

CBA



Community Bankers
Association of Kansas

Directed By The Members We Serve

To: Senate Financial Institutions and Insurance Committee

From: Shawn Mitchell, President and Chief Executive Officer
Community Bankers Association of Kansas

Date: January 15, 2013

RE: Current state of financial institutions in Kansas

Chairman Olson and Members of the Senate Financial Institutions and Insurance Committee,

Thank you for the opportunity to appear before the committee today and provide you with a brief idea of whom the Community Bankers Association of Kansas (CBA) represents as well as our perspective on the current state of financial institutions in Kansas. My name is Shawn Mitchell and I am President and Chief Executive Officer of the CBA. As a community banker for more than 15 years, before joining the CBA 4 years ago, I've seen firsthand the important role local banks play throughout Kansas. Our business depends on building and maintaining personal relationships with our customers, supporting other small businesses that in turn provide jobs, services and help our communities prosper. Whether it's donating toward Little League uniforms or cooking hamburgers at community events, community banks are continually involved in improving the day-to-day life of every member of their local community. We believe passionately in the vital importance of our community banks in Kansas. CBA is a statewide organization of locally owned and operated banks intent on preserving local credit for local development. CBA member banks are as diverse as Kansas itself, as varied as the economies and the aspirations of the communities we serve.

Community bankers maintain that customers and communities are best served by local investment of deposit dollars, local lending decisions and local ownership of financial institutions. Community banks play a significant role in local economic development efforts, stimulating the economy to produce jobs and new opportunities. As a group, community banks are the primary lenders to agriculture, small business, individuals and families.

All financial institutions around the country have been subject to greater scrutiny, criticism, and *substantial government intervention* in the past few years due to many Wall Street mega banks creating an environment where their employees were incented to take on substantial

risk to increase profits for the firm and then rewarded with increased pay. Community banks differ from that philosophy in that we incent our staffs to minimize risk and maximize community development. Our common philosophy is clear, if our local community flourishes, then we shall also. We support many of the federal activities to promote financial institution stability. The dishonest practices and total disregard of sound banking principles by the Wall Street mega-banks have unfortunately created a regulatory environment that is not just punishing them it is significantly harming community banks. The mega-banks simply hire more attorneys and accountants to handle new regulation while our local community banks, who do not have the luxury of doing so, struggle to keep up with the ever increasing burdens. However, our Kansas community banks are strong and resilient, refusing to let Wall Street ruin Main Street!

We have attached a copy of our most recent "Kansas Banking Report" with YTD September 30, 2012 data to demonstrate to you how our Kansas community banks are performing. To assist in giving you a little perspective we have also provided another report comparing September 30, 2012 with September 30, 2008 for our Kansas banks as well as the same for all commercial and saving institutions nationally.

Kansas community banks, whether located in small towns, suburbs, or big city neighborhoods, create growth in our towns and cities by funding small business and using local dollars to help families purchase a home, finance college and build financial security. Retaining and refocusing local deposits allows community banks to focus attention on the needs of local families, businesses and farmers. Working with our neighbors and serving as community partners has allowed community banks to remain relatively un-affected by the global financial turmoil.

Thank you for your time and attentiveness. I would be happy to stand for questions at the appropriate time.

