



Written Testimony of:

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before the

Senate Committee on Financial Institutions and Insurance

of the

Providing Equal Opportunity to Credit for Kansas

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INTRODUCTION:

Mr. Chairman and members of the Committee, Thank You, for holding this important hearing regarding equal credit costs for all Kansans. I am Shan Hanes, President/CEO of Heartland Tri-State Bank of Elkhart, Kansas. Thank you for the opportunity to testify today in support of SB 259. **Our bank's motto is: "Locally Owned and Community Focused"**. While we are proud of that motto and strive to live it every day, I doubt that motto is much different than many other community banks across the state.

Just for clarification, Elkhart is in the far Southwest corner of Kansas. Our bank has a total of four locations with the largest being Elkhart, KS and total population of 2,205 ranging down to Arlington, KS with a total population of 433 people.

We are a \$125MM dollar bank which by banking standards is very small, but in Kansas is the median bank size. My goal today is for this committee to understand the importance of the community bank in rural Kansas and how you can assist in preserving this vital component to all of Kansas, especially rural Kansas.

I'd like to share the story of my bank and how the current owners were allowed the opportunity to save the bank and invest in their community. Our bank was a small bank in a larger Bank Holding Company which owned a number of banks in Southwest Kansas. In 2011, during the financial crisis, the bank in Elkhart was offered for sale.

We were given the opportunity to put a group of investors together local investors together. We desired a “Community Bank” owned by members of the community to serve our community. We set both minimum and maximum limits of stock ownership. Our shareholders include farmers, teachers, ranchers, individuals who work for gas companies, retired individuals, and even just bankers who had worked for the bank for many years.

I’m confident that they all expect a return on their investment as some cashed in CD’s to purchase shares and some moved retirement savings into bank shares. I can also say without hesitation that some were motivated to keep the bank locally owned.

A year ago, I approached the shareholders with an opportunity to acquire two additional banks in rural communities in which that bank was the only financial institution in town. The desire to grow our bank as well as keep a bank in rural communities motivated us to purchase the banks. In addition to expansion, we were able to keep banks in rural communities and employees in the community. During one my visits to the new branches, an older gentleman offered me this advice: **For any rural community to stay alive, they must have a grocery store, a school, and a bank. He thanked us for buying the bank to keep their town alive.** After he completed his business and left, I told the story to the branch manager. She informed me that he wasn’t a customer of the bank before the acquisition took place. But, felt if there was someone willing to keep the bank open, he needed to support that bank.

In addition to keeping banks in rural communities, we have increased employment as well. When we purchased the bank from the Holding Company, there were 16 employees. As of today, we have 28 employees across four locations. An additional 12 full-time jobs in rural Kansas is important to those communities.

I told my story to explain why this bill is vitally important to my bank and all small community banks across Kansas. 100% of our loans are to local residents in the individual communities in which we have branches. Our depositors range from local patrons of the community to elderly individuals who rely on CD interest income to provide daily living expenses. While we do have one bank who is a competitor, our primary competition is from Farm Credit and a number of credit unions. **I’d like to stress that neither have a branch building directly in any of the communities we serve.** So, when the school calls needing a scoreboard or

money to fund a field trip, they call the local bank. We buy out the local Homecoming game and provide financing for the local swimming pool and hospital project. When they need starting cash for the rodeo, we provide that cash and then if necessary, open the vault late Friday night because they didn't get enough.

I shared those stories to tell this: **When those same individuals decide to upgrade their car or finance their farm operation, they are free to go to the least-cost provider.** Banking, as every other business, has changed significantly. With the use of technology, a customer can go online and know instantly their lowest cost of interest for that car loan. A person looking to place a CD can do a quick internet search and find the highest interest rate—regardless of location, safety, and FDIC insurance. While this is frustrating to the local bank, this is reality. While we would like to think consumers would pay ¼ of a point more on a car loan to the local bank who purchased their kid's animal at the 4-H sale, many only look at the rate and the monthly payment. While we are confident, we offer a safe and sound bank for depositors to place their money, the customer looks at the highest CD offering and doesn't know or care if there is FDIC insurance backing up that deposit.

While I'm not here to complain about competition or technology, I feel it's vitally important to paint a realistic picture of banking in even the most rural and remote areas of Kansas.

DISCUSSION:

I'd like to outline three reasons why SB 259 should be seriously considered by this chamber.

First, I'd like to address the financial impact to consumers and businesses by allowing some financial providers to have an unfair tax advantage over other community banks. I acknowledge that the Kansas Privilege Tax isn't as large as the Federal Tax rate. That discussion is progressing at the Federal level as this discussion takes place in the State House today. However, let's put some actual numbers to the impact of the Kansas Privilege Tax. I'd like you to consider two diverse bank customers—a consumer purchasing a new vehicle and a local farm operation. First, an individual consumer purchasing a new vehicle with lending options from the local bank and a credit union. According to LendingTree.com,

the average car purchase amount has been \$34,000, average loan size of \$23,500, and average length of 67 months in 2019. Let's consider a standard interest rate of 6%. The credit union can offer a rate over ¼ of a point lower than the bank and provide the same return to the institution—just due to the Kansas Privilege Tax. When comparing two rates, the decision is obvious to the borrower. For used cars and borrower with less than prime credit, the average rate is closer to 10%. In this case, the rate difference which can be offered by a credit union over a bank and maintain the same return is a whopping .44% or almost ½ of 1%. **How many of you would pay an additional half percent just to do business with the local bank?**

