASONS FOR THE STATE OF MONTANA TO EVER WANT
TO "OPT-IN" AND THIS HB 207 IS THE BEST MEANS TO STOP THAT
POSSIBILITY.

THERE ARE SOME OTHER REASONS WHY I URGE YOUR SUPPORT OF THIS BILL:

EXHIBIT 1A
DATE 2-6-95
HB 207

FIRST, IF INTERSTATE BRANCHING IS ALLOWED TO OCCUR IN MONTANA, IT CAN ONLY HELP LEAD US DOWN THE PATH OF FEWER AND FEWER MONTANA OWNED BANKS TO SERVE THE NEEDS OF OUR STATE. I WOULD NOT WANT TO SEE OUR STATE GO THE WAY THAT SEVERAL OTHER STATES HAVE IN WHICH THE BANKING DEPOSITS OF THE STATE ARE CONCENTRATED IN THE HANDS OF A HANDFUL OF BANKS.

IDAHO NOW HAS ONLY ~~11~~ CHARTERED BANKS
OREGON - 44
WASHINGTON - 87
MAINE - 21
UTAH - 48
ARIZONA - 37

HOW CAN JUST A FEW BANKING INSTITUTIONS, MOST OF THEM WITH THEIR HEADQUARTERS OUT OF STATE AND PAYING THEIR TAXES OUT OF STATE, KNOW WHAT IS BEST FOR MONTANA? AND MAKE THE MAJORITY OF THEIR LENDING DECISIONS AS THE RESULT OF COMPUTER SCORING WITHOUT THE OPPORTUNITY TO SIT ACROSS THE DESK FROM THEIR LOAN CUSTOMERS WHOSE VERY LIVLIHOOD AT TIMES CAN DEPEND UPON THE DECISION OF THE BANK?

SECONDLY, THIS WHOLE ISSUE ALSO BECOMES SOMEWHAT OF A "JOBS ISSUE" AND IF INTERSTATE BRANCHING WERE TO EVER OCCUR IN MONTANA, YOU CAN BE ASSURED THAT THE NUMBER OF JOBS AS WELL AS THE AVERAGE SALARY PAID WOULD DECREASE. IN THE FLATHEAD AREA WHERE I AM LOCATED I HAVE BEEN ABLE TO WATCH THE IMPACT ON JOBS FROM THE MERGER AND CONSOLIDATION ACTIVITY THAT HAS OCCURRED; IN FACT OUR BANK HAS BENEFITED BY BEING ABLE TO HIRE AT LEAST 5 LONG TIME BANKERS FROM ONE OF THE LARGE SYSTEM BANKS WHEN THEY "DOWNSIZED" AND THE BANKERS WERE GIVEN THE CHOICE OF SIGNIFICANTLY REDUCED SALARIES IF THEY WERE TO REMAIN WITH THE SYSTEM. FIRST INTERSTATE BANK, HEADQUARTERED OUT OF LOS ANGELES, HAS NOW REDUCED

ITS LOCAL PERSONNEL FROM 133 TO JUST UNDER 40. NORWEST BANK HAS REDUCED ITS LOCAL PERSONNEL FROM 94 TO ^{36.}~~44.~~ THE LOSS OF THESE JOBS, ALL OF WHICH ARE WELL ABOVE MINIMUM WAGE, AND PROBABLY AVERAGE ABOUT \$30,000 PER EMPLOYEE PER YEAR, TREMENDOUSLY IMPACT OUR ECONOMY. INTERSTATE BRANCHING WOULD RESULT IN LOSS OF JOBS AND LOWERED SALARIES FOR THOSE THAT REMAIN EMPLOYED.

THANK YOU FOR LISTENING TO MY REMARKS. I URGE YOU TO SUPPORT HB 207. THANK YOU.

HB 207
MONTANA STATE SENATE
COMMITTEE ON BUSINESS AND INDUSTRY
FEBRUARY 6, 1995

STATEMENT IN SUPPORT
TOM K. HOPGOOD

The Montana Independent Bankers Association is 100% Montana banks. We are owned by Montanans. We are run by Montanans. Our customers are you, me, our relatives, our friends and our neighbors.

We believe that Montanans are an independent lot. We believe that we, as Independent Bankers who are not controlled by out of state interests, can best respond to the financial needs and desires of our Montana customers.

We believe that for the sake of our State's continued financial viability and strength we need to maintain our Montana owned and operated Independent Banks.

You are all from Montana communities. You know in many cases that it is the locally owned Independent Bank which is the financial and economic backbone of your community. For your communities to continue, that financial backbone must remain strong and intact.

We, as Independent Bankers, want to continue to be a part of your communities. That is the fundamental reason why we support HB 207, the bill to prohibit interstate bank mergers.

Essentially, HB 207 is a response to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 passed by Congress last September. It is a long and complicated bill. I have a copy of the Bill with me along with numerous technical

summaries and interpretations. Those materials are available at your request.

Suffice it to state that if you read this bill and all the interpretations, here is what you will get out of it:

1. Interstate banking is allowed as of September 29, 1995.

2. Interstate branching is allowed as of June 1, 1997, unless a state "opts out." If a state opts out, interstate branching is not allowed in that state, at least until the state decides to opt in.

There is a fundamental difference between interstate banking and interstate branching.

Interstate banking is the acquisition of a Montana bank by an out-of-state holding company. There are three key points to remember:

1. The Montana bank which is acquired becomes a wholly-owned subsidiary of the holding company.

2. The wholly-owned subsidiary retains its Montana connection. It must still have a board of directors, two-thirds of whom must be Montana residents.

3. Unrestricted interstate banking will exist as of September 29, 1995, regardless of whether the Montana Legislature opts in or opts out.

The same three points as they apply to interstate branching are:

1. The Montana bank is merged with an out-of-state bank. It becomes a branch of the out-of-state bank.

2. The branch does not retain its Montana connection. Its board of directors is in another state. It may not even have senior officers on site.

3. Interstate branching will be a reality if the legislature does not "opt out" again.

With your indulgence I would impose on the Committee's institutional memory and remind you that interstate banking was an issue that was fought long and hard for many years before this legislature. As you might imagine, the Montana Independent Bankers Association strenuously opposed it. Lest there be any doubt, the MIBA did not and does not believe that interstate banking is advantageous to Montana or its citizens.

I would further direct your institutional memory to the 1993 legislative session. Just prior to the session we saw a major compromise between the MIBA, the large system banks and the Montana Bankers Association. The compromise allowed restricted interstate banking in a manner we felt afforded as much protection to the citizens of Montana as was possible under the circumstances.

Although the compromise was very difficult for the MIBA, we did agree to it in order to end the long and bitter controversy which had surrounded interstate banking. But we did get something in return. As part of the compromise, the system banks and the Montana Bankers Association agreed that Montana would not allow interstate branching.

The Legislature accepted the compromise and enacted Chapter 401 of the laws of 1993. By that action, Montana "opted out" of

interstate branching. That should have been the end of the story.

