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Michelle W. Bowman, Bank Commissioner

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TO: Senate Financial Institutions and Insurance Committee

FROM: Brock Roehler
Staff Attorney, Office of the State Bank Commissioner

DATE: January 30, 2018

RE: SB 335

The Office of the State Bank Commissioner (OSBC) appreciates the opportunity to submit testimony in support of SB 335 to amend the Kansas Banking Code to facilitate the state chartering of savings and loan associations.

The OSBC welcomed the opportunity to work with the Kansas Bankers Association (KBA) in the development of this bill. Currently, no savings and loan associations are chartered by the Office of the State Bank Commissioner; the nine savings and loan associations that are located in Kansas hold a federal charter issued by the Office of the Comptroller of the Currency (OCC). Updating the Banking Code would make a state charter a viable option for some savings and loan associations and may result in some institutions choosing to convert to a state charter.

SB 335 makes changes to the Banking Code to allow a savings and loan association to become state-chartered and still maintain its existing ownership structure, whether it be mutual or stock ownership. There are currently no state-chartered banks with a mutual form of ownership; however, a mutual ownership structure would not impose a significant risk to the safety and soundness of a state-chartered bank.

The OSBC supports the KBA's proposal to repeal the existing Savings and Loan Code and incorporate state-chartered savings and loan associations under the Kansas Banking Code. We believe there would be significant regulatory efficiencies by enforcing the same statutes for traditional banks and savings and loan associations. In addition, by only incorporating the differences of the entities as required by federal law, applying the entire Banking Code to both savings and loan associations and traditional banks ensures a level playing field of state law for all state-chartered banks or savings and loan associations.

The OSBC supports adjusting K.S.A. 9-1101(a)(4)(B) to reflect the language as it existed prior to the 2015 recodification. Amending this statute will permit banks to invest in municipal securities, up to 15% of the bank's capital and surplus, before considering if the indebtedness of the municipality or quasi-municipality exceeds 10% of its market value or if the governmental entity has defaulted on any payment of principal or interest within the last 10 years. Our agency agrees the previous statute

worked well, and would not cause any significant safety and soundness concerns with changing this statute as it existed prior to the recodification.

Finally, the bill would permit a bank to accept a certificate of existence and authority from a person who has authority to act on behalf of an entity. In addition, the bill includes a hold harmless provision for the bank unless it is later proven that the bank had knowledge that the certificate was inaccurate. The OSBC would anticipate reviewing certificates accepted by a bank as part of the agency's examination of the institution.

The OSBC appreciates the opportunity to share the agency's support for SB 335. We thank the committee for its consideration of the bill.