Kansas Banking Benchmarks

All Kansas Commercial & Savings Institutions	9/30/2012 \$ in 000's	9/30/2011 \$ in 000's		Change from One Year Ago
Kansas Banking Indicators	Total (Sum)	Total (Sum)		Total (Sum)
Number of Institutions	306	320	↓	-14
Number of Employees	15,279	15,001	↑	278
Total Assets	\$62,163,568	\$61,916,383	↑	\$247,185
Total Deposits	\$47,367,447	\$46,954,863	↑	\$412,584
Net Loans & Leases	\$33,550,574	\$33,603,693	↓	-\$53,119
Net Interest income	\$1,364,790	\$1,400,370	↓	-\$35,580
Total noninterest income	\$577,455	\$461,588	↑	\$115,867
Net Income (Year-to-date)	\$439,893	\$373,584	↑	\$66,309
Total Equity Capital	\$7,505,188	\$7,491,861	↑	\$13,327
Kansas Banking Performance Ratios	%	%		%
Unprofitable Institutions	5.56%	7.50%	↓	-1.94%
Institutions with earnings gains	61.11%	65.00%	↓	-3.89%
Net Interest Margin	3.18%	3.28%	↓	-0.10%
Return on Assets	0.95%	0.81%	↑	0.14%
Return on Equity	8.00%	6.89%	↑	1.11%
Net charge-offs to loans	0.33%	0.67%	↓	-0.34%
Efficiency ratio.	67.87%	68.75%	↓	-0.88%
Loss allowance to loans	1.80%	1.86%		-0.06%
Noncurrent loans to loans	1.96%	2.94%	↓	-0.98%
Net loans and leases to deposits	70.83%	71.57%	↓	-0.74%
Equity Capital to assets	12.07%	12.10%	↓	-0.03%

Kansas Banking Lending Benchmarks

All Kansas Commercial & Savings Institutions	9/30/2012 \$ in 000's	9/30/2011 \$ in 000's		Change from One Year Ago
Kansas Lending Indicators	Total (Sum)	Total (Sum)		Total (Sum)
Net Loans & Leases	\$33,550,574	\$33,603,693	↓	-\$53,119
All real estate loans	\$23,666,876	\$23,694,605	↓	-\$27,729
Construction and land development	\$1,479,819	\$2,076,897	↓	-\$597,078
Commercial real estate	\$6,605,900	\$6,783,030	↓	-\$177,130
1-4 family residential	\$12,133,517	\$11,472,493	↑	\$661,024
Farm loans	\$2,780,126	\$2,767,580	↑	\$12,546
Commercial & industrial loans	\$5,199,457	\$5,220,063	↓	-\$20,606
Loans to individuals	\$1,696,004	\$1,738,559	↓	-\$42,555

CBA

Kansas Banking Report

Community Bankers
Association of Kansas

Kansas Banking Benchmarks

All Kansas Commercial & Savings Institutions	9/30/2012	9/30/2008		Change from
	\$ in 000's	\$ in 000's		Four Years Ago
Kansas Banking Indicators	Total (Sum)	Total (Sum)		Total (Sum)
Number of Institutions	306	349	↓	-43
Number of Employees	15,279	16,402	↓	-1123
Total Assets	\$62,163,568	\$62,467,183	↓	-\$303,615
Total Deposits	\$47,367,447	\$46,229,996	↑	\$1,137,451
Net Loans & Leases	\$33,550,574	\$40,938,373	↓	-\$7,387,799
Net Interest income	\$1,364,790	\$1,539,016	↓	-\$174,226
Total noninterest income	\$577,455	\$498,416	↑	\$79,039
Net Income (Year-to-date)	\$439,893	\$434,581	↑	\$5,312
Total Equity Capital	\$7,505,188	\$6,212,734	↑	\$1,292,454
Kansas Banking Performance Ratios	%	%		%
Unprofitable Institutions	5.56%	12.61%	↓	-7.05%
Institutions with earnings gains	61.11%	51.29%	↑	9.82%
Net Interest Margin	3.18%	3.56%	↓	-0.38%
Return on Assets	0.95%	0.93%	↑	0.02%
Return on Equity	8.00%	9.36%	↓	-1.36%
Net charge-offs to loans	0.33%	0.47%	↓	-0.14%
Efficiency ratio.	67.87%	61.71%	↑	6.16%
Loss allowance to loans	1.80%	1.27%	↑	0.53%
Noncurrent loans to loans	1.96%	1.55%	↑	0.41%
Net loans and leases to deposits	70.83%	88.55%	↓	-17.72%
Equity Capital to assets	12.07%	9.95%	↑	2.12%