But it wasn't. Just as interstate banking and branching were important issues at the state level, they had also long been in issue at the federal level as well. We had seen repeated attempts to lift state imposed restrictions at the federal level. 1994 was no different.

I want you to know that our federal counterpart, the Independent Bankers Association of America fought to keep the interstate banking restrictions in place. Despite that fight, the Riegle-Neal bill passed and the restrictions were lifted. We feel that lifting those restrictions was a mistake.

However big that mistake is, we submit that allowing unrestricted interstate branching would be an even bigger mistake.

The problems we see with interstate banking are much worse in interstate branching.

We have already touched on control. Interstate branching could eliminate local officers and boards. They would be replaced by branch managers who have no input into bank policy which in all probability is set at out-of-state corporate headquarters. When you or your neighbors go to the bank for a loan, you probably will not talk to the banker with whom you have worked for many years. The decision on your loan will not be made by the local loan committee. Instead, it will probably be made at corporate headquarters.

With the upsizing we will surely see as a result of interstate branching, we will certainly see a standardization of products. Your system bank simply will not have time to work with you to determine your specific needs and to create unique solutions to your problems.

We believe that Montana capital should be used to build Montana and that it should not be diverted out of state. We believe that interstate branching would make this problem worse. Instead of a loan for your neighbor's farm or ranch or business, your system bank in its California headquarters might decide to buy Orange County mortgage-backed derivative bonds. The MIBA believes that opting out will assure the availability of capital in Montana.

We believe that local control of at least part of our banking industry will assure that small business lending continues to be a part of the state's economy. We believe that small business lending is a people-intense undertaking. You simply must individual situations into account. Small business banking should not be reduced to a formula with strict credit and collateral requirements.

We believe it is true that in many situations your local independent bank is the backbone of your community. It is oftentimes a major employer in a small town and supplies a volunteer base which is ready to help with various community endeavors. As institutions become more and more remote, as they certainly would under interstate branching, that relationship would evaporate. Along the same line, past experience teaches us

that one of the major ways that large entities save money is to centralize activities and cut jobs. In Montana we have seen out-of-state institutions consistently ax faithful employees as soon as they take over local banks. We do not believe this is in the best interest of the Montana consumer and in fact results in the delivery of substandard service.

I want to talk a little bit about the bill which was enacted as a result of the 1993 compromise and which gave us restricted interstate banking. That law contains the following language:

If federal law authorizes unrestricted interstate unless state law affirmatively provides otherwise, it is the purpose [of this bill] to affirmatively provide that unrestricted interstate banking does not apply in Montana.

We are here asking you to reaffirm that course set in 1993 by again opting out. We would submit that the legislature expressly rejected interstate branching in 1993 when it stated:

Sections 32-1-381 through 32-1-384 [the interstate banking statutes] do not authorize the establishment of a branch bank in Montana by a bank not located in Montana.

Nothing authorizes interstate branching in Montana.

You may be told that there a number of states opting in to interstate branching. Our latest information is that at least nine states whose legislatures are presently in session are actively considering opting out. In fact, we expect to see opt out legislation in the overwhelming majority of states.

You may also be told that if Montana opts out now, it cannot reconsider and opt in later. We believe this is that proverbial "red herring" which was dreamed up by system bank lawyers who

were ordered to come up with an argument, any argument, to confuse the issue.

In response to the argument, the Conference of State Bank Supervisors, (which is absolutely neutral), consulted with nationally renowned banking law expert Professor Arthur Wilmarth. Professor Wilmarth concludes that a stat may in fact opt back in at any time after it opts out. He writes that the opinions relied upon by the system banks are:

[E]rroneous...because they are completely contrary to controlling principles of legislative authority and federal pre-emption analysis as well as applicable case law.

Lest there be any doubt as to the intent of Congress on this issue, we can turn to the Congressional Record of September 13, 1994 where Senator Roth, a member of the conference committee which finalized the Riegle-Neal bill stated:

While this legislation does unconditionally authorize interstate banking, the same cannot be said of interstate branching. The legislation gives the policy makers in each State a choice whether or not to allow interstate branching in their state.

Each state has until June 1, 1997 in that any state that desires additional time may simply opt-out before that date. Then, under the legislation, it may opt-in at any later time it finally decides. This is how the legislation works.

In closing, I leave you with three points:

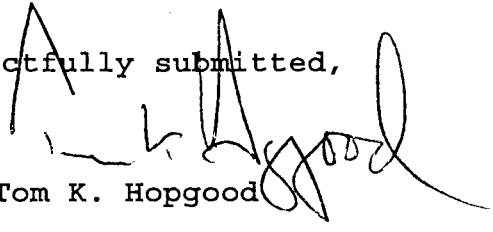
1. Interstate branching is not in the best interests of Montana.

2. The Montana Legislature has previously announced the well-founded policy that Montana should not allow interstate branching.

3. To maintain that well-founded policy, Montana must opt-out of interstate branching under the Riegle-Neal bill.

To accomplish that, we urge your favorable endorsement of HB 207.

Respectfully submitted,


Tom K. Hopgood

HB-207 reaffirms the Legislature's action in 1993 ^{2/6/95} ~~which prohibited~~ interstate bank mergers in Montana.

BILL NO. HB 207 ^{presented by Tom Haggren}

Interstate banking and interstate branching have been debated before the Montana Legislature for many years. Prior to the 1993 legislative session, the Montana Independent Bankers Association, the Montana Bankers Association and the large system banks reached a compromise under which interstate banking would be allowed in Montana under severely restricted circumstances. It was also agreed that interstate branching would be prohibited. The compromise became law in the 1993 session. Montana prohibited or "opted out" of interstate branching.

That should have been the end of the story. However, Congress enacted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. That law requires that in order to be effective, a state's prohibition of interstate branching must occur after September 29, 1994. Because Montana's prohibition occurred in 1993, it is necessary for the Legislature to reaffirm its action and again "opt out" of interstate branching.

The question often arises as to the difference between interstate banking and interstate branching. The difference is simple. Interstate banking describes the acquisition of a local bank by an out-of-state bank holding company. Upon completion, the local bank becomes a wholly-owned subsidiary of the out-of-state holding company. It does not lose its separate identity. It remains a Montana bank with local control.

Interstate branching describes the merger of a local bank with an out-of-state bank. Upon completion, the local bank becomes merely a branch of the out-of-state bank. It loses its separate identity. The local branch is no longer a Montana bank and is not subject to local control.

Although the policy arguments against interstate branching have been stated before, it should be noted that several things occur when local banks are merged with out-of-state banks:

1. Loss of Control. Local boards of directors are not required. Local officers are not necessary.
2. Loss of Responsiveness to Local Conditions. Loan decisions are made at out-of-state bank headquarters. Community needs are not served.
3. Small Business No Longer Serviced. Small business loans are "people intensive" endeavors. With the advent of interstate branching, we will not only see loan decisions made out of state, we will see them made solely on the basis of numerical formulas. Small business will suffer.
4. Capital Outflow. Montana capital is used to finance out-of-state projects with a resulting detriment to Montana projects.

