Kansas Bankers Association

Proposed Elements to Kansas' COVID-19 Economic Recovery Bill

In response to the numerous requests for solutions to address the economic impact caused by COVID-19, this bill will bring low-cost loans to businesses, including farmers and ranchers, financially affected by the COVID-19 pandemic.

Enhancing Credit Opportunities for Rural Kansas

1. Starting in 2022, it establishes a targeted exemption that will lower interest rates for Kansans seeking agricultural real estate loans from banks and savings & loans operating in Kansas.

2. It will also create an incentive for rural housing development across Kansas in communities with populations of 2,500 or less.

3. It will expand the geographic field of membership for state-chartered credit unions to include up to 2.5 million people. Current state law limits them to including up to 1 million.

Economic Recovery Loan Program

1. The bill allows the state to partner with lenders by authorizing The Economic Recovery Linked Deposit Program administered by the Office of the Kansas State Treasurer.

a. The State Treasurer would be authorized to use dedicated state idle funds to deposit in participating financial institutions which would then provide low interest loans to Kansas businesses.

b. This Program is designed to be very similar to the existing agricultural linked deposit program.

c. The existing linked deposit program for housing would be suspended thereby freeing up $60 million in state idle funds for this program.

d. Participating financial institution would be responsible for the underwriting of each loan.

e. The term of each Certificate of Deposit (CD) made by the Office of the State Treasurer to participating financial institutions would be a one-year term renewable annually up to ten years.

f. The recommended interest rate for financial institutions receiving linked deposits would be a floating rate 2% below market with a floor of 0.25%.

g. The interest rate spread for participating institutions would be capped at 3%.

h. These loans can be authorized for a length up to 10 years.

i. Each individual loan limit would be up to $250,000.

j. An annual report would be provided to the legislature by the Treasurer to evaluate the effectiveness of the program.

Date: May 19, 2020

To: House Committee on Financial Institutions and Pensions

From: Doug Wareham, President & CEO
Kansas Bankers Association

Re: Support for Senate Substitute for HB 2619
Enhancing Credit Opportunities for Rural Kansas and the creation of the Economic Recovery Linked Deposit Loan Program

Dear Chairman Kelly and Members of the Committee:

I am Doug Wareham appearing on behalf of the Kansas Bankers Association (KBA), which was organized in 1887 and whose membership includes 99% of the 220 banks and savings & loans headquartered in Kansas. Our membership also includes 19 out-of-state commercial banks operating in Kansas. The Kansas banking industry employs more than 14,700 Kansans that provide financial services across the state. Our organizational mission statement is:

"Together we support our member banks and bankers with leadership, advocacy and education to benefit the communities and customers they serve."

In response to the negative economic impact caused by COVID-19, we respectfully request that the Kansas legislature consider Senate Substitute for HB 2619 which provides low-cost credit to ag producers and creates an economic recovery linked deposit loan program for small businesses, including farmers and ranchers, financially affected by the pandemic.

Before I get into the details of the language before you today, I would like to review what we have been hearing from our KBA-member banks and the challenges they see on the horizon for their customers and communities they serve.

- Kansas currently ranks 6th nationally in new Chapter 12 farm bankruptcies with filings increasing nationally 23% from the previous year-to-year data provided by American Farm Bureau. This marks the 5th consecutive year of increased farm bankruptcy filings.

- We have been communicating regularly with bank CEOs from across Kansas and have heard that the range of ag producers with negative cash flows now will range from 15% to 40%.

- While the Paycheck Protection Program has served its purpose of providing short-term financial aid to many small businesses in Kansas, it does not address the long-term financial needs of business borrowers. PPP was also not conducive for the majority of many ag producers.

- Commercial real estate values have become volatile with many small businesses shuttered and the expected number of small businesses that will simply not reopen growing.

- According to a recent call I was able to participate on with the Federal Reserve Bank of Kansas City:

    - Working capital in agriculture was down 13% in March of 2020 – Pre-COVID – 19;
    - Meat processing plants are still only operating at 60% capacity;
    - Ethanol production has dropped by 50%;
    - Corn prices have dropped 30%;
    - China is not on target to hit their projected purchase levels on trade;
    - Concerns that farmland values will begin softening this fall.
    - Oil & Gas industry layoffs in the range of 30%-50%;
    - Fracking businesses is down 90%;
    - Hospitality industry recovery could take as long as 3-5 years;
    - Last week's job numbers showing 15% unemployment is likely understated.

