



Chairman Jim Kelly  
House Committee on Financial Institutions  
and Rural Development  
Kansas State Capitol  
300 SW 10<sup>th</sup> Ave.  
Topeka, KS 66612

RE: Testimony in **SUPPORT** of HB 2398

Chairman Kelly and members of the Committee:

Thank you for holding this important hearing regarding HB 2398 and for allowing me to testify today in support of HB 2398. This Bill authorizes the chartering of a “technology enabled fiduciary financial institution” or “TEFFI”. While the Bill would provide a number of incredibly significant benefits to the State of Kansas, one important aspect of a TEFFI that I would like to highlight is the complementary and supportive, and not competitive, role it plays relative to existing Kansas banks and trusts.

Fundamentally, a TEFFI is not a depository institution and it does not provide traditional banking services. Rather, a TEFFI provides specialized fiduciary financing collateralized by alternative assets to customers located primarily in seven major wealth city centers outside of Kansas. As those customers custody those assets at Kansas-domiciled trusts administered by the TEFFI, cash deposits attributable to those assets would be held at community banks throughout Kansas. Those deposits will be meaningful.

There is also an ongoing benefit for Kansas banks through the Economic Growth Contributions that will fuel growth in rural communities. As those contributions are put to work, it will be the local companies – construction firms and other service providers – that will be calling on their community banks to provide additional depository and lending services. These depository and lending services are not services that a TEFFI can provide, and the growth spurred by the provision of these services will have a compounding beneficial economic effect on the broader local community.

A TEFFI is also distinguishable from existing Kansas trust institutions. A TEFFI does not provide typical relationship-driven trust services like ILITs, revocable trusts, gifting trusts, GRATs or general estate administration. Rather, through its national portal, a TEFFI provides its fiduciary financing to clients located outside of Kansas and brings those assets into Kansas. Those services are simply not competitive with, and do not overlap, traditional trust services. Significantly, however, a TEFFI can still provide complementary services to traditional trust banks through sub-custodian relationships should a need for fiduciary financing arise. These complementary services would only support, and would not interfere with, the services provided by existing trust banks. This distinction is reflected, among other things, in the naming of the TEFFI itself. By not using “trust” (or “bank”) in the name, there will be no customer confusion regarding the role played by a TEFFI relative to traditional trust institutions.



Importantly for both traditional banks and traditional trusts, the fiduciary financings provided by a TEFFI is a service that those institutions cannot provide and do not wish to provide. Fiduciary financings are defined by the very limited scope of the underlying collateral, which are alternative assets. Those assets are complex private securities, and are not the type of assets that a traditional bank will underwrite. Fiduciary financings are also non-recourse and are not guaranteed by the borrower. Under Federal regulation, the private nature of these securities and the non-recourse nature of the financing make it very difficult if not impossible for any deposit-taking trust bank to provide the type of fiduciary financings that a TEFFI can provide.

This legislation delivers significant benefits to communities in the State of Kansas, including benefits to local community banks and trust companies, and creates opportunities for Kansas to further position itself as a leader in the financial services industry. I again thank you and the Committee for your time and for providing me with an opportunity to testify in favor of HB 2398.

Sincerely,

A handwritten signature in blue ink, appearing to read 'James G. Silk', written over a light blue horizontal line.

James G. Silk  
Executive Vice President and  
Chief Legal Officer