The 1993 legislature "opted out" of interstate branching for good reasons. Reaffirm that decision by again "opting out" of interstate branching.

TESTIMONY FOR HOUSE BILL 207
BY JOHN CADBY
MONTANA BANKERS ASSOCIATION

Senate Business and Industry Committee

February 6, 1995

Mr. Chairman and Members of the Committee:

I am John Cadby, representing the Montana Bankers Association. Our Association is composed of all types and sizes of banks, from the smallest to the largest. Today there are about 100 banks in Montana of which 82 are dues paying members of MBA (list attached). Most of the banks who belong to the Montana Independent Bankers Association also belong to MBA.

A majority of our 82 members want to defer action on this issue until the 1997 Legislature. The MBA Board of Directors composed of 14 bankers, of whom 10 are independent bankers, voted at their last meeting to defer action until the 1997 Legislature. In other words, we don't want to opt-in or opt-out this Session.

I have served as the Montana Bankers Association manager and lobbyist for the past 22 years. Branching has always been a very difficult and sensitive issue due to the division among bankers. The new federal law, however, is so complex and has so many ramifications, not only to banks but to our entire society, I don't think anyone really knows what is best at this time. Over the next two years we can gather a much better understanding of the economic and tax effects of this new federal law before we decide.

There is absolutely no need to opt-out today. Nothing can happen before June 1, 1997. No out-of-state banks can branch into Montana. Any bank can be purchased by an out-of-state bank and operated as a bank. Opting-out does not protect locally owned independent banks from competing with out-of-state banks.

Disregarding the feelings and attitudes of all bankers and the perceived effects on their stockholders, you as policy makers for the State of Montana have a responsibility to look at the big picture and determine what is best for the Montana consumer and economy. After studying this issue for the past six months, we, frankly, are not prepared to make any recommendation as to what is best for Montana.

We expect 40 states to opt-in by June 1, 1997. Idaho and Utah will probably opt-in as they believe it will enhance their economy. Wyoming is waiting until next year, but are

adopting county-wide branching this year. The Governor of South Dakota has already pledged to veto any opt-out bill should it pass their Legislature. North Dakota and Colorado are debating the issue. We will monitor all 49 states and work to reconcile the differences among bankers so as to reach a consensus for the 1997 Legislature.

Mr. Chairman and members of the Committee, please do not pass HB 207. Retain the status quo and give us some time to work this out.

MONTANA BANKERS ASSOCIATION
BANK MEMBERS

EXHIBIT 4
DATE 2-6-95
HB 207

Absarokee, United Bank *
Ashland, Cheyenne Western *
Baker, Bank of Baker
Belgrade, Valley Bank *
Belt, Belt Valley Bank *
Bigfork, Flathead Bank *
Big Sky, Big Sky Western Bnk
Big Timber, Citizens Bank
Billings
 Rocky Mountain Bancorp.
 First Citizens Bank
 First Bank
 Norwest Bank
 First Interstate Bank of Commerce *
Boulder, First Boulder Valley *
Bridger, Bank of Bridger
Browning, Blackfeet National Bank
Butte, First Citizens Bank
Cascade, Stockmens Bank *
Chinook, Western Bank
Choteau, Citizens State Bank
Columbia Falls, First Citizens Bank
Conrad, Farmers State Bank
Cut Bank, Farmers State Bank
Deer Lodge, First Security Bank
Denton, Farmers State Bank
Dillon, State Bank & Trust Co. *
Dutton, Dutton State Bank
Ekalaka, First National Bank
Ennis, First Madison Valley Bnk *
Fairfield, First National Bank *
Fairview, Fairview Bank
Forsyth, First State Bank
Fort Benton, First State Bank
Froid, First State Bank
Geraldine, Geraldine State Bank *
Glasgow
 First Community Bank
 Valley Bank
Glendive, First Fidelity Bank
Hamilton, Citizens State Bank
Hardin, Little Horn State Bank
Harlowton, Continental National Bnk *
Havre, First Security Bank
Helena
 Valley Bank
 Mountain West Bank *

Jordan, Garfield County Bank *
Kalispell
 BankWest *
 First Interstate Bancorp.
Laurel, First Security Bank
Lewistown, First National Bank
Libby, First National Bank *
Lincoln, First Bank *
Livingston, First Natl Park Bank
Malta
 First Security Bank *
 First State Bank
Manhattan, Manhattan State Bank
Missoula, First Security Bank
Philipsburg, Flint Creek Valley Bank *
Plentywood
 Montana State Bank
 Security St Bank
Polson, First Citizens Bank
Poplar, Traders State Bank
Red Lodge, U.S. National Bank
Ronan
 Valley Bank *
 Ronan State Bank
Roundup, First Security Bank *
St. Ignatius, Lake County Bank *
Scobey, Citizens State Bank
Seeley Lake, First Valley Bank
Shelby, First State Bank *
Sidney, First United Bank
Stanford, Basin State Bank
Terry, State Bank *
Thompson Falls, First State Bank
Three Forks, Security Bank *
Townsend, State Bank
Twin Bridges, Ruby Valley Natl Bnk *
Victor, Farmers State Bank *
Whitefish, Mountain Bank *
White Sulphur, First Natl Bank
Wolf Point
 Citizens 1st Natl Bank
 Western Bank *
Worden, Farmers State Bank

82 MBA MEMBERS + 63 Branches
* Dual MBA & MIB Members = 30

MONTANA BANKERS ASSOCIATION
Q&A -- HB 207

Q. What is interstate merging?

A. A new federal law allows banks to merge across state lines effective June 1, 1997 (e.g. If a bank in Bridger buys a bank in Powell, WY they could run it as a branch and not a bank and vice versa).

Q. Should Montana opt-in or opt-out of this new law?

A. Neither, Montana should wait until the 1997 Legislature, since nothing can happen for the next two years (unless we opt-in which MBA also opposes at this time).

Q. Why do some banks want to opt-in?

- A.
- a. Some independent banks may like to purchase banks in North Dakota, Wyoming and Idaho and run them as branches rather than capitalizing a new bank in that state.
 - b. Some system banks may like to merge into a bank out-of-state.

Q. Why not opt-out in 1995 and consider opting-in in 1997?

- A.
- a. Establishes public policy which may prove detrimental to Montana's economy and independent banks.
 - b. Doesn't give bankers and legislators time to study and understand all ramifications of this new and complex federal law.
 - c. Doesn't give bankers time to develop a consensus on this issue.
 - d. Banking is changing so fast that in two years there could be different views.