Now let's consider a farm customer deciding to do business with the local bank vs a credit union or Farm Credit. Both enjoy the same tax advantage over the local community bank. The dollar amount of savings is much larger simply due to the much larger average loan balances. The average farm real estate loan for our bank is \$145,500. Let's consider the same 1/4% unfair interest rate advantage that Farm Credit and credit unions enjoy over community banks. That amounts to an average dollar amount savings of over \$7,500 over the life of that loan. **Thus, customers loyal to the local, community bank pay an additional \$7,500 per mortgage just to borrow the same money. That simply is not fair.**

My second point considers the view of a bank shareholder. The reason that Kansas has maintained a large number of community banks is due to the investment made by local residents to maintain a community bank. Our particular bank may be somewhat unique, but one for which I'm proud to work. If the school needs something, we have a teacher/shareholder who will volunteer the bank. If a church needs a donation to send the kids to Bible Camp, we have a church member/shareholder volunteering the bank. If the summer Rec team needs a sponsor to buy their gear, we have a parent coach/shareholder volunteering the bank. I could go on, but I think you get the point. Again, no engagement from a credit union or the national Farm Credit Administration.

I am quite proud of our bank structure and varied ownership; however, without changes made at both the Federal and State level, I fear this structure will not be sustainable. I would hope as a State Legislator, you would do everything possible to promote Kansans investing in Kansas. Whether that is our youth staying in Kansas to start their careers or business investment in rural communities. The passage of this bill will promote just that. Local investors willing to invest in

their home town bank to keep the bank open and locally owned, to create jobs in their community, and to insure the financial and economic prosperity of that community is in place with a local bank. You've already heard how bank numbers have decreased at an alarming rate. **At least allow us to provide the same opportunity for a fair return that other institutions can provide. At the very least, don't continue to dis-advantage community banks who continue to be the primary economic driver in most local communities.**

My last point is simple, but the most important. In many of your businesses as in ours, competition is the greatest motivator. Whether that competition requires you to stay open longer hours, provide additional products, or lower the cost of your product, competition requires innovation. **Simply by leveling the playing field, rates across the board will be adjusted.** If banks and credit unions would at least have the same cost structure, consider the real winners—**Kansans.**

By removing the unfair taxation burden on banks, banks would be able to offer more competitive terms. Whether you are a loan customer and wanting lower rates or you are a deposit customer hoping for higher rates, the result will be to your benefit. As banks are able to compete more fairly, all others will be forced to become more competitive as well. The end result, better rates for ALL financial customers—bank customers and credit union members. **The real winners would be Kansas residents!!!**

I have been asked how can we assure banks would pass the tax savings to customers. While that's a great question, why is that question just being asked now? Why hasn't that question been asked of Credit Unions and Farm Credit since inception? Are they passing their combined tax saving difference between the Federal rate and the State rate of over 25% on to all customers? The answer is simple: Competition. They are not obligated to pass the savings on because they have limited competition from banks and can just offer a rate a little lower than the bank to acquire the loan. They don't have competition to offer the lowest rate possible. **They are opposing this bill simply because they don't want to compete on the same tax structure yet they do want to compete for the same loan customers.** But, by passing this bill to allow banks the same tax structure, competition will assure all lending institutions—Banks, Credit Unions, and Farm Credit offer the most competitive rate to customers. This is something that cannot be regulated—simply let the democratic process work and competition will bring the lowest achievable price to Kansas borrowers.

CONCLUSION:

The passage of SB 259 is critical to the accomplishment of three objectives:

1. Sustain and revitalize rural Kansas communities
2. Benefits all main street and agricultural borrowers with competitive interest rates
3. Maintain access to local credit across the entire state

Please ask yourself: **Why are Credit Unions arguing against this Bill?**

This bill does not affect them in any way nor does not harm them nor negatively affect their members. Yes, this bill would help bank customers and bank shareholders. And, within a matter of time, all customers of both banks and credit unions. **I struggle to see how credit unions can publicly come out against the bill without being self-serving.** You came to Topeka to serve Kansas residents and specifically those from your district. This bill offers just that—to better serve Kansans by lowering loan rates and raising deposit rates across the board.

Also, remember this is a targeted and narrow focus. Our request for a fair and level tax field is limited to business loans and Residential RE loans in communities with less than 2,500 people. The opponents are arguing that we are asking for a complete tax overhaul—simply not true. They will still enjoy a sizeable tax advantage over banks. Please don't be lured into the belief that this will fundamentally change their operation. What it will do will help customers who choose to obtain their financial services from banks an opportunity to lower their borrowing costs on two distinct types of loans. It will help banks who operate in those markets better serve their customers and be more competitive. Lastly, it might encourage other banks to stay in a small rural community or be willing to make an acquisition of a bank in a small rural community. This bill is about sustaining rural Kansas from both a customer standpoint and business standpoint.

Banks across Kansas are proud of the work we do every day to support our communities and serve our customers. **However, we present an important ASK of you today by supporting SB 259.** Our goal is to provide all Kansans with a leveled interest rate environment. You have the opportunity to aide all Kansas residents. I respect your service and very much appreciate the time you have dedicated to this topic and hearing today. I will now stand for any questions you might have.