I do not share these numbers to be an alarmist, I share them because they are a reality and it will take significant time for our agricultural and businesses sectors to recover from this crisis. On May 12th, Federal Reserve Board Chairman Jay Powell was quoted, "There is a sense, growing sense I think, that the recovery may come more slowly than we would like." Chairman Powell also stated, "The loss of thousands of small and medium-sized businesses across the country would destroy the life's work and family legacy of many business and community leaders and limit the strength of the recovery when it comes. These businesses are a principal source of job creation—something we will sorely need as people seek to return to work. A prolonged recession and weak recovery could also discourage business investment and expansion, further limiting the resurgence of jobs as well as the growth of capital stock and the pace of technological advancement. The result could be an extended period of low productivity growth and stagnant incomes."

This pandemic is not short term and it will have lasting effects on our economy, our local communities and our way of life. The saying that "we're all in this together" is so true and we will need to do everything we possibly can to help our fellow Kansans get through these unprecedented times. We do not believe this proposal will solve all the problems, but it will be a significant step in the right direction.

This economic recovery proposal includes the following:

<u>Enhancing Credit Opportunities for Rural Kansas</u>

- Establishes a targeted tax exemption that will lower interest rates by 0.25% for Kansans seeking agricultural real estate loans from banks and savings & loans operating in Kansas.

- Creates an incentive for rural housing development across Kansas in communities with populations of 2,500 or less.

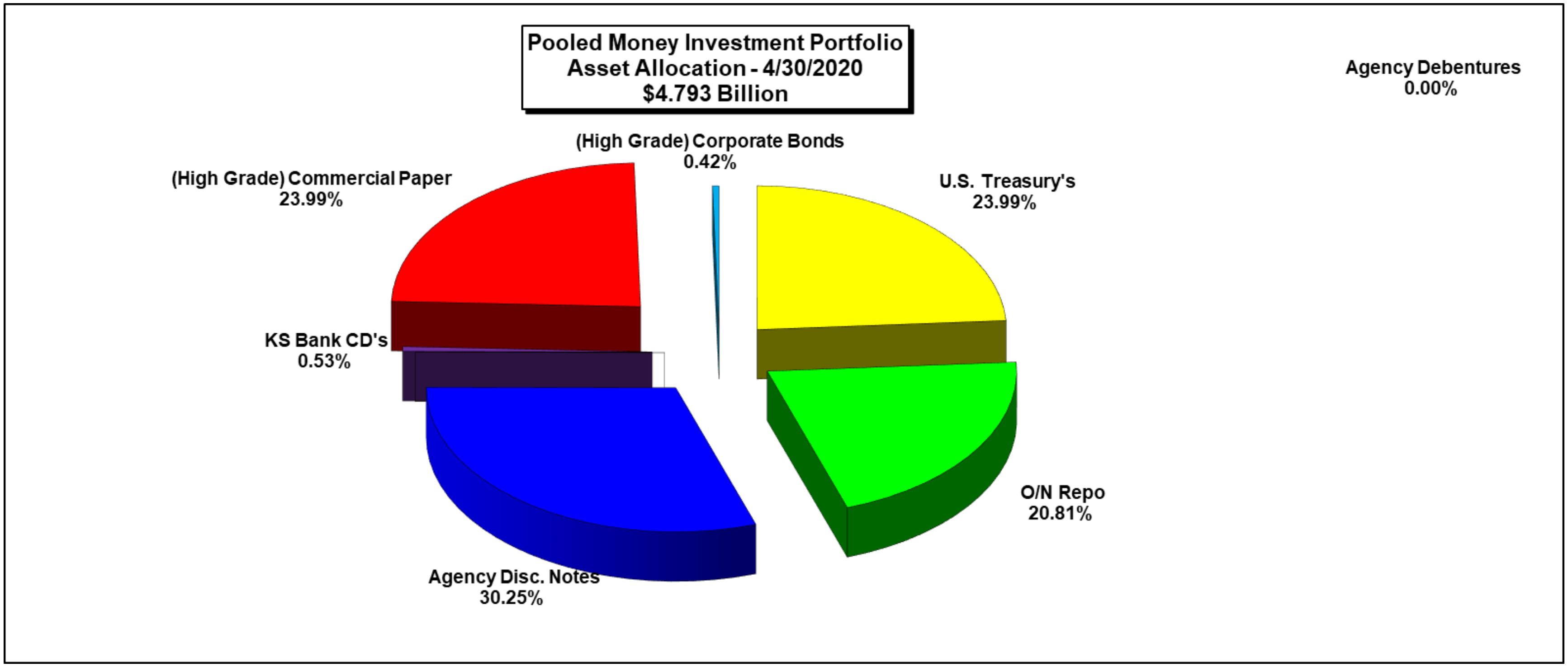
- Expands the geographic field of membership for state-chartered credit unions to include up to 2.5 million people, increased from current law that allows 1 million, which will promote more interest rate competition for borrowers.