Q. Why delay to 1997?

- A.
- a. Legislators need time to talk with their local bankers and understand the total impact of interstate banking on Montana's economy.
 - b. Legislators need time to study the new Multi-State Tax Commission's proposal to apportion income of interstate banks which could possibly result in more or less tax revenue for Montana.
 - c. Legislators need time to see what the other 49 states are going to do and evaluate the effects of interstate branching on interstate commerce.
 - d. There are no statistics today to support opt-out or opt-in and its affect on Montana's economy.
 - e. Saving and loans, credit unions and other financial services providers, such as AT&T Capital Corp, are not similarly restricted. The two year delay gives us time to study the competitive level of financial services for businesses and consumers in Montana.

Q. How many states are opting-in?

A. At last count, 40 states will have opted-in by June 1997.

- Q. Does opting-out preserve locally-owned banks?
A. NO. Federal law allows the sale of any bank to anyone. Whether it is "locally-owned" or "owned out-of-state" is decided by the current owner(s).
- Q. Does opting-out protect locally-owned banks from competition by out-of-state banks?
A. NO. a. The bank across the street could be purchased by CitiCorp, Bank of America or any other out-of-state bank

b. Savings banks (e.g. Glacier Bank, Kalispell; Security Bank, Billings; Western Federal Savings Bank, Missoula) could be bought by out-of-state banks and branch anywhere (e.g. Washington Mutual Bank of Seattle's branch in Butte).
- Q. Does opting-out preserve local control with local boards?
A. NO. An out-of-state bank can buy banks and merge them into one bank (e.g. Billings) with the rest being branches scattered throughout Montana, (e.g. First Bank, Norwest, First Interstate)
- Q. Does opting-out keep money in town?
A. NO. All banks invest in federal securities and loans. The Federal Community Reinvestment Act applies to all banks and branches and is enforced by the FDIC.
- Q. Does opting-out preserve local loan decisions?
A. NO. Whether banks or branches, loan decisions can be made in Billings or Minneapolis, depending on ownership. Type of ownership is dependent on the current owner(s).
- Q. Does opting-out prevent concentration of bank deposits?
A. NO. The Federal Reserve Bank decides if there is too much concentration in any community. (e.g. Norwest had to sell off branches in Lewistown, Anaconda and Butte when they purchased Bank of Montana.)
- Q. Does opting-out prevent banks from becoming branches?
A. NO. Federal law allows any bank to sell to anyone and state law allows affiliated banks to merge into one bank in Montana with the rest being branches.
- Q. Can savings banks, savings and loans, and credit unions merge across state lines and branch?
A. YES.
- Q. What has happened since branching was allowed in Montana in 1989?
A. More independent banks have been chartered (e.g. Mountain West Bank, Helena and Great Falls; First West Bank, Billings; Community Bank of Missoula; First National Bank, Butte; American Bank, Whitefish). More

branches (e.g. Troy, Gardiner, Florence, Darby, Lakeside, etc.) in towns where banks could not exist. Most in-state and out-of-state system banks have merged into one bank with branches.

Q. How can locally-owned banks survive?

A. A banks survival is like any other main street business. They have to be competitive to survive in a free market. Congress has opened the door to interstate competition and ended the bank turf war.

Q. What is likely to happen with interstate banking?

A. a. Montana has had regional interstate banking for two years. The only out-of-state purchase was by Norwest when they purchased Bank of Montana. No locally-owned bank has been sold to an out-of-state bank.

b. Some locally-owned banks have been purchased by the following in-state bank holding companies: First Interstate BancSystem of Montana, Billings; Security Richland Bancorporation, Miles City; American Bank, Billings; Citizens Development Corporation, Billings; Rocky Mountain Bancorp., Billings.

Q. What if Montana goes to Legislatures in even-numbered years?

A. The proposed constitutional amendment, if passed, does not take effect until January 1, 1998, so a Session has to be held in January 1997, to decide if Montana should opt-out or opt-in.

0.22% to 0.33 and ...
The danger, of course, comes from a lack of diversification, said Howard Levenson, chief executive of Western Financial, an investment bank that caters to community banks.

Michigan's community bankers are ready to take on all comers as the nation moves toward interstate branching.

Big and small banks alike are seeking a proposal by the Michigan Bankers Association to push for early opt-in on interstate branching.

"I don't have a problem opting in early," said Richard Edgar, president and chief executive of \$78 million-asset Kent City State Bank. "I don't really think that our biggest competition is from the big banks in New York and California and other states. Our biggest competition is credit unions and Merrill Lynch and those companies."

The trade group, which represents all of Michigan's banks, voted to opt in early to attract new main offices to the state, as well as to give banks already headquartered there another in-

centive to not move to another state with a better banking climate, said Robert Carr, president and chief executive of \$65 million-asset Capitol National Bank, Lansing.

Michigan's financial institutions bureau has distributed an opt-in bill for comment, which could be introduced in the legislature this spring, said Mike DeFors, a vice president for government affairs at the trade group.

States that opt in early would move up the June 1997 effective date of the branching component of the Reigle-Neal Interstate Banking and Branching Act depending upon when they enact legislation.

Michigan community bankers say they already are accustomed to stiff local big-bank competition, including Comerica, NBD Bancorp, First of America Bank Corp., and Old Kent Financial Corp.

"It doesn't matter where you are in the state, you compete with them," said Mr. Carr, also the current president of the Michigan Bankers Association. "We've had strong competition from the larger financial institutions and we've been able to compete."

Things may not be as smooth

Michigan Banks Say They're Ready for Interstate Branching

By BARBARA F. BRONSTEIN

Michigan's community bankers are ready to take on all comers as the nation moves toward interstate branching.

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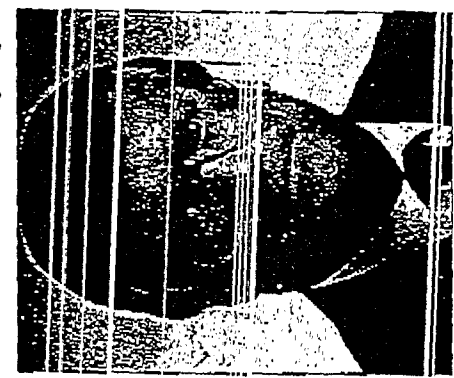
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in North Dakota, where bankers still are wrestling with the interstate issue.

They want to avoid a repeat of 1991, when the state's two bank trade groups fought over state interstate legislation.

"It was a bloodbath," said Arlene Melarvie, executive director of the Independent Community Bankers Association of North Dakota. "I don't want to go through that again."

The trade group has introduced four interstate-related bills, including one to opt out to buy time, since the state doesn't yet have intrastate branching ability.

Ms. Melarvie's group and the North Dakota Bankers Association had planned to support opt-out legislation, since they had little time to deal with interstate this year, and were unsure if the 1997 session could deal with it in time.

But if the legislature, which meets for only 60 days every two

years, waits until 1997 to address interstate, it would not be able to implement existing laws until after the federal's law's effective date, said James Schlosser, executive vice president of the North Dakota Bankers Association.

Thus, bankers now await a decision from the state's attorney general on whether legislation in 1997 could use a majority vote on an emergency measure to push up the effective date on interstate legislation. Emergency measures usually require a two-thirds vote.