Kansas Banking Lending Benchmarks

All Kansas Commercial & Savings Institutions	9/30/2012	9/30/2008		Change from
	\$ in 000's	\$ in 000's		Four Years Ago
Kansas Lending Indicators	Total (Sum)	Total (Sum)		Total (Sum)
Net Loans & Leases	\$33,550,574	\$40,938,373	↓	-\$7,387,799
All real estate loans	\$23,666,876	\$28,217,577	↓	-\$4,550,701
Construction and land development	\$1,479,819	\$5,823,249	↓	-\$4,343,430
Commercial real estate	\$6,605,900	\$7,263,805	↓	-\$657,905
1-4 family residential	\$12,133,517	\$12,033,285	↑	\$100,232
Farm loans	\$2,780,126	\$2,842,241	↓	-\$62,115
Commercial & industrial loans	\$5,199,457	\$6,811,463	↓	-\$1,612,006
Loans to individuals	\$1,696,004	\$2,555,124	↓	-\$859,120

Source: FDIC Statistics on Depository Institutions

Banking Benchmarks

All Commercial & Savings Institutions	9/30/2012	9/30/2008	Change from	
	\$ in 000's	\$ in 000's	Four Years Ago	
Banking Indicators	Total (Sum)	Total (Sum)	Total (Sum)	
Number of Institutions	7,181	8,384	↓	-1203
Number of Employees	2,105,833	2,170,931	↓	-65098
Total Assets	\$14,222,940,859	\$13,572,526,625	↑	\$650,414,234
Total Deposits	\$10,504,235,135	\$8,727,752,582	↑	\$1,776,482,553
Net Loans & Leases	\$7,410,640,093	\$7,833,295,406	↓	-\$422,655,313
Net Interest income	\$317,893,187	\$279,065,149	↑	\$38,828,038
Total noninterest income	\$185,866,434	\$175,549,285	↑	\$10,317,149
Net Income (Year-to-date)	\$106,853,109	\$31,683,275	↑	\$75,169,834
Total Equity Capital	\$1,637,737,193	\$1,306,240,208	↑	\$331,496,985
Banking Performance Ratios	%	%	%	
Unprofitable Institutions	10.68%	21.34%	↓	-10.66%
Institutions with earnings gains	66.15%	40.54%	↑	25.61%
Net Interest Margin	3.46%	3.33%	↑	0.13%
Return on Assets	1.02%	0.32%	↑	0.70%
Return on Equity	9.02%	3.26%	↑	5.76%
Net charge-offs to loans	1.15%	1.18%	↓	-0.03%
Efficiency ratio.	61.16%	57.68%	↑	3.48%
Loss allowance to loans	2.20%	1.96%	↑	0.24%
Noncurrent loans to loans	3.85%	2.35%	↑	1.50%
Net loans and leases to deposits	70.55%	89.75%	↓	-19.20%
Equity Capital to assets	11.39%	9.62%	↑	1.77%

Banking Lending Benchmarks

All Commercial & Savings Institutions	9/30/2012	9/30/2008	Change from	
	\$ in 000's	\$ in 000's	Four Years Ago	
Lending Indicators	Total (Sum)	Total (Sum)	Total (Sum)	
Net Loans & Leases	\$7,410,640,093	\$7,833,295,406	↓	-\$422,655,313
All real estate loans	\$4,087,406,549	\$4,750,342,763	↓	-\$662,936,214
Construction and land development	\$210,431,208	\$614,684,305	↓	-\$404,253,097
Commercial real estate	\$1,057,993,741	\$1,043,670,123	↑	\$14,323,618
1-4 family residential	\$2,457,194,947	\$2,754,761,058	↓	-\$297,566,111
Farm loans	\$65,448,095	\$59,501,052	↑	\$5,947,043
Commercial & industrial loans	\$1,454,912,835	\$1,502,718,706	↓	-\$47,805,871
Loans to individuals	\$1,295,123,663	\$1,082,713,569	↑	\$212,410,094