Economic Recovery Linked Deposit Loan Program

- Creates a new Linked Deposit Loan Program through the Kansas State Treasurer's Office that will allow the state to partner with banks, credit unions and farm credit to use dedicated state idle funds to deposit in participating financial institutions which would then provide low interest loans to Kansas businesses.
    - The existing linked deposit program for housing that is not currently being utilized could be suspended thereby freeing up $60 million in previously authorized state idle funds for this program.
    - Loans can be authorized for a length up to 10 years with a maximum individual loan limit of $250,000.
    - Participating financial institutions would be responsible for the underwriting of each loan and the state would be repaid on those deposits at a floating rate of 2% below market rate with a floor of 0.25%.
    - The interest rate spread for participating institutions would be capped at 3%.

Creating a new Economic Recovery Linked Deposit Loan Program will promote business growth, stimulate job creation, and serve as an incentive for banks to extend credit to small business borrowers. Surrounding states, such as Missouri, Oklahoma and Iowa, have similar programs that are currently infusing hundreds of millions of working capital dollars into businesses in their respective states. Two weeks ago, the Missouri State Legislature adopted legislation increasing the utilization of state idle funds for their Missouri First Linked Deposit Loan program by $80 million. That increase will be in addition to the current $720 million in state idle funds available for Missouri banks to bolster their state's investment in business growth. Oklahoma's linked deposit program currently has $225 million available and Iowa has $108 million available. Kansas has had success with other linked deposit loan programs, and we believe now is the time for Kansas to invest in our state's economic recovery by assisting the business sector.

Both proposals will provide long term solutions to our ag and business community. Our farmers and ranchers and small business owners will need every tool possible to get through this crisis and Kansas lawmakers can and should have a role in providing those tools. We respectfully request when the legislature decides to act on COVID – 19 related economic relief that they recognize the importance and benefits that Senate Substitute for HB 2619 will have on our fellow Kansans for the long term.



Asset Allocation as of: 04/30/2020

$4.793 Billion (Par Value)

O/N Repo: 20.81%
U.S. Treasury Bills: 23.99%
Agency Discount Notes: 30.25%
Agency Debentures: 0.00%
Kansas Bank CDs: 0.53%
High Grade Commercial Paper: 23.99%
High Grade Corporate Bonds: 0.42%

For release on delivery
9:00 a.m. EDT
May 13, 2020

Current Economic Issues

Remarks by

Jerome H. Powell

Chair

Board of Governors of the Federal Reserve System

at

Peterson Institute for International Economics

Washington, D.C.

May 13, 2020

The coronavirus has left a devastating human and economic toll in its wake as it has spread around the globe. This is a worldwide public health crisis, and health-care workers have been the first responders, showing courage and determination and earning our lasting gratitude. So have the legions of other essential workers who put themselves at risk every day on our behalf.

As a nation, we have temporarily withdrawn from many kinds of economic and social activity to help slow the spread of the virus. Some sectors of the economy have been effectively closed since mid-March. People have put their lives and livelihoods on hold, making enormous sacrifices to protect not just their own health and that of their loved ones, but also their neighbors and the broader community. While we are all affected, the burden has fallen most heavily on those least able to bear it.