If the 1997 vote change is authorized, the independent bankers group will abandon its opt-out bill this year, Ms. Melarvie said. However, "if there's doubt on this action, we're going to go back to fighting for the opt out," she said.

North Dakota community bankers also face a bill backed by First Bank System to opt in early with no restrictions.

no question the bank can do well. [But] you have to wonder that if President Clinton's health care proposal had passed what it would have done to the bank's clientele."

The move towards managed care has negatively affected certain parts of the health care industry, Mr. Kovner said.

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SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 5

DATE 2/6/95

BILL NO. HB 207

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AMERICAN BANKER

TESTIMONY IN OPPOSITION TO HB 207

Senate Business & Industry Committee

February 6, 1995

by R. Stephen Browning
for Norwest Banks and First Banks

1. WHAT WAS AUTHORIZED BY THE 1993 MONTANA INTERSTATE BANKING LAW?

Answer: HB 358 (salmon color) authorized out-of-state bank holding companies to acquire Montana banks. (see page 1, lines 6-8 and 12-15). In other words, the 1993 Legislature authorized interstate banking.

2. HOW DID THE 1993 LEGISLATURE DIFFERENCIATE INTERSTATE BANKING FROM INTERSTATE BRANCHING?

Answer: The 1993 Legislature and the parties to the 1993 Interstate banking law understood interstate banking to be quite different from interstate branching (see the 1993 MBA lavender colored question and answer sheet, question #7). Interstate banking, according to the 1993 Montana law is the acquisition of Montana banks by out-of-state bank holding companies. Interstate branching was considered by the 1993 Legislature to be different from interstate banking. Interstate branching in 1993 was considered to be the act of out-of state banks establishing branch banks in Montana, and such acts were not authorized by the 1993 Montana interstate banking law (see HB 358, salmon sheet, page 1 lines 23-25).

3. DID THE 1993 LEGISLATURE OPT OUT OF INTERSTATE BANKING?

Answer: Yes. HB 358 specifically authorized interstate banking and provided that any federal law authorizing unrestricted interstate banking would not apply to Montana. In other words, in 1993 Montana "opted out" of any unrestricted interstate banking laws that Congress might subsequently enact, provided of course that such federal laws allowed states to opt out. The following year Congress enacted an interstate banking law, but that law did not allow states to opt out of the interstate banking provisions, so Montana did not and cannot opt out of the federal interstate banking law.

4. DID THE 1993 LEGISLATURE AUTHORIZE INTERSTATE BRANCHING?

Answer: No. The 1993 law specifically prohibits interstate branching in Montana. Lines 23-25 on page 1 of HB 358 prohibits branching in Montana by out-of-state banks. The MIB in its testimony to the Legislature in 1993 (see blue sheet) makes no mention of interstate branching or opting out of federal laws dealing with interstate branching.

-over-

5. DOES THE 1994 FEDERAL LAW ALLOW STATES TO "OPT OUT" OF INTERSTATE BRANCHING?

Answer: Yes. States can "opt out" or "opt in" to interstate branching prior to June 1, 1997. It is important to note that the type of interstate branching authorized by the 1994 federal law is not the type of interstate branching prohibited by the 1993 Montana law. In 1993, Montana prohibited out-of-state banks from branching in Montana (see answer to question #4). The 1994 federal law authorizes out-of-state banks (that's banks, not bank holding companies) to acquire in-state banks, and states are given the power by the 1994 federal law to accept (i.e. "opt in" to) or to deny (i.e. "opt out" of) that authorization. (Significantly, the 1994 federal law does not authorize the type of interstate branching that was prohibited by the 1993 Montana interstate banking law.)

6. DID THE 1993 LEGISLATURE OPT OUT OF INTERSTATE BRANCHING?

Answer: No. The only opt out provisions of the 1993 law relate to interstate banking and not to interstate branching. (See answer to question 2, above.)

7. IS HB 207 A REAFFIRMATION OF A 1993 OPT OUT OF INTERSTATE BRANCHING?

Answer: No. Since the 1993 Legislature did not and could not opt out of interstate branching, there can be no reaffirmation of something that could not and did not happen. Although the MIB claims (see yellow sheet) that the 1993 Legislature opted out of interstate branching, that is an incorrect and misleading statement. As noted above the only opt out in 1993 was to interstate banking and not to interstate branching.

CONCLUSION: This is a complicated subject. The Legislature should know what it is doing before it acts. There is time to study this situation. No action has to be taken by the Montana Legislature before June 1, 1997, and no action should be taken before the Montana Legislature knows what it is doing. The sensible course of action is for the Montana Legislature to kill HB 207, and instead enact the MBA study resolution (HJ Res 12) that is laying on the table of the House Business & Labor Committee.

Presented by Steve Brown

1 HOUSE BILL NO. 358

2 INTRODUCED BY BARNETT, SWIFT,

3 BACHINI, CHRISTIAENS, HIBBARD

4

5 A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING
6 BANKING LAWS; AUTHORIZING INTERSTATE BANK ACQUISITIONS BY A
7 REGIONAL BANK HOLDING COMPANY; ESTABLISHING CONDITIONS AND
8 LIMITATIONS ON ACQUISITIONS; REVISING LIMITS ON DETACHED
9 TELLER FACILITIES; AND AMENDING SECTION 32-1-372, MCA."

10

11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

12 NEW SECTION. Section 1. Purpose. (1) The purpose of

13 [sections 1 through 4] is to authorize interstate banking by
14 the acquisition of existing banks within the framework of
15 the "Douglas amendment" to the Bank Holding Company Act of
16 1956, as amended, and to provide a variety of banking
17 alternatives in Montana in terms of the members NUMBERS and
18 ownership of banks. If federal legislation authorizes
19 unrestricted interstate banking unless state law
20 affirmatively provides otherwise, it is the purpose of
21 [sections 1 through 4] to affirmatively provide that
22 unrestricted interstate banking does not apply in Montana.

23 (2) [Sections 1 through 4] do not authorize the
24 establishment of a branch bank in Montana by a bank not
25 located in Montana. Sections 32-1-371 and 32-1-375 do not

1 apply to acquisitions or transactions authorized in
2 [sections 1 through 4].

3 NEW SECTION. Section 2. Definitions. As used in
4 [sections 1 through 4], unless the context requires
5 otherwise, the following definitions apply:

6 (1) "Acquire" means:

7 (a) the direct or indirect purchase of stock;

8 (b) the direct or indirect purchase of assets; or

9 (c) a merger.

10 (2) "Bank" means a commercial bank as defined in
11 32-1-105 or a national banking association as designated by
12 12 U.S.C. 24.

13 (3) "Bank holding company" means a bank holding company
14 that is registered under the Bank Holding Company Act of
15 1956, as amended, regardless of where it is located or has
16 its headquarters.

17 (4) "Control" means:

18 (a) ownership of, authority over, or power to vote,
19 directly or indirectly, 25% or more of any class of voting
20 security;

21 (b) authority in any manner over the election of a
22 majority of directors; or

23 (c) power to exercise, directly or indirectly, a
24 controlling influence over management and policies.