The scope and speed of this downturn are without modern precedent, significantly worse than any recession since World War II. We are seeing a severe decline in economic activity and in employment, and already the job gains of the past decade have been erased. Since the pandemic arrived in force just two months ago, more than 20 million people have lost their jobs. A Fed survey being released tomorrow reflects findings similar to many others: Among people who were working in February, almost 40 percent of those in households making less than $40,000 a year had lost a job in March.[1] This reversal of economic fortune has caused a level of pain that is hard to capture in words, as lives are upended amid great uncertainty about the future.

[1] Board of Governors, 2019. Also see the Federal Reserve's Survey of Household Economics and Decisionmaking (forthcoming) and its *Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020* (forthcoming).

This downturn is different from those that came before it. Earlier in the post–World War II period, recessions were sometimes linked to a cycle of high inflation followed by Fed tightening.[2] The lower inflation levels of recent decades have brought a series of long expansions, often accompanied by the buildup of imbalances over time—asset prices that reached unsupportable levels, for instance, or important sectors of the economy, such as housing, that boomed unsustainably. The current downturn is unique in that it is attributable to the virus and the steps taken to limit its fallout. This time, high inflation was not a problem. There was no economy-threatening bubble to pop and no unsustainable boom to bust. The virus is the cause, not the usual suspects—something worth keeping in mind as we respond.

Today I will briefly discuss the measures taken so far to offset the economic effects of the virus, and the path ahead. Governments around the world have responded quickly with measures to support workers who have lost income and businesses that have either closed or seen a sharp drop in activity. The response here in the United States has been particularly swift and forceful.

To date, Congress has provided roughly $2.9 trillion in fiscal support for households, businesses, health-care providers, and state and local governments—about 14 percent of gross domestic product. While the coronavirus economic shock appears to be the largest on record, the fiscal response has also been the fastest and largest response for any postwar downturn.

At the Fed, we have also acted with unprecedented speed and force. After rapidly cutting the federal funds rate to close to zero, we took a wide array of additional

[2] Romer and Romer, 1989.

measures to facilitate the flow of credit in the economy, which can be grouped into four areas. First, outright purchases of Treasuries and agency mortgage-backed securities to restore functionality in these critical markets. Second, liquidity and funding measures, including discount window measures, expanded swap lines with foreign central banks, and several facilities with Treasury backing to support smooth functioning in money markets. Third, with additional backing from the Treasury, facilities to more directly support the flow of credit to households, businesses, and state and local governments. And fourth, temporary regulatory adjustments to encourage and allow banks to expand their balance sheets to support their household and business customers.

The Fed takes actions such as these only in extraordinary circumstances, like those we face today. For example, our authority to extend credit directly to private nonfinancial businesses and state and local governments exists only in "unusual and exigent circumstances" and with the consent of the Secretary of the Treasury. When this crisis is behind us, we will put these emergency tools away.

While the economic response has been both timely and appropriately large, it may not be the final chapter, given that the path ahead is both highly uncertain and subject to significant downside risks. Economic forecasts are uncertain in the best of times, and today the virus raises a new set of questions: How quickly and sustainably will it be brought under control? Can new outbreaks be avoided as social-distancing measures lapse? How long will it take for confidence to return and normal spending to resume? And what will be the scope and timing of new therapies, testing, or a vaccine? The answers to these questions will go a long way toward setting the timing and pace of the economic recovery. Since the answers are currently unknowable, policies will need to be ready to address a range of possible outcomes.

The overall policy response to date has provided a measure of relief and stability, and will provide some support to the recovery when it comes. But the coronavirus crisis raises longer-term concerns as well. The record shows that deeper and longer recessions can leave behind lasting damage to the productive capacity of the economy.[3] Avoidable household and business insolvencies can weigh on growth for years to come. Long stretches of unemployment can damage or end workers' careers as their skills lose value and professional networks dry up, and leave families in greater debt.[4] The loss of thousands of small- and medium-sized businesses across the country would destroy the life's work and family legacy of many business and community leaders and limit the strength of the recovery when it comes. These businesses are a principal source of job creation—something we will sorely need as people seek to return to work. A prolonged recession and weak recovery could also discourage business investment and expansion, further limiting the resurgence of jobs as well as the growth of capital stock and the pace of technological advancement. The result could be an extended period of low productivity growth and stagnant incomes.