25 (5) "Department" means the department of commerce

1 provided for in 2-15-1801.

2 (6) "Financial institution" means a bank or bank
3 holding company.

4 (7) "Headquarters" means the state in which the
5 activities of a bank holding company or a company
6 controlling the bank holding company are "principally
7 conducted" within the meaning of the Bank Holding Company
8 Act of 1956, as amended.

9 (8) "Located in this state" means:

10 (a) in the case of a bank, that the organizational
11 certificate identifies an address in this state as the
12 principal place of conducting its business; and

13 (b) in the case of a bank holding company, an entity,
14 partnership, or trust organized under the laws of this
15 state.

16 (9) "Reciprocating state" means a state that authorizes
17 the acquisition, directly or indirectly, of control of banks
18 in that state by a bank holding company located in this
19 state under terms and conditions substantially similar to
20 the terms and conditions contained in [sections 1 through
21 4].

22 (10) "Regional bank holding company" means a bank
23 holding company that does not have its headquarters in
24 Montana and:

25 (a) that has headquarters in Colorado, Idaho,

1 Minnesota, North Dakota, South Dakota, Wisconsin, or
2 Wyoming; or

3 (b) that controlled a bank in Montana on January 1,
4 1993. The authority to acquire control of a bank under
5 [sections 1 through 4] may not be transferred to a bank
6 holding company that does not have its headquarters in a
7 state listed in subsection (10)(a).

8 NEW SECTION. Section 3. Acquisition of financial
9 institution by bank holding company not located in this
10 state -- limitations. (1) A regional bank holding company
11 with headquarters in a reciprocating state may acquire
12 control of a bank located in this state through acquisition
13 of a financial institution if the regional bank holding
14 company complies with [sections 1 through 4]. The bank to be
15 acquired must:

16 (a) have been conducting business for a continuous
17 period of at least 6 years prior to the acquisition; or

18 (b) be organized for the purpose of purchasing the
19 assets of a bank that has conducted business for a
20 continuous period of at least 6 years prior to the
21 acquisition.

22 (2) A bank holding company may acquire control of a
23 bank located in this state by purchase of stock in or by
24 merger with a regional bank holding company.

25 (3) (a) Subject to the provisions of subsection (3)(b),

1 a bank holding company may not acquire control of a bank
 2 located in this state if the bank holding company would
 3 directly or indirectly control more than 18% of all deposits
 4 in federally insured banks, savings associations, and credit
 5 unions located in this state.

6 (b) On October 1, 1994, and on October 1 of each year
 7 thereafter, the percentage limitation contained in
 8 subsection (3)(a) must be increased by 1% until the limit
 9 reaches 22%.

10 (4) A bank holding company that is not located in this
 11 state or that does not have headquarters in this state may
 12 not acquire control of a bank located in this state if the
 13 acquisition of control would result in the aggregate direct
 14 or indirect control, BY ALL BANK HOLDING COMPANIES THAT DO
 15 NOT HAVE HEADQUARTERS IN THIS STATE, of more than 49% of all
 16 deposits in all federally insured banks and savings
 17 associations located in this state.

18 (5) The determination of the limits contained in
 19 subsections (3) and (4) must be based upon public reports
 20 filed with the appropriate regulatory agency as of the
 21 December 31 preceding the submission to the appropriate
 22 federal banking regulatory agency of the application seeking
 23 prior approval of the acquisition of control of the bank.

24 (6) A bank holding company that ceases to be a regional
 25 bank holding company shall divest all interest in a bank

1 located in this state unless the bank holding company:

2 (a) controlled the bank for a period of 36 consecutive
 3 months immediately prior to cessation of its status as a
 4 regional bank holding company; or

5 (b) controlled the bank on January 1, 1993.

6 (7) If a regional bank holding company is being
 7 acquired by a bank holding company that does not have its
 8 headquarters in this state and that is not a regional bank
 9 holding company, then the bank holding company shall divest
 10 all interest in a bank located in this state unless the
 11 regional bank holding company:

12 (a) controlled the bank for a period of 36 consecutive
 13 months immediately prior to the acquisition of control of
 14 the regional bank holding company by the acquiring bank
 15 holding company; or

16 (b) controlled the bank on January 1, 1993.

17 (8) If this section requires a bank holding company to
 18 divest all interest in a bank located in this state, the
 19 divestiture must be completed within 24 calendar months of
 20 the event requiring the divestiture.

21 NEW SECTION. Section 4. Federal applications --
 22 Comments. (1) A bank holding company shall file with the
 23 department a copy of applications submitted to a federal
 24 banking regulatory agency seeking prior approval of the
 25 proposed acquisition of a financial institution located in

1 this state. The bank holding company shall also file a
 2 statement verifying that the acquisition will not result in
 3 a violation of the limits in [section 3(3) and (4)].

4 (2) The applications and statement are public records,
 5 and the department shall allow public inspection of all
 6 nonconfidential portions of the applications and statements.
 7 The department shall solicit public comment on the
 8 applications by promptly publishing notice of the
 9 applications in a newspaper of general circulation in the
 10 county in which the financial institution to be acquired is
 11 located. The department shall send the comments to the
 12 appropriate federal banking regulatory agency. The
 13 department may intervene in or take other action in a
 14 federal banking regulatory authority proceeding.

15 **Section 5.** Section 32-1-372, MCA, is amended to read:

16 "32-1-372. Branch bank -- detached facilities. (1) A
 17 bank may establish and maintain a branch bank only as
 18 provided in 32-1-371 and this section and, in the case of a
 19 bank organized under the laws of this state, with the prior
 20 approval of the state banking board, provided that nothing
 21 in this section prohibits ordinary clearinghouse
 22 transactions between banks.

23 (2) (a) With the prior approval of the department, any
 24 a bank or branch bank doing business in this state may
 25 establish and maintain:

1 (i) ~~not--more--than one detached drive-in and walk-up~~
 2 ~~facility consisting of one or more teller windows; or~~
 3 (ii) ~~if the bank or branch bank is doing business in a~~
 4 ~~city or consolidated government with a population of more~~
 5 ~~than 20,000 as indicated in the most recent United States~~
 6 ~~census, two drive-in or walk-up facilities consisting of one~~
 7 ~~or more teller windows.~~

8 (b) ~~The A detached facility must be in the city or~~
 9 ~~within 3,000 feet of the city limits of the city in which~~
 10 ~~the main banking house or branch bank is located. The A~~
 11 ~~facility may not be closer than 200 feet to a facility~~
 12 ~~operated by any other bank or closer than 300 feet to the~~
 13 ~~main banking house of any other bank, the measurement to be~~
 14 ~~made in a straight line from the closest points of the~~
 15 ~~closest structures involved. The distances specified in this~~
 16 ~~subsection in relation to a facility operated by any other~~
 17 ~~bank and in relation to the main banking house of any other~~
 18 ~~bank may be decreased by mutual written agreement of the~~
 19 ~~banks involved to not closer than 150 feet to a facility~~
 20 ~~operated by any other bank or closer than 200 feet to the~~
 21 ~~main banking house of any other bank, the measurement to be~~
 22 ~~made in a straight line from the closest points of the~~
 23 ~~closest structures involved. The service of the a facility~~
 24 ~~must be limited to receiving deposits of every kind, cashing~~
 25 ~~checks or orders to pay, receiving payments payable at the~~

1 bank or the branch bank, and other transactions that are
2 normally and usually conducted or handled at teller windows
3 in the main banking house or branch bank.

4 (3) Any A bank authorized to do banking business in
5 this state may utilize a satellite terminal as defined in
6 the Montana Electronic Funds Transfer Act and at any
7 location permitted by the Montana Electronic Funds Transfer
8 Act. The use of satellite terminals hereby-authorized is not
9 subject to the restrictions on location, transaction, or
10 number applicable to detached drive-in, walk-up, or teller
11 facilities.

12 (4) A bank, other than a bank owned by a holding
13 company not located in Montana, may establish, maintain, and
14 operate a branch bank in a city in which no bank or branch
15 bank is located at the time the branch bank is to be
16 established if that city is in the county or a county
17 adjoining the county in which the main banking house of the
18 branch bank is located.

19 (5) Common ownership notwithstanding, a bank located in
20 this state may acquire by consolidation or merger under
21 32-1-371 and may maintain and operate as a branch bank any
22 bank in this state if, at the time of acquisition, a
23 receiver has been appointed by an appropriate regulatory
24 agency or other governmental authority. Nothing-in-this
25 subsection-allows-a-bank-owned-by--a--holding--company--not

EXHIBIT

7

DATE

2-6-95

HB 207

1 located-in--this--state-to-acquire-an-interest-in-a-bank-in
2 contravention-of-12-8-9-8-1842-

3 (6) A branch bank must have a community advisory
4 board."

5 NEW SECTION. Section 6. Severability. (1) If a part of
6 [this act], other than [section 3(3) or (4)], is invalid,
7 all valid parts that are severable from the invalid part
8 remain in effect. If a part of [this act], other than
9 [section 3(3) or (4)], is invalid in one or more of its
10 applications, the part remains in effect in all valid
11 applications that are severable from the invalid
12 applications.

13 (2) If [section 3(3) or (4)] is invalid or if the
14 application of [section 3(1)] must be extended to bank
15 holding companies other than regional bank holding
16 companies, then [this act] is void.

17 NEW SECTION. Section 7. Saving clause. If [this act]
18 is voided, it does not affect an acquisition or rights and
19 duties that matured, penalties that were incurred, or
20 proceedings that were begun before [the date this act is
21 void].

22 NEW SECTION. Section 8. Codification instruction.
23 [Sections 1 through 4] are intended to be codified as an
24 integral part of Title 32, chapter 1, and the provisions of
25 Title 32, chapter 1, apply to [sections 1 through 4].

HOUSE BILL 358

INTERSTATE BANKING IN MONTANA: QUESTIONS AND ANSWERS*Presented by
Steve Browning*

1. What is interstate banking?

Interstate banking authorizes the purchase of in-state banks by out-of-state bank holding companies. There is no mystery regarding how Interstate Community Banking will operate in Montana. We have had Interstate Community Banking in Montana since 1929, when several Montana community banks participated in creating Norwest and First Bank Systems holding companies. We can use this 64 years of experience to answer the questions and understand how "Interstate Community Banking" will operate in Montana.

2. Aren't some in-state banks currently owned by out-of-state bank holding companies?

Yes. Of 178 Montana banks and branches, 21 are owned by the following three out-of-state bank holding companies. First Bank System (Minneapolis) owns banks and branches in Billings (2), Bozeman, Butte, Great Falls (2), Havre, Helena, Miles City, and Missoula. First Interstate Bank Corp. (Los Angeles) owns banks and branches in Cut Bank, Great Falls, and Kalispell. Norwest Corporation (Minneapolis) owns banks and branches in Anaconda, Billings, Butte, Dillon, Great Falls, Helena, Kalispell, and Lewistown. Most of these banks have been owned by these holding companies since the late 1920's and early 1930's.

3. Can any out-of-state bank holding company acquire a Montana based bank?

No. In 1956 Congress enacted a law ("The Douglas Amendment") prohibiting any future or additional acquisitions by out-of-state bank holding companies, unless specifically authorized by state law. As of 1956, as noted in the previous answer, 21 banks and branches in Montana had been acquired by out-of-state bank holding companies. Since then, Montana has not enacted legislation authorizing further acquisition of Montana banks by out-of-state bank holding companies.

4. Can out-of-state individuals buy banks in Montana?

Yes. Out-of-state individuals can and do acquire Montana banks. Presently 45 of our existing banks and branches are owned by out-of-state individuals. Even out-of-state savings and loans may purchase Montana banks. Again, only out-of-state bank holding companies are prohibited from acquiring Montana banks.

5. Do other states permit interstate banking?

Yes. Maine, in 1975, became the first state to authorize interstate banking. This action was taken in Maine as an economic development initiative to increase the access of Maine businesses to national capital markets and broaden financial

services available to Maine families and businesses. For the same reasons, this same action has now been taken by legislature in all 49 states except Montana. North Dakota, in 1991, was the last state to take action.

6. Aren't all financial institutions treated alike in Montana?

No, S&Ls and credit unions have total freedom to buy, sell, move into the state, or move within the state. They have no federal or state location restrictions. Also, other firms like Sears, American Express, etc., offer financial services across state lines.

7. Are interstate banking and interstate branching the same?

No. Interstate banking would allow out-of-state bank holding companies to purchase in-state banks, interstate branching would allow out-of-state banks to establish a branch bank in state. HB 358 authorizes interstate banking. It does not authorize interstate branching.

8. What are the key features of HB 358?

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.

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

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

DEPOSIT CAP Limits bank concentration to % of total deposits:

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

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

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.

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.

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.

EXHIBIT NO. 9DATE 2/6/95

FEB 01 1993

BILL NO. HB 207BROWNING, KALECZYK,
BERRY & HOVEN, PCBEFORE THE COMMITTEE ON BUSINESS & ECON. DEVELOPMENT
MONTANA HOUSE OF REPRESENTATIVES*(Presented by
Steve Browning)*

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.

HB-207 reaffirms the Legislature's action in 1993 which prohibited interstate bank mergers in Montana.

Interstate banking and interstate branching have been debated before the Montana Legislature for many years. Prior to the 1993 legislative session, the Montana Independent Bankers Association, the Montana Bankers Association and the large system banks reached a compromise under which interstate banking would be allowed in Montana under severely restricted circumstances. It was also agreed that interstate branching would be prohibited. The compromise became law in the 1993 session. Montana prohibited or "opted out" of interstate branching.