We ought to do what we can to avoid these outcomes, and that may require additional policy measures. At the Fed, we will continue to use our tools to their fullest until the crisis has passed and the economic recovery is well under way. Recall that the Fed has lending powers, not spending powers. A loan from a Fed facility can provide a

[3] For example, see Reifschneider, Wascher, and Wilcox, 2015; Blanchard and Summers, 1987; and Martin, Munyan, and Wilson, 2014, 2015.
[4] Davis and Von Wachter, 2011.

bridge across temporary interruptions to liquidity, and those loans will help many borrowers get through the current crisis. But the recovery may take some time to gather momentum, and the passage of time can turn liquidity problems into solvency problems. Additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery. This tradeoff is one for our elected representatives, who wield powers of taxation and spending.

Thank you. I look forward to our discussion.

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Date: May 15, 2020

To: Senate Committee on Financial Institutions and Insurance

From: Leonard Wolfe, President/Chairman of the Board

United Bank & Trust, Marysville, Kansas

Re: Support for Enhancing Credit Opportunities for Rural Kansas and the creation of the Economic Recovery Linked Deposit Loan Program

Dear Chairman Olson and Members of the Committee:

My name is Leonard Wolfe appearing on behalf of United Bank & Trust and the Kansas Bankers Association. Our bank is based in Marysville, Kansas with 14 branches. We have one branch in Manhattan, but the other 13 branches are located in communities ranging from 200 residents to 5,000. Our bank currently has $485 million in loans - primarily agriculture and small business loans, so we are heavily invested in our communities in rural Kansas.

I'm not an alarmist, but the current health crisis we are all dealing with has turned into a financial crisis. At United Bank & Trust we have several thousand loans, and I could pick any one of them and make a case where the borrower will not be able to repay us. The programs that are on the table for consideration today are tools that we can use to help keep our businesses open and farms operating, not to mention the people who work for them. Every business in rural Kansas is tied directly or indirectly to agriculture.

I support Enhancing Credit Opportunities for Rural Kansas because Kansas farmers and ranchers are going to need our help for their operations to survive. I realize we are talking about a program that will reduce the interest cost to farmers of about one-quarter of one percent, but it's a start and you would be doing your part. I could give you 100 or perhaps 1,000 examples but here is one for you. We have a young farm family (husband and wife both 35 years old with 4 children) who bought the farm that has been in the family for three generations, but now have $1.23 million in debt on the farm real estate. The $3,075.00 annual interest savings is certainly a start, and when you look at it over the life of the 20 year loan it amounts to a significant amount. There is a similar bill that has been introduced in the US Senate and House of Representatives (by Kansas Congressional Delegation members I might add) that would save that same borrower another $12,000 or more every year. We are in this together with our customers and we are going to have to use everything available, as we project that 20% or more of our farm customers will not cash flow in 2020.

The other program that you are considering today is the Economic Recovery Linked Deposit Loan Program. There is a similar program with limited resources already in place that our bank has participated in since its inception or shortly thereafter. Through this program we plan to provide below market rate loans to small businesses in our communities, in addition to farmers and ranchers. For example, we have a hotel customer in one of our small towns that has a current loan of $184,000.00. We can use the deposit linked program to reduce their interest rate by 2% from the rate they are currently paying, and save them $3,680.00 next year (more than $300 per month). That could be the difference between the hotel remaining open, and continuing to employ the 3 employees they have or closing the hotel. We recently helped them through the Payroll Protection Program, but are looking for more tools to help them continue in business. We do not want to own hotels or restaurants, so programs like this are essential to small businesses.

At the peak there were 1,400 banks in Kansas but today there are just over 200, and our industry will require many things to be able to continue providing credit to rural Kansans. The Enhancing Credit Opportunities for Rural Kansas and the Economic Recovery Linked Deposit Loan Program could potentially save small businesses, farmers and ranchers more than $20 million annually in interest costs collectively. In the CARES ACT Payroll Protection Program community banks in Kansas provided help to our customers of more than $5 Billion, ensuring the jobs at virtually every qualifying small businesses and farms in Kansas for the short term. Please provide us these tools to continue to help them for the long run, because I don't think this is going to be a short-term challenge for our customers.

Respectfully submitted,

Leonard Wolfe