That should have been the end of the story. However, Congress enacted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. That law requires that in order to be effective, a state's prohibition of interstate branching must occur after September 29, 1994. Because Montana's prohibition occurred in 1993, it is necessary for the Legislature to reaffirm its action and again "opt out" of interstate branching.

The question often arises as to the difference between interstate banking and interstate branching. The difference is simple. Interstate banking describes the acquisition of a local bank by an out-of-state bank holding company. Upon completion, the local bank becomes a wholly-owned subsidiary of the out-of-state holding company. It does not lose its separate identity. It remains a Montana bank with local control.

Interstate branching describes the merger of a local bank with an out-of-state bank. Upon completion, the local bank becomes merely a branch of the out-of-state bank. It loses its separate identity. The local branch is no longer a Montana bank and is not subject to local control.

Although the policy arguments against interstate branching have been stated before, it should be noted that several things occur when local banks are merged with out-of-state banks:

1. Loss of Control. Local boards of directors are not required. Local officers are not necessary.

2. Loss of Responsiveness to Local Conditions. Loan decisions are made at out-of-state bank headquarters. Community needs are not served.

3. Small Business No Longer Serviced. Small business loans are "people intensive" endeavors. With the advent of interstate branching, we will not only see loan decisions made out of state, we will see them made solely on the basis of numerical formulas. Small business will suffer.

4. Capital Outflow. Montana capital is used to finance out-of-state projects with a resulting detriment to Montana projects.

The 1993 legislature "opted out" of interstate branching for good reasons. Reaffirm that decision by again "opting out" of interstate branching.

Testimony on HB 118

Senate Business and Industry Committee

Feb. 6, 1995

Mr. Chairman, members of the committee, for the record, my name is Charles W. Walk. I am executive director of the Montana Newspaper Association, which represents 75 Montana newspapers, including all 11 dailies and 64 weeklies in the state.

I am here today in opposition to HB 118, a bill which will do away with the publishing requirements in newspapers of bank call reports.

We see some irony in this effort to do away with the public notice requirements in 32-1-231 MCA.

First, we find it ironic that the banking industry has picked a time when careful scrutiny of the nation's financial institutions would seem in order to do away with the most widespread method of that scrutiny.

Within the last few years the U.S. has gone through some of the most difficult times regarding its financial institutions and it truly seems strange we now are faced with banks passing the burden of accountability on to local citizens to try and figure out what these banks are up to, without providing public information.

Second, we find it ironic that the banks are asking for "relief" from the rather insignificant cost of printing these call reports in Montana's newspapers at a time when bank earnings nationwide are reported to be at an all-time high. Two or three years ago the poverty plea could have been more believable when hundreds of bank failures and cries of impending crises in the banking business were more based in fact. In the first nine months of 1994, only 11 banks failed nationwide and the Federal Deposit Insurance Corp., says banks were on target to break the record of \$43.4 billion in profits for the year.

Third, we see some irony in a request from state banking officials for the Montana Legislature to pass a bill just because the Congress saw fit to pass similar ill-advised legislation. We would hope that Montana Legislators would not be caught up in a frenzy to copy Congress' mistake in the call report publication repeal. We also would remind Montana legislators that this issue is not through at the federal level. Congress will be asked to revisit the issue in the present session.

For that reason, we are supportive of the amendment added in the House Business and Labor Committee which calls for termination of this legislation — if enacted — upon federal action which reenacts the call reports for federally-chartered banks.

Even with this amendment, however, we are forced to oppose HB 118. It is said by the banking community that all newspapers care about is our advertising revenue. Truthfully, we do care about those revenues...as any business should.

But the far more important issue is the public interest. Isn't the minor burden of publication outweighed by the benefits of requiring that publicly-regulated and insured institutions inform their ultimate insurers of insolvency?

It is often said that the call reports are unintelligible. That's no excuse to stop publishing them. Even though some readers may not understand the fine points of banking reports, wouldn't the natural answer be to invite banks to make them more meaningful, especially in light of the public trust? And we dispute the premise that the published reports aren't read. I'm sure members of this committee read them. I'm sure other Montanans also read them...and understand them.

We obviously believe the sudden removal of one reliable source of public information on banking in the face of \$30 billion worth of public costs associated with the S & L scandals is, at best, a bad decision on

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HB 118

the part of Congress and we hope the Montana Legislature will not follow with a similarly poor decision.

We urge a "do not pass" vote on HB 118 from this committee. Thank you for your time.

DATE February 6, 1995

SENATE COMMITTEE ON Business and Industry

BILLS BEING HEARD TODAY: HB 118 Rep. DeVaney

BILLS BEING HEARD TODAY: HB 118 Rep. DeVaney
HB 193 Rep. Larson HB 207 Rep. Barnett

PLEASE PRINT

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Check One

Name	Representing	Bill No.	Support	Oppose
Bob Worth	Norwest	207		✓
Tom Ellis	Norwest/Bank of Mt.	207		✓
Don Pieger	Norwest / " " " "	207		✓
Vance Williams	Norwest	207		✓
Bill Shauding	First Bank	207		✓
Bruce Gulick & mt.	Independent Bankers	207	X	
Frank S. Hoots	MTIB	207	X	
Dan Jordane	First Interstate Bank-Billings	207	X	
JOHN CADBY	MTBANKERS ASSN	207		✓
JOHN CADBY	MT BANKERS ASSN	118	✓	
Chuck Wack	MT Nees. Assn	118		✓
Ron Ostermullen	MT BANK - Boz	207		
Tom Hoggood	Mt. Indep Bankers Assn	207	✓	
James J. Sun	Montana Bankers Ass'n	207		✓

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE Feb 6, 1995

SENATE COMMITTEE ON B & F

BILLS BEING HEARD TODAY: HB 118 Rep. Delaney,
HB 193 Rep. Larson. HB 207 Rep. Barnett

Name	Representing	Bill No.	Check One Support Oppose	
<i>Frank W. Shaw</i>	<i>Academy of Arts</i>	<i>207</i>		<input checked="" type="checkbox"/>
<i>Diet Mann</i>	<i>First Bank</i>	<i>207</i>		<input checked="" type="checkbox"/>
<i>Dean Nelson</i>	<i>1st Interstate of Mt.</i>	<i>207</i>		<input checked="" type="checkbox"/>
<i>Frank Cote</i>	<i>St. Accolter</i>	<i>HB 193</i>	<input checked="" type="checkbox"/>	
<i>Steve Branning</i>	<i>First Bank & Northwest</i>	<i>HB 207</i>		<input checked="" type="checkbox"/>
<i>Sam Moulton</i>	<i>Bank of Alaska</i>	<i>HB 207</i>	<input checked="" type="checkbox"/>	
<i>Charles Stevens</i>	<i>Rep. HD 97</i>	<i>HB 118</i>	<input checked="" type="checkbox"/>	
<i>Donald W. Hutchinson</i>	<i>Dept. of Commerce Banking & Financial ID</i>	<i>HB 118</i>	<input checked="" type="checkbox"/>	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY