Approved	February 27, 198	3 6
	Date	

MINUTES OF THESENATE	COMMITTEE ON .	FINANCIAL INSTITUTIONS AND	INSURANCE.
The meeting was called to order by	· · · · · · · · · · · · · · · · · · ·	Sen. Neil H. Arasmith Chairperson	at
9:00 a.m./px/mx on	February 26	, 19 <u>8</u> 6 in room <u>529-S</u>	_ of the Capitol.
All members were present except:			

Committee staff present:

Bill Wolff, Legislative Research Myrta Anderson, Legislative Research Bruce Kinzie, Revisor of Statutes

Senators Burke and Harder - Excused

Conferees appearing before the committee:

Sen. Ross Doyen Murray Lull, Smith County State Bank Mike Heitman, Kansas Banking Department Jim Warren, Kansas Independent Bankers Association

The minutes of February 25 were approved.

The meeting began with the hearing on  $\underline{SB~636}$  dealing with detached auxiliary banking services facilities. Sen. Doyen, one of the authors, briefly testified in support of the bill. (See Attachment I).

Murray Lull, Smith County State Bank, followed with testimony in support of <u>SB 636</u>. (See Attachment II).

The chairman asked how the bill would affect the capital structure of the purchasing bank, and Mr. Lull said that it would not affect it at all. Sen. Werts had a question as to line 103 of the bill regarding the mechanics of the acquisition. Mr. Lull said SB 636 allows things to stay the same when a bank is acquired by another. Sen. Karr wondered if multibanking would be used. Mr. Lull said that it would be possible, but it is not probable that it would be affordable.

Mike Heitman, Kansas Banking Department, testified for the bank commissioner. The department supports <u>HB 2988</u> which is a model of Nebraska legislation and is similar to <u>SB 636</u>. With some minor changes, <u>SB 636</u> would also take care of the need for emergency legislation. The department feels this will have to be done sooner or later as small communities are dying more and more. This type of legislation is important in maintaining a good banking system, but the department would prefer not to have the geographical limitation in <u>SB 636</u>.

Jim Warren, Kansas Independent Bankers Association, testified in opposition to <u>SB 636.</u> because it would authorize statewide branch banking. (See Attachment III).

Brief committee questions followed regarding the difference between multibank holding companies and one bank ownership of several facilities. With this, the hearing on  $\underline{\text{SB }636}$  was concluded, and it was taken under advisement.

Attention was turned to <u>SB 528</u> regarding notice of increase in premiums by insurance companies which had been previously heard. The chairman had copies of language submitted by Larry Magill of the Independent Insurance Agents of Kansas which would call for any cancellations to be made on a pro rata basis and at the old rate to put everyone on equal footing. Committee discussion followed regarding some confusion as to what would happen if the notice were received one day before the renewal date. Staff said that the confusion is a result of referring to the wrong renewal date. Larry Magill informed the committee that there are two changes involved. The first change clarifies that if the exposure goes up, a higher premium can be charged based on the old rate. The second change says that the whole statute does not apply unless there is a late delivery of notice and if the insured is unable to insure with another company at a lower rate.

There being no further time for discussion, the meeting was adjourned.

ON

## FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS (Please print)

DATE	NAME	ADDRESS	REPRESENTING
2-26	Kinda Me Sill	Topeka	Xs. Independent Bankers A.
-	MURRAY LULL	SMITHCENTER	SMUTACO, STATEBANK
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	Michael & Heitman	Auburn	State Banking Dest.
	Gretchy Story	Torker	Ks Div of Budget
t.	Graf Whight	Jopeka	Ke Cudit Union League
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Mr. Chairman and members of the Committee:

Thank you for the opportunity to appear before the committee on the provisions of  $\underline{SB}$  636. While this committee has already addressed the issue of how to handle failed bank situations I strongly believe it is important for you to also address the matter of how to avoid such failures in the first place.  $\underline{SB}$  636 is designed to be at least one part of a solution.

Under the provisions of this bill a Kansas bank would be allowed to acquire another bank in the same county or a contiguous county and convert it to a detached facility with the approval of the appropriate banking regulators. No bank which has been chartered for less than five years in eligible for acquisition under the act. My reason for such a proposal is very simple – it is in the best interests of the farmers, businessmen, and senior citizens of every small town in the state.

There are a significant number of banks in small towns which are currently for sale, but there is no market since no one is very interested in sinking a large amount of capital into a bank in a community where the possibility of making an adequate return simply doesn't exist. However, there may well be a well-capitalized bank in the county-seat town who would be willing to take over the operation of that small-town bank if it could be operated as a branch - thus avoiding the need for a large capital infusion. Under our present laws, those small-town banks run the very real risk of seeing their capital position steadily deteriorate until the bank reaches the point of insolvency and a forced closing occurs thus bringing problems not only for the banker, but for everyone in the community. Even if someone should, at that point, move in and buy the bank and run it as a branch or even a fully-chartered bank they will not have been required to keep all of the loans on the books of the failed bank. As a result, many farmers and businessmen will be faced with establishing a new lender relationship and in today's economic environment that will be very difficult as people in the many Kansas towns where banks have failed in the past two years can tell you.

Why should we allow circumstances to deteriorate to that point? Are not the people of the community better served in the long run if the small-town bank can be purchased before it reaches a point of insolvency? Aren't farmers and businessmen more likely to be able to retain their borrower relationship with the bank under those circumstances? Why should a small-town banker be faced with seeing his life's investment in that community be steadily depleted when there may well be a potential buyer for that bank as a branch facility? It is very difficult to understand  $\frac{5.\,FII}{2/26/86}$  who is well served by the restrictions of our current banking laws.

Attachment I

It is interesting to note that Kansas, Nebraska and Oklahoma had the most bank failures in 1985 with 13 each. In those two neighboring states the banking industries promoted or are promoting legislation which addresses the pre-insolvency issue. In 1985 Nebraska passed an act allowing acquired banks (pre or post-insolvency) to be run as branches. There is every reason to believe that a number of small bank closings will be avoided this year and in future years in that state because of the pre-insolvency provisions of their act. The Oklahoma Bankers Association voted just last week by an overwhelming majority to support legislation which would allow pre-insolvency acquistions to be run as branch offices so long as the acquiring bank is within a 50-mile radius. That is essentially the same as the provisions of <u>SB 636</u>.

This bill is not in any way intended to allow a state-wide "grab" of banks for branching purposes. This is why I have incorporated in the bill the same geographic restrictions as are imposed on bidding banks under the provisions of <u>SB 432</u>. Nor are there any requirements that a banker must sell his bank if he doesn't want to. Eveyone has the choice to decide which course of action they want to take. I see this bill as being an important link in the possible survival of many of our small rural communities and I would hope that those within the banking industry could set aside their personal philosophies about banking structure and approach this problem from the standpoint of what is best for the people of Kansas.

Your positive consideration of <u>SB 636</u> would be greatly appreciated.

February 26, 1986

TESTIMONY IN FAVOR OF SENATE BILL 636

bу

Murray D. Lull
Smith Center, Kansas

S. FII 2/26/86 Attachment IL Rural banking in Kansas may be at the most important juncture in our time relative to the banking presence in small communities.

There are 625 banks in Kansas:

- of these, 245 banks are in communities of 1,000 people or less;
  - of these, 145 are in communities of 500 or less;
    - of these, 8 are in towns of 100 or less (Freeport, with a population of 12, is the smallest community with a bank).

The size of a community is no indication, necessarily, of the size of the bank, nor of the skills of the managers. Some very fine banks, and some exceptional bankers are in our small communities. The services that our small-town banks deliver are essentially the same services that our big-city banking friends deliver.

The problem that is developing, however, is one of evolution involving the makeup of small towns, their continuing losses of population, their residents' rising median age, transportation problems, and the shrinking number of mainstreet businesses.

Add to this shrinking rural scene a heavy pressure, at this time, on these small-towns' banks, because they serve for the most part, agriculture. The losses that some rural banks are taking on their loans to farmers are eroding the capital of these banks, and eating away the satisfaction of the small-town bankers in serving their communities.

There are a number of things to keep in mind about small-bank owner-ship in Kansas:

- Generally the owner is also going to be the manager, in most cases, living in that community.
- 2) The bank requires its own separate capital base, and that capital sets limits on lending and other services, such as trust.
- 3) The bank has its own distinct board of directors, and they

are increasingly difficult to recruit.

- 4) The bank requires its own staffing from top to bottom, and its own accounting system, allowing little chance for improving efficiencies in delivering services to a limited customer base.
- 5) The investment in a small bank is sizeable when compared to the customer base, earnings potential, and risks that come with banking.
- 6) If a bank sells, the new owner must be qualified both managerially and financially, more so in the last several years.
- 7) No prospective bank owner can buy a bank unless the present owner wants to sell. There is no such thing as a hostile takeover in small-town banking.
- 8) Eventually, for reasons of retirement and others, banks in our smaller communities will need to be sold.

The question then is, "who will be the prospective buyer, and will he be the same breed as the seller, willing to live in a small town, and be able to live and, at the same time, service the probably sizeable acquisition debt on a relatively small earnings base?"

Evidence seems clear at this point that there is practically no interest on the part of the major multi-bank organizations to invest in banks in low population areas where, as pointed out above, a lot of Kansas banks are located.

I sense that, for the very reasons that small town populations are dwindling, fewer individual prospects for buying these banks exist. Finding those that would be satisfied with small-town life, and at the same time have the financial resources suitable to bank ownership requirements, is going to be increasingly difficult.

I further sense that there may be a time fast approaching when we will see smaller banks wanting to form alliances to keep banking services

in these small communities through merger/facilities arrangements.

If retaining banking services in these small towns now served by Kansas banks is desirable, new avenues must be developed to allow opportunities to enhance efficiencies in delivering banking services and to encourage small bank alliances.

Senate Bill 636 allows such an avenue.

For example, the First National Bank of Lebanon, Kansas, is a small bank in a town of 440 people. The present owners have an investment of about \$1.2 million in the bank, and this investment constitutes a satisfactory and necessary capital base relative to the asset size of the bank. The owners desire to sell the bank to allow their retirements from an active banking capacity. To buy this bank, the prospective owner needs to come to this town of 440 people with an equity (non-debt) of at least \$300,000 to invest as his "downpayment", and then needs to service a debt of \$900,000 that would complete the purchase amount. The bank's historical earning ability would not indicate that it is capable of servicing this amount of debt in a time span that would meet the requirements of the Federal Reserve Board and a potential correspondent bank lender, and at the same time allow the investor a reasonable return consistent with the amount of his required equity investment.

Three possibilities are available to the present owners of the Lebanon bank: a) a sale of the bank to a purchaser, if one that would be qualified could be found; b) voluntarily close the bank to allow them to obtain their investment, leaving the community without a banking facility; or c) through an alliance arrangement, sell to a neighboring group of bankers that would be willing to buy the bank a neighboring group of bankers that would be mothing on their equity in the hope that, while it would return them nothing on their equity investment, it might afford an opportunity for the community to enjoy a banking facility, and an opportunity for the potential buyers to use a vehicle such as the possibilities offered in Senate Bill 636.

The potential buyers could merge the two banks they would then own, effectively terminating the Lebanon bank charter, but instead of having to remove a banking facility from the town, they could leave the "bank" open in the community, continuing to offer the same services that the community enjoyed without displacing them relative to the banking needs they have.

The synergy in the transaction would bring greater lending benefits to the community, access to additional serves to the Lebanon customers, the assurance to the community that financial services would not be curtailed, and to the investors a chance to maximize efficiencies of accounting, investing, lending, and staffing. Such efficiencies would add to the assurance that, financially, the investors could afford to continue direct banking service to the Lebanon community.

Are there any disadvantages to the community in such as arrangement allowed by Senate Bill 636?

Hopefully not. The present owners still have the opportunity to sell the bank in the most favorable way they can, to whomever they choose, but the vehicle of Senate Bill 636 allows a greater number of interested investors to compete for the acquisition, hence the present owners stand a better chance to realize an optimum sale. The community will still be assured that a facility will remain, because, remember, the Lebanon bank will have to be purchased, at a significant price to the buyers, before any of the elements of Senate Bill 636 could be applied, and the purchasers would not be about to offer the community anything less than the maximum services possible to protect their investment.

It seems clear that the Lebanon community could be the big winner because of the assured continuity of banking service.

And like Lebanon, Kansas, population 440, the more than 200 other small towns that are presently served by banks in their communities may well need this bill more than any other element in question. Will

there be Senate Bill 636 to give these small-town banks and their communities hope, or, in its void, should these communities be dreading the day when they will be without still another business on their Main Streets --- their bank?

The benefits offered in this bill deserve prompt and serious study.

Thank you.

Attachments: Appendix A

Appendix B

Appendix C

Reflections on the data

## APPENDIX A

As examples of appropriateness of Senate Bill 636, and its potentials for aid to small communities, attached are tables describing the banking situations in Smith County, and the counties contiguous to it: Jewell, Osborne, and Phillips.

Please review the pages that follow and ask yourselves the question, "Will there be any buyers of some of these banks, as the times come for them to sell, without Senate Bill 636?"

APPENDIX A

BANKING IN SMITH, JEWELL, PHILLIPS, AND OSBORNE COUNTIES

COUNTY	COUNTY POPULATION	NUMBER OF BANKS	PEOPLE PER BANK	1984 YEAR-END DEPOSITS	1984 YEAR-END CAPITAL	CAPITAL INVESTMENT PER PERSON
JEWELL	5,241	7	749	\$ 59,003,000	\$ 5,373,000	\$1,025
PHILLIPS	7,406	5	1,481	115,348,000	11,608,000	1,567
OSBORNE	5,959	6	993	92,710,000	9,423,000	1,581
SMITH	5,947	5	1,189	101,962,000	9,301,000	1,564
TOTAL	24,553	23	1,068	\$369,023,000	\$35,705,000	1,454
AS A COMPAR	ISON					
SALINE	48,905	7	6,986	351,008,000	32,865,000	672
SHAWNEE	154,916	16	9,682	1,028,918,000	98,822,000	638

Population data is 1980 Census. The population in the four-county area in 1986 is undoubtedly less.

APPENDIX A

BANKING IN SMITH COUNTY				IF SOLD	*
TOWN	BANK	1984 YEAR-END DEPOSITS	1984 YEAR-END CAPITAL	25% EQUITY REQUIRED	BALANCE TO BE FINANCED
SMITH CENTER Population: 2,240	The Smith County State Bank and Trust Company	\$42,115,000	\$3,586,000	\$896,000	\$2,690,000
	First National Bank	33,625,000	3,066,000	766,000	2,300,000
KENSINGTON Population: 681	First National Bank	7,499,000	1,016,000	254,000	762,000
LEBANON Population: 440	First National Bank	12,712,000	1,057,000	264,000	793,000
GAYLORD	Farmers National Bank	6,011,000	576,000	144,000	432,000

<sup>(\*)</sup> Assuming that the capital of each bank is at a normal operating level, and if that bank sold, the acquiring party would be required to furnish equity in the purchase roughly equal to 25% of the purchase price, and could then finance the balance of the purchase. This also assumes that the bank is bought with no premium over book value attached. Repayment requirements of the Federal Reserve Board limit the practical term of financing to a 12 to 14 year period. See appendix B and C for purchase and repayment data.

IF SOLD . . . \*

BANKING	ΤN	JEWELL	COUNTY
DUMINTHA	TIA	ULWLLL	COUNTI

TOWN		BANK	1984 YEAR-END DEPOSITS	1984 YEAR-END CAPITAL	25% EQUITY REQUIRED	BALANCE TO BE FINANCED
MANKATO	1 205	First National Bank	\$11,905,000	\$ 873,000	\$218,000	\$655,000
Population:	1,205	State Exchange Bank	12,091,000	1,293,000	323,000	970,000
ESBON Population:	234	State Bank of Esbon	7,912,000	701,000	175,000	526,000
BURR OAK Population:	366	Burr Oak State Bank	5,122,000	687,000	172,000	515,000
FORMOSO Population:	166	The Formoso Bank	5,216,000	460,000	115,000	345,000
JEWELL Population:	589	Citizens State Bank	10,421,000	718,000	180,000	539,000
RANDALL Population:	154	The Randall Bank	6,336,000	641,000	160,000	481,000

<sup>(\*)</sup> Assuming that the capital of each bank is at a normal operating level, and if that bank sold, the acquiring party would be required to furnish equity in the purchase roughly equal to 25% of the purchase price, and could then finance the balance of the purchase. This also assumes that the bank is bought with no premium over book value attached. Repayment requirements of the Federal Reserve Board limit the practical term of financing to a 12 to 14 year period. See appendix B and C for purchase and repayment data.

APPENDIX A

BANKING IN PHILLIPS COUNTY

TABLE 4

IF SOLD . . . \*

Diministration of					
TOWN	BANK	1984 YEAR-END DEPOSITS	1984 YEAR-END CAPITAL	25% EQUITY REQUIRED	BALANCE TO BE FINANCED
PHILLIPSBURG Population: 3,574	First National Bank	\$75,167,000	\$5,996,000	\$1,499,000	\$4,497,000
AGRA Population: 321	Farmers National Bank	15,786,000	1,521,000	380,000	1,141,000
LOGAN Population: 720	First National Bank	4,666,000	1,470,000	368,000	1,103,000
LONG ISLAND Population: 187	Commercial State Bank	9,473,000	1,279,000	320,000	959,000
STUTTGART Population: 100	Farmers State Bank	10,256,000	1,342,000	336,000	1,007,000

<sup>(\*)</sup> Assuming that the capital of each bank is at a normal operating level, and if that bank sold, the acquiring party would be required to furnish equity in the purchase roughly equal to 25% of the purchase price, and could then finance the balance of the purchase. This also assumes that the bank is bought with no premium over book value attached. Repayment requirements of the Federal Reserve Board limit the practical term of financing to a 12 to 14 year period. See appendix B and C for purchase and repayment data.

APPENDIX A

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BANKING IN C	SBORNE COU	INTY			1r 30LD	•
TOWN		BANK	1984 YEAR-END DEPOSITS	1984 YEAR-END CAPITAL	25% EQUITY REQUIRED	BALANCE TO BE FINANCED
OSBORNE		Farmers National Bank	\$19,585,000	\$1,626,000	\$407,000	\$1,220,000
Population:	2,120	First State Bank	14,782,000	1,194,000	299,000	896,000
PORTIS Population:	172	First State Bank	1,889,000	252 <b>,</b> 000	63,000	189,000
DOWNS	4 004	Downs National Bank	14,188,000	1,135,000	284,000	851,000
Population:	1,324	State Bank of Downs	23,260,000	3,113,000	778,000	2,335,000
NATOMA Population:	515	First National Bank	20,420,000	2,103,000	526,000	1,577,000

<sup>(\*)</sup> Assuming that the capital of each bank is at a normal operating level, and if that bank sold, the acquiring party would be required to furnish equity in the purchase roughly equal to 25% of the purchase price, and could then finance the balance of the purchase. This also assumes that the bank is bought with no premium over book value attached. Repayment requirements of the Federal Reserve Board limit the practical term of financing to a 12 to 14 year period. See appendix B and C for purchase and repayment data.

## APPENDIX B

Purchase and repayment data follows in this appendix using the assumptions stated in appendix A. Additional assumptions for this appendix are that the bank does not grow appreciably during the period of repayment of the purchase debt, that the financing interest rate if 9.50%, that the financing is over a 12-year period, and that a dividend of 50% of net after tax earnings of the bank is paid to a holding company owning 100% of the stock of the bank, thereby utilizing a consolidated income tax return and tax benefits from the subsidiary bank for repayment of the debt. Also, an assumed income tax rate of 36% is used. Earnings of the bank reflect 1984 earnings.

The banks in the four-county area have been numbered 1 through 23, and the financial data used is publicly available, and came from Sheshunoff's Banks of Kansas.

Five of the twenty-three banks in the study had negative earnings in 1984, thus had no repayment ability based on that year's earnings, so no data appears for those five in this appendix.

This appendix reflects that only one bank of the twenty-three could repay 75% acquisition debt over the twelve-year period on a 50% dividend policy. Asterisks in the repayment schedule indicate that the debt service requirements exceed the dividend.

Data Source: Year-end 1984: necronally Banks of Kansas (c) Dasthunoff & Fo. BANK NO. 1 \$875 (ascunts in thousands) Capital of bank to be acquired..... Total assets of bank to be acquired.... \$12,390 7.02% Capital to total assets ratio..... \$218 25% required equity..... \$655 75% to be financed...... 9.50% Rate of interest on financing..... Years for repayment (assume annual 12 payments - twelve years maximum)..... Assumed annual earnings..... 36% Assumed effective tax rate..... 50% Assumed dividend payout policy...... \$94 Calculated annual payment on debt..... REPAYMENT SCHEDULE Year 11. Year 12 Year 10 Year B Year 9 Year 7 Year 1 Year 2 Year 3 Year 4 53 58 58 58 58 58 Calculated dividend available 22 Calculated tax benefit Amount available for 50 58 58 5.0 58 58 50 58 53 80 debt service 655 Beginning principal balance Interest Principal reduction Ending principal balance -36 -36 -36 -35 -36 -3/ -36 -36 -14 -36 Debt service margin -340 -376 -413 -248 -304 -195 -231 -110 -50 -86 Cumulative debt service margin (\*) Debt service exceeds dividend policy (including tax benefit) Dividend policy needed for 927. 32% debt service 52%

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Data Source: Year-end 1784; Sheshuboff Banks of Kansas (c) Sheshuboff & Co. BANK NO. 3 \$701 (accusts in thousans:) Capital of bank to be acquired...... \$8,517 (sverage assets for year) Total assets of bank to be acquired..... 8.23% Capital to total assets ratio..... \$175 25% required equity..... \$526 75% to be financed...... Rate of interest on financing..... 9.50% Years for repayment (assume annual 12 payments - twelve years maximum).... \$79 Assumed annual earnings..... 35% Assumed effective tax fate..... 50% Assumed dividend payout policy..... Calculated annual payment on debt..... **\$75** REPAYMENT SCHEDULE Year 9 Year 10 Year 11 Year 8 Year 6 Year 7 Year 5 Year 1 Year 2 Year 3 Year 4 40 40 40 40 40 Calculated dividend available Calculated tax benefit 18 Amount available for 20 40 40 40 40 57 debt service 526 Beginning principal balance Interest Principal reduction Ending principal balance -36 -36 -7.6 -36 -36 -36 -35 -36 -18 Debt service margin - 540 -376 -202 -268 -364 -197 . 7.1 -120 -10 Cumulative debt service margin (\*) Debt service exceeds dividend policy (including technolity Dividend policy needed for 051 95% 9.5% 75% debt service

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BANK NO. 4	Dat s	Sources	Year-end i	.984: Shesh	Lock Pank	s of Kansa	2977 n) gr	numoff & C	e.			
Capital of bank to be acquired		\$607 lans	ounts in th	(Gusandu)								
Total assets of bank to be acquired		6,061 (av:	rage assel	ts_for year	• )							
Capital to total assets ratio		11.33%										
25% required equity		<b>\$172</b>										
75% to be financed		<b>\$515</b>										
Rate of interest on financing		9.50%										
Years for repayment (assume annual payments - twelve years maximum)		12	· e	-								
Assumed annual earnings		\$81				N						
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Calculated dividend available	41	4 <u>1</u>	4 1	41	4.1	41	41	41	41	41	41	4 1
Calculated tax benefit	18	¥.	*		3.	*	ž	¥:	*	*	¥	*
Amount available for debt service	58	A 1	¥ Ī	41	Ą Į	4 1	4.1	41	61	4 1	41	<i>i</i> 1
Beginning principal balance	515	*	*	<	J.	4	¥	Ť	*	*	*	*
Interest	*	÷	¥		ž.	*	×	¥	*	<del>š.</del>	×	**
Principal reduction	*	¥.	*		*	*	\$	ģ-	*	¥	*	*
Ending principal balance	*	*	*		ŧ.	¥	\$	≽	÷	*	*	÷"
Debt service margin	-15	-33	-33	-37	-37	-33	-73	-33	-37	-33	-33	-33 -33
Cumulative debt service margin	-16	-49	-82	-1:5	-149	-182	-215	-249	-282	-315	-348	-382
(*) Debt service exceeds dividen	d poli	cy (includ	ing tax te	enefit)								
Dividend policy needed for debt service	19 <b>%</b>	91%	91%	9 5 7	$\partial + \vec{a}$	91%	ół Å	91%	915	71 X	91%	\$ <u>5</u> 1

BARE NO. 5

Data Secree: Year-ear 1984: treship of Banic of Planck or Decomposition

Capital of bank to be acquired		<b>\$4</b> 60 (a	mounts in	(Cousan)	J							
Total assets of bank to be acquire	ed	\$5,600 (a	verage ass	ets for ;	691.							
Capital to total assets ratio		8.10%										
25% required equity		\$115										
75% to be financed		\$345										
Rate of interest on financing		9.50%										
Years for repayment (assume annual payments - twelve years maximum		1.2					,					
Assumed annual earnings		\$120					,					
Assumed effective tax rate		36%										
Assumed dividend payout policy		50%										
Calculated annual payment on debt		<b>\$</b> 49										
REPAYMENT SCHEDULE	ear 1	Year 2	Year 3	Year 4	Yerri	Yaan 6	Year 7	Year 8	Year 9	Year, 10	Year 11	Year 12
Calculated dividend available	£4	64	54	64	64	٤4	64	64	64	64	<u>5</u> 4	44
Calculated tax benefit	12	4 3 1 3	1 i	<u>1</u> .		É	<del></del>	6	5	4	÷	
Amount available for												
debt service	76	7.5	75	77	7 7 1 %	72	71	70	69	6.0	67	6.6
Beginning principal balance	345	328	310	290	740	245	218	190	158	124	8₽	7.5
Interest	33	31	29	. 28	25	23	21	18	15	12	9	G.
Principal reduction	17	18	20	22	24	26	29	31	34	2.8	41	45
Ending principal balance	328	310	290	268	345	218	190	158	124	25	45	+ 4 <sup>5</sup>
Debt service margin	26	26	25	25	2.6	23	21	21	20	19	18	
Eumulative debt service margin	26	52	77	102	106	149	171	192	212	231	248	2 ± 4
(*) Debt service exceeds divi	idend pol	icy (inclu	ding tax b	enefit)								
Prysidend policy needed for Tabl service	29%	70%	3.0%	1.		7 24 17 2 20 19	· · · · · · · · · · · · · · · · · · ·	34%		. 35%	18%	: ·

BANK NO. 10

Data School Year-ord 1984: Residual Fenks of Karsas to Enestumbif & Sa.

Capital of bank to be acquired		31,475 (0)										
Total assets of bank to be acqui	red	\$5,648 (av	erage asin	Ls for year	)							
Capital to total assets ratio		26.03%										
25% required equity		\$368										
75% to be financed		\$1,103									•	
Rate of interest on financing		9.50%										
Years for repayment (assume ann payments - twelve years maxi	ual mum)	12										
Assumed annual earnings		\$72	i									
Assumed effective tax rate		26%										
Assumed dividend payout policy.		50%										
Calculated annual payment on de	bt	\$:58				gan yan bab dan yan bin ma kak kan .						gad, 600 per fire and fire fire fire
REPAYMENT SCHEDULE			_		ear 5 Y	ear 6	Year 7 Y	ear 8	Year 9	Year 10	Year 11	Year 12
•	.Year 1				sar u	36	35	36	3.6	36	36	3.6
Calculated dividend available	36	76	36	36	ą ti	*	,	*	4	ř.	<b>*</b>	÷
Calculated tax benefit	3 <b>8</b>	¥.	*		÷	r						
Amount available for debt service	74	3.6	3.6	3.6	3.6	36	3.6	3.6	36 *	3 <b>6</b> *	3 <b>5</b>	36
Beginning principal balance	1,103		*	* '	š.	*	*	ş		*	· ¥	Ł
Interest	*	2,	*		*	¥.	*	\$	¥	,	*	*
Principal reduction	*	#	*	ń	*	*	*	₹.	*	*	*	*
Ending principal balance	*	Ŷ	*		*	*	1	¥	¥	*		-15
Debt service margin	-04	-122	-122	-127	-122	-122	-122	-122	-122	-122	-122	-15,
Cumulative debt service margin	-84	-204	-328	-450	-572	-693	-815	-937	-1,059	-1,181	-1,303	-1,425
(*) Debt service exceeds o	lividend po	licy (inclu	ding tax b	enefit)								
Dividend policy reeded for debt cervice	. :: 7%		219%	211	0.19%	219%	2175	219%	219%	210%	217%	
							Company of the second	A			-	

Capital of bank to be acquired		1,279 (am	ounts in t	reusands)								
Total assets of bank to be acquir	ed \$1	10,909 (av	erage asse	ts for year	- )							
Capital to total assets ratio	,,,,,,,	11.72%										
25% required equity		\$320										
75% to be financed	2 5 5 5 5 5 5	\$959										
Rate of interest on financing		9.50%										
Years for repayment (assume annua payments - twelve years maximu		12									I I A COMPANY CO. CO.	
Assumed annual parnings	, , , , , , , , ,	\$75										
Assumed effective tax rate		36%										
Assumed dividend payout policy		50%										
Calculated annual payment on debt	t	\$137										
	7.0	ear 2 Y	ear 3 Y 38	'ear 4 Y 38	ear 5 Y	ear 6 Ye	ear 7 38		Year 9 Y	ear 10 38	Year 11	Year 12
Calculated dividend available	38											, 3 <b>8</b> ,
Calculated dividend available Calculated tax benefit	7.0	38	38	38	38	38	38	38	38	38	38	, 38 <sub>.</sub>
Calculated dividend available	38	38	38	38	38	38	38	38	38	38	38	, 3 <mark>8</mark> ,
Calculated dividend available Calculated tax benefit Amount available for	33		38 *	<b>38</b> *	38* *	38 *	3 <b>8</b> *		38	38 <u>*</u>	*	, 38 <sub>.</sub>
Calculated dividend available  Calculated tax benefit  Amount available for debt service	38 33 70	38 *	38 *	38 *	38	38 *	38 *	38 * 38	38 *	38 * 38	38 *	
Calculated dividend available Calculated tax benefit  Amount available for debt service  Beginning principal balance	38 33 70	38 * 38	38 * 38 *	38 * 38 *	38 * 38 *	* 38 *	38 * 38 *	38 * 38	38 * 38	38 * 38 *	38 *	38 * 38
Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest	38 33 70 959 *	38 * 38 *	38 * 38 * *	38 * 38 *	38 * 38 * *	38 * 38 *	38 * 38 *	38 * 38 *	38 * 38 *	38 * 38 *	38 * *	38
Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest Principal reduction	38 33 70 959 *	* 38 *	38 * 38 * * *	38 * * *	* * * *	38 * 38 * *	38 * 38 *	38 * 38 *	38 * 38 *	38 * 38 *	38 * * *	38 38 38
Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest Principal reduction Ending principal balance	38 33 70 959 *	38 * 38 * * *	38 * 38 * * * *	38 * 30 * * *	38 * 38 * * *	38 * * * *	38 * * * * *	38 * 38 * *	38 * * * * * * *	38 * 38 * * *	38 * * * *	38.
Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest Principal reduction Ending principal balance Debt service margin	38 33 70 959 * * * -67 -67	38 * 38  * * -100 -167	38 * 38 * * * * * -100 -267	38 * 38 * * * -100 -367	38 * 38 * * * *	38 * * * * *	38 * * * * * *	38 * 38 * * * *	38 * 38 * * * *	38 * 38 * * * *	38 * * * * *	38 38 38 -100

Bankbuy Study											02-20-85	02:69:578
BANK NO. 12	Ď	ata Source	: Year-an	d <b>1984</b> ) Sh	eshwoolf r	ants of ha	nsas (c) S	ikesha <b>no</b> ff	& Co.			
Capital of bank to be acquired.		\$1,342 (	anounts in	thousance	; )							
Total assets of bank to be acqu	iired	\$11,360 (	average as	set <b>s f</b> or y	ear)							
Capital to total assets ratio	• • • • • • • • • • • • • • • • • • • •	11.61%										
25% required equity		#306										
75% to be financed		\$1,007				,						
Rate of interest on financing	******	9.500										
Years for repayment (assume ann payments - twelve years maxi		1.3		·								
Assumed annual earnings		141										
Assumed effective tax rate	*****	₹ £ %										,
Assumed dividend payout policy.		5.3%										
Calculated annual payment on de	ebt	\$ 1 4 6										
REPAYMENT SCHEDULE	Year 1 73	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12 73
Calculated dividend available	73	/ · ·	/ U	/ -	7.5	,	<i>1.0</i>	7.5	7.0	, , , , , , , , , , , , , , , , , , ,	,	1.0
Calculated tax benefit	24	,-	`	7		*	*	Ŷ	,	•	·	
Amount available for debt service	107	73	7.3	73	73	73	75	73	73	73	75	7.7
Beginning principal balance	1,007	¥	<b>\$</b>	2	4	*	<b>ķ</b>	¥	*	*	*	-
Interest	. *	¥	4.		8	¥	*	*	*	*	*	9
Principal reduction	*	F	*	*	ş.	*	*	*	*	*	*	*
Ending principal balance	*	*	¥.		ř	*	*	*	¥;	*	*	
Debt service margin	-57	72	-72	- T <sub>A</sub>	-72	-72	-72	-72	-72	-72	-70	· · ·
Cumulative debt service margin	-37	-1377	-190	-252	-324	-395	467	-539	-610	-682	-753	-8111
(*) Debt service exceeds d	ividend rol	ich (is le	eding tax	benefit)								
Dividend policy needed for debt service	1.5%		5.9%	6.13	7.7%	97%	ę v	ፍግኒ	873	প্রুক্	999	٠.

BANK NO. 13	Data											
Capital of bank to be acquired		1,626 (and	ounts in th	oasan is)								
Total assets of bank to be acqui	ired #1	19,585 (av	erage assot	s for year	- )							
Capital to total assets ratio	* 1 * 1 * 1 * 2 * 4	8.30%										
25% required equity		\$407										
75% to be financed		1,220										
Rate of interest on financing		9.50%										
Years for repayment (assume ann payments - twelve years maxi	ual mum)	12										
Assumed annual earnings		\$190										
Assumed effective tax rate	******	36%										
Assumed dividend payout policy.		50%										
Calculated annual payment on de	ebt	<b>\$175</b>				•						
REPAYMENT SCHEDULE		gen yan yan ban ba Wa 40 aab aa	and the first control of the first con-					NOT THE PART THE SEA AND SAN DAY OF				
REPAYMENT SCHEDULE	Year 1 Y	ear 2 Y	(ear 3 Y	ear 4 - <b>Y</b> 95	(ear 5 Y	ear 6 Y	ear 7 Y	ear 8 Y	ear 9 Y 95	ear 10 Y	'ear 11 Y 95	ear 12 75
Calculated dividend available												Ť
1	° ₹ <b>5</b>	75	95	95	95	95	95	95	<b>9</b> 5	95	95	95
Calculated dividend available Calculated tax benefit Amount available for	95 42	75 *	95 *	9 <b>5</b>	\$ 95	95 *	95 *	95 *	<b>75</b> *	95 *	<b>9</b> 5	95 *
Calculated dividend available Calculated tax benefit Amount available for debt service	95 42 137	95 * 95	95 * 95	9 <b>5</b>	95 * 95	95 * 95	95 * 95	95 * 95	<b>95</b> * 95	95 * 95	95 * 95	95 * 95
Calculated dividend available Calculated tax benefit Amount available for debt service Beginning principal balance	95 42 137 1,220	95 * 95 *	95 * 95 *	9 <b>5</b>	95 * 95 *	95 * 95 *	95 * 95 *	95 * 95 *	95 * 95 *	95 * 95 *	95 * 95 *	95 * 95 *
Calculated dividend available Calculated tax benefit Amount available for debt service Beginning principal balance Interest	95 42 137 1,220	95 * 95 *	95 * 95 * *	9 <b>5</b>	95 * 95 *	95 * 95 * *	95 * 95 * *	95 * 95 * *	<b>95</b> * 95 *	95 * 95 * *	95 * 95 *	95 * 95 *
Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest Principal reduction	95 42 137 1,220 *	95 * 95 *	95 * 95 * *	95 5 5 4 4	95 * 95 * *	95 * 95 * *	95 * 95 * *	95 * 95 * *	95 * 95 * *	95 * 95 * *	95 * 95 * *	95 * 95 *
Calculated dividend available Calculated tax benefit Assount available for debt service Beginning principal balance Interest Principal reduction Ending principal balance	95 42 137 1,220 * * *	95 * 95 * * *	95 * 95 * * *	95 3 55 4 4 8	95 * 95 * *	95 * 95 * *	95 * 95 * * *	95 * 95 * * *	95 * 95 * *	95 * 95 * * *	95 * 95 * *	95 * 95 * *
Calculated dividend available Calculated tax benefit  Amount available for debt service  Beginning principal balance Interest Principal reduction Ending principal balance Debt service margin	75 42 137 1,220 * * * -38	95 * 95 * * * * -80 -118	95  *  95  *  *  -80 -197	95 52 4 6 80 +277	95 * 95 * * *	95 * 95 * * * *	95 * 95 * * * *	95 * 95  * * * * *	95 * 95 * * * *	95 * 95 * * * *	95 * 95 * * * *	95 * 95 * * * *

Data Source: Year-end 1984: Sheshunoff banks of Kansas (t) Eneshunof (b) Co. BANK NO. 14 Capital of bank to be acquired..... \$1,194 (assunts in thousands) Total assets of bank to be acquired..... 415,715 (average assets for year) Capital to total assets ratio...... 7.50% \$299 25% required equity..... 75% to be financed...... \$996 Rate of interest on financing..... Years for repayment (assume annual payments - twelve years maximum)..... 12 \$145 Assumed annual earnings..... 36% Assumed effective tax rate..... 30% Assumed dividend payout policy..... Calculated annual payment on debt...... \$125 REPAYMENT SCHEDULE Year 11 Year 9 Year 10 Year 8 Year 7 Year 5 Year 6 Year 2 Year 3 Year 4 73 73 73 73 73 73 73 Calculated dividend available 31 Calculated tax benefit Amount available for 73 73 73 73 73 73 73 73 73 104 debt service 896 Beginning principal balance Interest Principal reduction Ending principal balance -55 -55 ~55 -55 -55 -55 -55 -55 -55 -55 .. 55 -25 Dabt service margin -632 -522 -577-456 -356 -411 -301 -190 -245 -135-25 -80 Cumulative debt service margin (\*) Debt service exceeds dividend policy (including tax benefit) Dividend policy needed for 100 68% 88% 95% 88% 57% debt service

DANG. 00. 15

Data Source: Year-end 1984: Sheshunoff Banks of Eansas (c) Sheshunoff & Co.

Capital of bank to be acquired		\$252 (a	mounts in th	nousands)								
Total assets of bank to be acqui	red	\$2,055 (a	verage asset	is for ye	ar)							
Capital to total assets ratio	,,,,,,,,	12.26%										
25% required equity		\$63										
75% to be financed		\$189			-	-						
Rate of interest on financing		9.50%										
Years for repayment (assume annu payments - twelve years maxid	ual mum)	12										
Assumed annual earnings		\$35			•							
Assumed effective tax rate		36%			-						. =	
Assumed dividend payout policy.		50%										
Calculated annual payment on de	bt	\$27									1	
	man game gane made from some some som som som som som	4 may may page than now page that dead		and any first that per not the first of	, <sub>1,1</sub> , <sub>1</sub> , <sub>1</sub> , <sub>1</sub> , <sub>1</sub> , <sub>1</sub> , <sub>1</sub> , <sub></sub>		ner den den vist pår som delt den ved den	gar yan gan gan dan dan bis diri 140 dibi 140			mak yang dan bina bina bina pina bina mak pina bina bina bina	
REPAYMENT SCHEDULE									, 0 1	/ 10	Vene 11	lese 10
	Year 1	/ear 2	Year 3 Y	'ear 4		Year 6	, , , , ,				Year 11 \	/ear 12 18
Calculated dividend_available	18	18	18	18	18 _	13	18	18	18	18	18	_ 10
Calculated tax benefit	6	Ŋ	¥	*	*	à	*	*	¥	*	*	r
Amount available for debt service	24	18	18	18	10	18	10	18	18	18	19	18
Beginning principal balance	189	*	¥	*	*	ý	3	¥	<b>#</b> :	*	*	+
Interest	ķ	*	*	1.	*	4	<i>&amp;</i>	ř	*	*	*	*
Principal reduction	*	*	*	*	*	₹.	¥	*	*	*	**	ş
Ending principal balance	*	ž	*	. *	¥	**	*	*	¥	*	*	*
Debt service margin	-3	-10	-10	-10	t O	-10	-10	-10	-10	-10	-10	-10
Cuaulative debt service margin	-3	-13	-22	-32	~ 6 <u>1</u>	<b>-5</b> 1	-60	-70	-80	-89	-99 	-106
(*) Debt service exceeds d	ividend poli	ey (incl	uding tax be	nefit)			ı					
Dividand policy needed for debt service	59%	77%	77%	77%	77 <b>%</b>	77%	77%	77%	77%	77%	77%	77%

Data Source: Year-end 1984: Thesburnii Danks of Hansas (c) Thesbunoif & Co. BANK NO. 15 Capital of bank to be acquired...... \$1,135 (amounts in thousants) Total assets of bank to be acquired.... \$15,406 (average assets for year) Capital to total assets ratio..... 7.37% 25% required equity..... \$284 \$851 75% to be financed...... 9.50% Rate of interest on financing...... Years for repayment (assume annual 12 payments - twelve years maximum)..... Assumed annual earnings..... Assumed effective tax rate..... 36% Assumed dividend payout policy..... 50% Calculated annual payment on debt..... **\$122** REPAYMENT SCHEDULE Year 1 Year 3 Year 4 Year 6 Year 7 Year 8 Year 9 Year 10 26 26 26 25 Calculated dividend available 26 2.6 29 Calculated tax benefit Amount available for 55 26 26 26 26 26 26 24 debt service 851 Beginning principal balance Interest Principal reduction Ending principal balance Debt service margin -67 -96 -96 -9.1 -96 -96 -26 -96 -95 -96 -96 -95 Cumulative debt service margin -67 -154 -260 -356 -453 -549 -646 -742 -838 -1.031 -1,128 (\*) Debt service exceeds dividend policy (including tax benefit) Dividend policy needed for 239% debt service 182% 239% 279% 239% 239% 239%

BANK NO. 17  Capital of bank to be acquired	Data Source:	Year-end	1984: She	shunoff Ba	ske of Kan			_			
Capital of bank to be acquired					TES OF ISBN	sas (c) Sh	eshunoff &	Co.			
dapied: or bank to be acquired	. 13,111 0	acounts in	(housands)								
Total assets of bank to be acquired	. #2 <b>5</b> ,006 (a	verage ass	ets for ye	a)							
Capital to total assets ratio	. 11.58%										
25% required equity	<b>.</b> \$778										
75% to be financed	. \$2,375										
Rate of interest on financing	. 9.50%										
Years for repayment (assume annual payments - twelve years maximum)	. 12		-								
Assumed annual earnings	. \$313										
Assumed effective tax rate	. 35%										
Assumed dividend payout policy	. 50%										
Calculated annual payment on debt	\$334										
REPAYMENT SCHEDULE Year 1	~ Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Calculated dividend available 15	7 157	157	_157	157	157	157	157	157	157	157	157
Calculated tax benefit 80	) *	¥	3	÷	*	¥	*	ř	*	¥	*
Amount available for debt service 23	5 157	157	157	157	157	157	157	157	157	157	157
Beginning principal balance 2,33	5 *	*		*	*	*	*	*	¥	*	*
Interest	*	¥	à.	*	*	*	*	*	¥	¥	+
Principal reduction	* *	*	*	*	*	*	*	¥e	*	*	÷
Ending principal balance	* *	*		*	*	*	*	*	*	¥	£
Debt service margin -9	8 <b>-1</b> 75	-178	-178	-178	-178	-178	-178	-178	-178	-178	-178
Cumulative debt service margin -9	9 -276	-454	-651	-809	-787	-1,165	-1,343	-1,520	-1,698	-1,876	-2,054
(*) Debt service exceeds dividend	p <b>olicy</b> (inclu	ding tax be	eme <b>fi</b> t"								
Dividend policy needed for debt service	1% 107%	1073	1500	44.7%	107%	107%	107%	1077	107%	167%	1974

Bankbuy Study											VZ ZO 00 1	/2.10.0/1
BANK NO. 18	D e	<b>at</b> a Source:	Year-end	1984: Une	shumblf Ba	nks of Kar	rsac (c) Sh	eshumoff '	Ct.			
Capital of bank to be acquired		\$2,103 (	imounts in '	thousands)								
Total assets of hank to be acqui	<u>r</u> ed	\$22,749 (	average ass	et <mark>s_fo</mark> r ye	ar)							
Capital to total assets ratio		9.24%										
25% required equity	••••	<b>\$5</b> 26		- who with								
75% to be financed		\$1,577										
Rate of interest on financing		9.50%										
Years for repayment (assume annu payments - twelve years maxin	ual num)	12			••							- "
Assumed annual earnings		\$271			_							
Assumed effective tax rate		36%					j					
Assumed dividend payout policy.		50 X										
Calculated annual payment on del	ot	\$236							a an an re um an est en en en			and his see that the stee of the
REPAYMENT SCHEDULE	***************************************	-		. 1 1000	*			_			v 11	
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year C	Year 9	Year 10	Year 11	Year 12
Calculated dividend available	136	136	136	_136	136	136	136	136	129	136	136	<u>1</u> 36
Calculated tax benefit	5.4	*	*		*	*	4	*	*	*	*	- d-
Amount available for debt service	189	176	136	136	136	136	126	<b>1</b> 36	136	136	136	136
Beginning principal balance	1,577	*	*	*	×	*	*	¥.	*	*	¥	ž.
Interest	¥	*	*	£	. *	*.	*	*	45	*	¥	¥
Principal reduction	×	÷	¥	*	*	*	¥	×	*	×	黄	*
Ending principal balance	*	*	*	. 3-	*	*	*	*	*	*	¥	*
Debt service margin	-36	-90	-90	90	-90	-90	-90	-90	-90	-90	-90	-90
Cumulative debt service margin	-36	-127	-217	-307	-398	-488	-578	-669	-759	-849	-940	-1,030
(*) Debt service exceeds di	vidend pol	licy (inclu	iding tax b	enefit)	~~							
Dividend policy needed for debt service	<b>53%</b>	83%	83%	. 83%	83%	83%	85%	93%	83%	83%	83%	811

Capital of bank to be acquired		\$3,585 ta	moun <b>ts in</b> t	ho <b>us</b> ands)								
Total assets of bank to be acqui	ired \$	\$ <b>45,8</b> 80 (a	verage asse	ts_for yea	ar)							
Capital to total assets ratio		7.82%										
25% required equity		\$897		-								
75% to be financed		\$2,590										
Rate of interest on financing		9.50%										
Years for repayment (assume annu payments - twelve years maxim		12		<u></u>								
Assumed annual earnings		\$40%										
Assumed effective tax rate		36%		****								
Assumed dividend payout policy.		50%										
Calculated annual payment on det	bt	\$385		-								
DEDAVMENT CRUCHILL												
REPAYMENT SCHEDULE	Year 1	Year 2	Year 3	ear 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
1	Year 1 202	Year 2 202	Year 3 Year 202	/ear 4 202	<b>Year</b> 5	Year 6 202	Year 7 202	Year 8	Year <b>9</b> 202	Year 10 202	Year 11	Year 12 202
Calculated dividend available	202	202	202	_202	202	202	202	202	202	202	202	202
Calculated dividend available Calculated tax benefit Amount available for	202 92	202	202 *	_ <b>20</b> 2	202	202	292	202 *	202	202	202	202
Calculated dividend available Calculated tax benefit Amount available for debt service	202 92 293	202 * 202	202 * 202	202	202 * 202	202 * 202	202 * * 202	202 * 202	202 * 202	202 * 202	202 *	<b>202</b>
Calculated dividend available Calculated tax benefit Amount available for debt service Beginning principal balance	202 92 293 2,690	202 * 202 *	202 * 202 *		202 * 202 *	202 * 202 *	202 * 202 *	202 * 202 *	202 * 202 *	202 * 202	202 * 202 *	202 202
Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest	202 92 293 2,690	202 * 202 *	202 * 202 * * *	202	202 * 202 *	202 * 202 * *	202	202 * 202 *	202 * 202 *	202 * 202 *	202 * 202 *	<b>202</b> 202
Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest Principal reduction	202 92 293 2,690 *	202	202 * 202 * *	202	202 * 202 * *	202  * 202  * * *	202	202 * 202 *	202	202 * 202 * *	202 * 202 * *	<b>202</b>
Calculated dividend available Calculated tax benefit Amount available for debt service Beginning principal balance Interest Principal reduction Ending principal balance	202 92 293 2,690 *	202 * 202 * *	202 * 202 * *	202 202 *	202	202  * 202  * * * * * *	202 * 202 * *	202 * 202 * *	202  * 202  * * *	202 * 202 * *	202	202 202 -184
Calculated dividend available Calculated tax benefit  Amount available for debt service  Beginning principal balance Interest Principal reduction Ending principal balance Debt service margin	202 92 293 2,690 * * * -92 -92	202 * 202 * * * * * * * * * *	202 * 202 * * * -184459	202 202 3 4 -184 -642	202 ** 202 ** * * * * *	202 * 202 * *	202 * 202 * * * -104	202 * 202 * * *	202 * 202 * * *	202 * 202 * * * *	202 * 202 * * * *	202 202

BANK NO. 20	D	ata Source	: Year-end	984: Sh	eshunoff D	ants of Ka	nsas (c) j	heshunoff	& Co.			
Capital of bank to be acquired		<b>\$3,</b> 065 (	amounts in	thousands	)							
Total assets of bank to be acqui	ired	\$37,992 (	average ass	ets_fer y	ear)							
Capital to total assets ratio		8.07%										
25% required equity		<b>\$7</b> 67		-								
75% to be financed		\$2,300			ren							
Rate of interest on financing		9.50%										
Years for repayment (assume annu payments - twelve years maxid		12		and the second s	•							
Assumed annual earnings		<b>\$</b> 475			•		1					
Assumed effective tax rate		36%										
Assumed dividend payout policy.		50%										
Calculated annual payment on del	bt	\$329										
REPAYMENT SCHEDULE	Year 1	Year 2	Year 3	Year A	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Calculated dividend available	23 <b>8</b>	238	238	230	238	238	238	239	238	239	238	238
Calculated tax benefit	7 <b>9</b>	*	*	ě	€.	*	2/3	*	ž.	. *	*	*
Amount available for debt service	316	238	238	238	• 238	238	238	238	328	238	238	239
Beginning principal balance	2,300	*	*		· Pe	*	*	×	*	*	*	*
Interest	*	*	*		*	*	8	×	*	*	×	>
Principal reduction	*	ř	*	ě	¥	*	¥	*	*	÷	*	4
Ending principal balance	*	ř;	*	1)	- -	*	*	*	<del>*,</del>	<del>}.</del>	*	٠
Debt service margin	-13	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	<u>-93</u>
		4.50	-197	-280	-380	-472	-564	-655	-747	-839	-931	-1,022
Cumulative debt service margin	-13	-105	* / /									
Cumulative debt service margin  (*) Debt service exceeds di				enefit)								

BANK NO. 21	Data	Source:	Year-end '	1984: Shosh	unoff Bank	s of Kansa	s (c) Shas	benoff & (	Co.			
Capital of bank to be acquired		1,016 (ame	eents in th	n <b>ousa</b> nds)								
Total assets of bank to be acquired		8,531 (ave	erage asse	ts_for year	. )							
Capital to total assets ratio		11.91%										
25% required equity		<b>\$25</b> 4										
75% to be financed		<b>\$7</b> 62										
Rate of interest on financing		<b>9.</b> 50%										#1.0°
Years for repayment (assume annual payments - twelve years maximum)		12										
Assumed annual earnings		\$71										
Assumed effective tax rate		36%										
Assumed dividend payout policy		50%										_
Calculated annual payment on debt.		\$109										
REPAYMENT SCHEDULE	ar 1 Y	sar 2 Y	ear 3	Year 4	ear 5 Y	ear 6 Y	ear 7 Y	ear 8 Y				ear 12
Calculated dividend available	፯6	36	36 _	36	36	36	3.6	, 3 <b>6</b>	36	36	36	36
Calculated tax benefit	26	*	*	*	*	*	*	#	*	*	*	¥ 
Amount available for debt service	62	36	36	36	36	36	36	3.6	36	36	3 <b>6</b>	36
Beginning principal balance	762	*	*	*	*	*	*	*	*	ř	ň	*
Interest	*	¥	*	<del></del> -	*	*	¥	*	*	ř	*	¥
Principal reduction	*	*	*	*	*	ž	*	*	*	*	*	*
Ending principal balance	*	*	*	. %	¥	*	÷	**	*	*	*	3
Debt service margin	-18	-74	-74	-74	-74	-74	- 7.4	-74	-74	-74	-74	-74
Cumulative debt service margin	- 4 B	-121	-195	-268	-542	-416	-489	-563	-636	-719	-784	-857
(*) Debt service exceeds divi	dend p <b>ol</b> i	cy (includ	ing tax be	nefit)								
Dividend policy needed for debt service	117%	154%	154%	154%	1944	154%	<b>1</b> 540	154%	156%	154%	1544	1543

Bankouy Study												
BANK NO. 22	D a	ita Source:	Year-end	1984: (hé	shanott Ba	nks of Ka	nsas (c) Sh	neshunoff &	Co.			
Capital of bank to be acquired		<b>\$1,</b> 057 (a	mounts in	th <b>ou</b> sands)								
Total assets of bank to be acquired		<b>\$14</b> ,050 (a	verage ass	ets_for ye	ear)							-
Capital to total assets ratio		7.52%										
25% required equity		\$264										
75% to be financed		<b>\$7</b> 93	I									
Rate of interest on financing		9.50%										
Years for repayment (assume annual payments - twelve years maximum)		12		*****								
Assumed annual earnings		\$110										
Assumed effective tax rate		36%										
Assumed dividend payout policy		50%										
Calculated annual payment on debt		\$114										
REPAYMENT SCHEDULE	ar 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Calculated dividend available	55.	55	55	55	5.0	55	55	55	55	55	55	55
Calculated tax benefit	27	*	*	*	£	*	*	¥	÷	*	*	*
Amount available for debt service	82	라다	55	55	55	55	<u> </u>	55	55	55	55	55
Beginning principal balance	793	*	¥	3	3	*	ř	ž	*	*	*	*
Interest	#	*	×	×	4	*	ÿ.	*	3.	*	*	¥.
Principal reduction	ķ	*	*	*	*	*	ž	*	*	3	*	*
Ending principal balance	*	*	*	. 4	*	*	ř	*	*	*	*	÷
Debt service margin	-31	-59	-59	-59	-59	-59	-59	-57	-59	-59	-59	:59
Cumulative debt service margin	-31	~90	-148	-207	-265	-324	-382	-441	-499	-558	-617	-675
(*) Debt service exceeds divid	end po	licy (inclu	ding tax b	em <b>efit</b> )								
Dividend policy needed for debt service	79 <b>%</b>	195%	103%	107%	1077	193%	1033	105%	103%	103%	103%	* 1 . · · · ·

## APPENDIX C

This section reflects similar data to that in appendix B, except that a 75% dividend policy is utilized. A payout of this relatively high level over the twelve-year period would prohibit much, if any, growth of the bank, nor would it allow for much coverage of capital should significant loan losses be incurred by the bank.

Again, five of the banks in the group had negative 1984 earnings and are not included.

This appendix reflects that eleven out of the twenty-three banks could repay 75% acquisition debt over the twelve-year period on a 75% dividend policy. Asterisks in the repayment schedule indicate that the debt service requirements exceed the dividend.

BANK NO. 1 Data Source: Year-end 1984: Sheshunoff Banks of Karsas (c) Sheshunoff & Co.

Capital of bank to be acquired..... \$873 (amounts in thousands) Total assets of bank to be acquired..... \$12,350 (average assets for year) 7.07% Capital to total assets ratio..... 25% required equity..... \$218 \$655 75% to be financed...... Rate of interest on financing..... 9,50% Years for repayment (assume annual payments - twelve years maximum)..... 1.2 Assumed annual earnings..... \$115 Calculated return on average assets.... 0.93% 36% Assumed effective tax rate..... Assumed dividend payout policy.....

REPAYMEN	T SCHEI	DULE

Calculated annual payment on debt.....

	Year 1	Year 2	Year 3	Year 4	_Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Calculated dividend available	86	86	86	8.6	9.6	86	8.6	8.6	86	86	85	8 <i>6</i>
Calculated tax benefit	22	21	20	19	17	16	14	12	10	6	6	
Amount available for debt service	109	108	106	105	 104	102	100	99	97	94	92	87
Beginning principal balance	655_	623	589	551	509	464	414	360	300	235	164	4.8
Interest	62	59	56	52	48	44	39	34	29	22	16	8
Principal reduction	32	35	38	. 43	45	50	54	60	65	71	78	87
Ending principal balance	623	589	551	509	464	414	240	300	235	164	8.8	-0
Debt service margin	15	14	13	1 1	10	8	7	5	3	1	-2	-5
Cumulative debt service margin	15	29	41	5.7	63	. 71	78	82	85	96	84	79

(\*) Debt service exceeds dividend policy (including tax benefit)

Dividend policy needed for debt service				11.26	4. 6. 77	A 0.7	<i>L</i> ⊕ <i>u</i>	713	778	75%	72%	7 -
daht service	62%	5.5%	5 <del>1</del> 7		200	603						

BANK NO. 2 Data Source: Year-ond 1984: Sheshonoff Banks of Kansas (c) Sheshonoff & Co.

Capital of bank to be acquired...... \$1,293 (amounts in thousands)

Total assets of bank to be acquired.... \$13,910 (average assets for year)

Capital to total assets ratio..... 9.30%

25% required equity..... \$323

75% to be financed..... \$970

Rate of interest on financing..... 9.50%

Years for repayment (assume annual

payments - twelve years maximum)..,.. 12

Assumed annual earnings..... \$160

Calculated return on average assets.... 1.45%

Assumed dividend payout policy........ 75%

Calculated annual payment on debt..... \$139

REPAYMENT SCHEDULE

Dividend policy needed for

debt service

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Calculated dividend available	120	120	120	120	120	120	120	120	120	120	120	120
Calculated tax benefit	33	32	30	28	26	24	21	18	15	12	8	. 4
Amount available for debt service	153	152	150	148	146	144	141	138	135	132	128	124
Beginning principal balance	970	923	872	816	754	687	614	533	445	348	243	127
Interest	92	89	83	79	72	65	58	51	42	33	23	12
Principal reduction	47	51	56	61	67	74	81	88	97	106	116	127
Ending principal balance	923	872	816	754	687	614	533	445	348	243	127	9
Debt service margin	14	13	11	9	7	5	2	-1	-4	-7	-11	-15
Cumulative debt service margin	14	27	38	47	54	59	61	60	56	50	39	2:
(*) Debt service exceeds d	ividend po	licy (incl	ading tax	benefit)								

68%

693

72%

BANK NO. 3 Data Source: Year-end 1984: Sheshunoff Benks of Kansas (c) Sheshunoff & Co.

\$701 (amounts in thousands) Capital of bank to be acquired..... Total assets of bank to be acquired..... \$8,517 (average assets for /ear) 8,23% Capital to total assets ratio..... \$175 25% required equity..... 75% to be financed...... \$526 9.50% Rate of interest on financing..... Years for repayment (assume annual payments - twelve years maximum)..... 12 \$79 Assumed annual earnings.....

0.93%

36%

Calculated return on average assets....

Assumed effective tax rate.....

Assumed dividend payout policy.....

Calculated annual payment on debt.....

REPAYMENT SCHEDULE

	Year 1	Year 2	Year 3	Year 4	_Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Calculated dividend available	59	59	59	59	59	59	59	59	59	59	59	59
Calculated tax benefit	18	17	16	15	14	13	1 1	10	8	6	4,	2
Amount available for debt service	77	76	75	7.4	73	72	71	69	88	66	64	62
Beginning principal balance	526	500	473	442	409	373	333	289	241	187	132	69
Inter <b>e</b> st	50	48	45	42	39	35	32	27	23	18	12	7
Principal reduction	25	28	30	33	36	40	44	48	52	57	63	69
Ending principal balance	500	473	442	409	373	333	289	241	189	132	69	÷ ('i
Debt service margin	2	1	Ó	1	-2	-3	-5	-6	-8	-10	-12	-14
Cumulative debt service margin	2	3	3	7	0	-3	-8	-14	-22	-31	-43	-54

(\*) Debt\_service\_exceeds\_dividend policy (including tax benefit)

Dividend policy needed for					** 6.1	79%	0.17	837	057	87%	90%	a = •.
debt service	73 <b>%</b>	74%	7.5%	7.67	184	17%	0.1.7	D -2 A	93%	O / A	r /4	7 2

·													
Bankbuy Study				smith cen							02-20-86 0	2:55:028	
BANK NO. 4	" Da	ta Sperce:	Year-end	1984: Thes	Renelf Ba	nis of Kan	sas (c) 51	eshunoff &	co.				
Capital of bank to be acquired		\$697 (a	mounts in	thousands)									
Total assets of bank to be acqui	red	\$6,061 (a	verage asu	ets for yea	۲)								
Capital to total assets ratio		11.33%											
25% required equity		\$172											
75% to be financed		\$515											
Rate of interest on financing		9.50%											
Years for repayment (assume anno payments - twelve years maxim	ial	12											
Assumed annual earnings		\$81											
Calculated return on average ass	sets	1.34%											
Assumed effective tax rate		36%											
Assumed dividend payout policy.		75%											
Calculated annual payment on de	bt	\$74										-	
1		to the sea too and pro-ton too to 1.7			give the room was not not been been		a gaing some more than that some some more were to	m and an east and and and and an are by	of the past was now the last two two and the				
REPAYMENT SCHEDULE			·	Year 4	V <sub>DSF</sub> 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	
	Year 1	Year 2	Year 3		61	51	61	61	61	61	6 <b>1</b>	51	
Calculated dividend available	61	€ 1	61	61		12	11	10	8	6	4	2	
Calculated tax benefit	13	17	16	10	1 G	1 2	1 J.	* *				1	
Amount available for debt service	78	78	77	76	74	73	72	70	69	67	65	63	
Beginning principal balance	515	490	463	400	4 0 1	345	326	283	236	185	129	. £7	
Interest	49	47	44	41	38	35	31	27	22	18	12	6	
Principal reduction	25	27	30	- <del></del> - <del></del>	3.5	39	43	47	51	56	62	67	
Ending principal balance	490	463	433	401 _	365	32 <b>6</b>	200	236	185	129	. 67	0	
Debt service margin	5	4	3	2	1	- 1	-2	+3	-5	-7	-9	-11	
Cumulative debt service margin	5	8	11	13	14	13	11	8	3	-4	-12	<del>-</del> 23	

93%

81%

70%

7.5%

74"

7 7 %

64%

(\*) Debt service exceeds dividend policy (including tax benefit)

69%

70%

72%

Dividend policy needed for debt service

3.4%

32%

34%

35%

16%

02-20-86 02:56:27P m. lull - smith center, Lansas - 1986 Bankbuy Study Data Source: Year-end 1984: Cheshunoff Banks of Kansas (c) Sheshunoff & Co. BANK NO. 5 Capital of bank to be acquired..... \$460 (amounts in thousands) \$5,690 (average assets\_for year) Total assets of bank to be acquired.... Capital to total assets ratio..... 8.10% \$115 25% required equity..... \$3.45 75% to be financed..... 9.50% Rate of interest on financing..... Years for repayment (assume annual 1.2 payments - twelve years maximum)..... \$128 Assumed annual earnings..... 2.25% Calculated return on average assets.... Assumed effective tax rate..... 36% 75% Assumed dividend payout policy..... \$49 Calculated annual payment on debt..... REPAYMENT SCHEDULE Year 8 Year 9 Year 10 Year 11 Year 12 Year 7 Year 4 Year 5 Year 3 Year 1 Year 2 96 96 96 96 96 96 96 96 Calculated dividend available 10 12 11 Calculated tax benefit Amount available for 98 100 102 101 106 105 104 103 107 108 debt service 45 190 158 124 218 290 268 245 345 310 Beginning principal balance 15 21 18 23 28 25 33 31 29 Interest 38 45 26 29 31 34 24 Principal reduction 18 17 88 45 -0124 245 218 190 158 268 328 310 290 Ending principal balance 48 51 50 59 53 52 55 58 57 57 56 Debt service margin 448 500 551 600 648 395 173 230 286 341 58 116 Cumulative debt service margin

(\*) Debt service exceeds dividend policy (including tax benefit)

29%

307

30%

Dividend policy needed for

debt service

	BANK NO. 10	Da	ta Source:	Year-end	1 1984: Shes	chunoff Ba	inks of Ka <b>n</b>	sas (c) Sh	eshunoff 8	Co.			
	Capital of bank to be acquired		\$1,470 (a	mounts in	th <b>ous</b> ands)								
	Total assets of bank to be acquir	ed	\$5,648 (a	verage ass	set <u>s</u> for yea	ar)							
	Capital to total assets ratio		26.03%										
	25% required equity		\$368		w.								٠
	75% to be financed		\$1,103										
	Rate of interest on financing		9.50%										
	Years for repayment (assume annua payments – twelve years maximu	il (m)	12										
	Assumed annual earnings		<b>‡72</b>										
	Calculated return on average asse	ets	1.27%										
	Assumed effective tax rate		36%										
	Assumed dividend payout policy		75%										
e februar	Calculated annual payment on debt	<u></u>	<b>#15</b> 3										
				Year 3					Year 8	Year 9	Year 10	Year 11	Year 12
	Calculated dividend available	54	54	Year 3 <b>54</b>	Year 4 y	'ear 5 54	Year 6	Year 7	Year 8 54	Year 9 54	Year 10 54	Year 11 54	
	Calculated dividend available Calculated tax benefit												
	Calculated dividend available	54	54						54				54
	Calculated dividend available Calculated tax benefit Amount available for	54 38	54	54	54 *	54 *	5 <b>4</b>	54 	54 *	54 *	5 <b>4</b> *	54 *	
	Calculated dividend available Calculated tax benefit  Amount available for debt service	54 38	54 *	54	54 *	54 *	5 <b>4</b>	54 	54 *	54 *	5 <b>4</b> *	54 *	Year 12 54
	Calculated dividend available Calculated tax benefit  Amount available for debt service  Beginning principal balance	54 38	54 % 54 *	54	54 *	54 *	5 <b>4</b>	54 * 54	54 *	54 *	5 <b>4</b> *	54 *	54 54
	Calculated dividend available Calculated tax benefit  Ampunt available for debt service Beginning principal balance Interest	54 38 92 1,103	54 % 54 *	54	54 *	54 *	5 <b>4</b>	54 * 54	54 *	54 *	5 <b>4</b> *	54 *	54 54
	Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest Principal reduction	54 38 92 1,103 *	54 * * *	54 * 54 * *	54 * * * * * * *	54 * 54 *	54 * 54 * *	54 * 54 * *	54 * 54 * *	54 *	5 <b>4</b> *	54 *	54
	Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest Principal reduction Ending principal balance	54 38 92 1,103 *	54 * 54 * *	54 * 54 * *	54 ** 54 ** **	5.4 \$ \$ \$ \$ \$	54 * 54 * *	54 * 54 * *	54 * 54 * *	54 * 54 * *	54 * 54 * *	54 * 54 *	54 54
	Calculated dividend available Calculated tax benefit  Amount available for debt service Beginning principal balance Interest Principal reduction Ending principal balance Debt service margin	54 38 92 1,103 * * -66 -66	54 * * * * * * -104 -170	\$4 * \$4 * * * * * -104 -274	\$4 * \$4 * * * * * * * * * * * * * * * * * * *	54 * * * * *	54 * * * * *	54 * 54 * * *	54 * 54 * * *	54 * 54 * * *	54 * 54 * * *	54 * * * * *	54

Data Source: Year-end 1984: Sheshunoff Banks of Kansas (c) Sheshunoff ! Co. BANK NO. 11 Capital of bank to be acquired......... 41,277 (amounts in thousands) Total assets of bank to be acquired..... \$10,900 (average assets for year) Capital to total assets ratio..... 11.72% 25% required equity..... \$320 75% to be financed..... \$959 Rate of interest on financing..... 9.50% Years for repayment (assume annual payments - twelve years maximum)..... 12 Assumed annual earnings..... \$75 Calculated return on average assets.... 0.69% Assumed effective tax rate...... Assumed dividend payout policy..... 75% Calculated annual payment on debt..... \$137 REPAYMENT SCHEDULE Year 9 Year 1 Year 2 Year 3 \_Year 5 Year 6 Year 7 Year 8 Year 10 Year 11 56 56 56 56 56 56 Calculated dividend available 56 56 5456 Calculated tax benefit 33 Amount available for 56 56 56 56 56 56 debt service 89 56 56 Beginning principal balance 959 Interest Principal reduction Ending principal balance -81 -81 -81 -81 -61 18--81 -81 Debt service margin -48 -81 -81 -129 -211 -292 -373 -454 -535 -697 -7/8 -859 -940 Cumulative debt service margin -48 -616 (\*) Debt service exceeds dividend policy (including tax benefit) Dividend policy needed for

139%

debt service

185%

183%

100%

100%

181%

163%

187%

1937

183%

197%

s. lull - smith center, kansas - 1986

Data Source: Year-end 1984: Sheshunoff Banks of Kansas (c) Sheshunoff & Co. BANK NO. 12 Capital of bank to be acquired...... \$1,342 (amounts in thousands) Total assets of bank to be acquired..... \$11,360 (average assets for year) Capital to total assets ratio..... 11.81% 25% required equity..... \$336 \$1,007 75% to be financed....... 9.50% Rate of interest on financing..... Years for repayment (assume annual 12 payments - twelve years maximum).... \$145 Assumed annual earnings..... Calculated return on average assets.... 1.28% 3.6% Assumed effective tax rate..... 757 Assumed dividend payout policy..... Calculated annual payment on debt..... \$144 REPAYMENT SCHEDULE Year 9 Year 10 Year 11 Year 8 Year 4 Year 5 Year 6 Year 7 Year 1 Year 2 Year 3 107 109 109 109 109 109 107 109 109 109 109 109 Calculated dividend available Calculated tax benefit 34 Amount available for 109 109 107 109 107 109 109 143 109 debt service 1,007 Beginning principal balance Interest Principal reduction Ending principal balance -35 -35 -35 -35 -35 -35 -35 -75 -35 -35 -1 -35 Debt service margin **-39**€ -284 -319 -355 -213 -249 -142-178 -36 -72 -101 Cumulative debt service margin (\*) Debt service exceeds dividend policy (including tax benefit) Dividend policy needed for 27% 99% 097 99% 76% debt service.\_\_\_

m. lull - smith center, bensas - 1986 Bankbuy Study Data Source: Year-end 1984: Cheshunoff Banks of Kansas (c) Sheshunoff & Co. BANK NO. 13 Capital of bank to be acquired...... \$1,625 (amounts in thousan!s) Total assets of bank to be acquired..... \$19,585 (average assets for year) 8.30% Capital to total assets ratio..... 25% required equity..... \$407 75% to be financed..... \$1,230 9.50% Rate of interest on financing..... Years for repayment (assume annual 12 payments - twelve years maximum).... Assumed annual earnings..... \$190 0.97% Calculated return on average assets.... 36% Assumed effective tax rate..... 75% Assumed dividend payout policy..... Calculated annual payment on debt..... \$175 REPAYMENT SCHEDULE Year 11 Year 12 Year B Year 9 Year 10 Year 6 Year 7 Year 1 Year 2 Year 4 Year 5 Year 3 143 143 143 143 143 143 143 143 143 143 143 Calculated dividend available 5 10 19 15 37 35 32 30 42 4.0 Calculated tax benefit Amount available for 153 148 157 165 162 178 175 172 169 182 180 debt service 184 305 159 560 438 772 670 1,096 1,026 949 864 1,220 1.161 Beginning principal balance 53 42 29 15 64 82 73 97 116 110 104 Interest 159 146 93 101 111 121 133 84 46 7.0 77 Principal reduction 59 305 159 438 854 772 560 1.026 949 1,096 Ending principal balance 1.161 -22 -27 -17 -9 -13 (3 -3 10 Debt service margin -76 -5 -22 -45 18 23 23 26 26 1.0 17 Cumulative debt service margin

(\*) Debt service exceeds dividend policy (including tax benefit)

Dividend policy needed for debt service

70%

717

72%

79%

76%

78%

807

0.2%

84%

86%

59%

BANK NO. 14

Data Source: Year-end 1984: Sheshunoff Banks of Kansas (c) Sheshunoff & Co.

Total assets of bank to be acquire	d	15 <b>.7</b> 15 (a	verane assi	ets for v	ear)								
		7.60%					-						
Capital to total assets ratio				-									
25% required equity		\$299											
75% to be financed		\$895											
Rate of interest on financing	• • • • • •	9.50%											
Years for repayment (assume annual payments - twelve years maximum		12											
Assumed annual earnings		\$146											
Calculated return on average asset	5	0.93%											
Assumed effective tax rate		36%						,					
Assumed dividend payout policy		75%											
Calculated annual payment on debt.		\$128			_								
	ear 1 \	lear 2	Year 3	Year 4	_Year	r 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year ii	Year 12
Calculated dividend available	110	110	110	110		110	110	119	110	110	110	110	110
Calculated tax benefit							110		* * * *	*	•		
	31	2.9	28	26		2 4	22	19	17	14	11	8	4
Amount available for	31	29	28	26		24			17	14	11	E	4
Amount available for debt service	31	29 139	28 137	26 135		24 133		19			11	117	4 114
				_			22		17	14	11	E	4 114 117
debt service	140	139	137	135		133	22 131	129	17	14	11	117	4 114
debt service Beginning principal balance	140 896	139 852	137 805	135 _753		133	22 131 635	129 567	17 126 492	14 124 411	1 f 12 1 32 2	8 117 224	4 114 117
debt service Beginning principal balance Interest	140 876 85	139 852 81	137 805 76	135 _753 _72		133 697 66	22 131 635 60	129 567 54	17 126 492 47	14 124 411 39	11 121 322 31	117 224 21	114 117 11
debt service Beginning principal balance Interest Principal reduction	140 896 85 43	139 852 81 47	137 805 76 92	753 72		133 697 66 62	22 131 635 60 68	129 567 54 74	17 126 492 47	14 124 411 39	11 121 322 31 98	117 224 21 107	114 117 11
debt service  Beginning principal balance  Interest  Principal reduction  Ending principal balance	140 896 85 43	139 852 81 47 805	137 805 76 52 753	753 753 72 - 57	-	133 697 66 62 635	22 131 635 60 68 567	129 567 54 74 492	17 126 492 47 81 411	14 124 411 39 69 322	11 121 322 31 98 224	117 224 21 107 117	114 117 11 117 0
debt service  Beginning principal balance  Interest  Principal reduction  Ending principal balance  Debt service margin	140 896 85 43 852 12	109 852 81 47 805 10	137 805 76 92 753 9	753 753 72 . 57 .697 7	-	133 697 66 62 635	22 131 635 60 68 567 3	129 567 54 74 492	17 126 492 47 81 411 -2	14 124 411 39 69 322 -5	11 121 322 31 98 224 -8	117 224 21 107 117	114 117 11 117 117 1-0

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Year 12

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Bankbuy Study		fi.	. lull -	smith c	enter, Fan	sas - 1	.986				02-20-86 0
 BANK NO. 15	Dat	ca Source:	: Year-end	19 <b>84:</b> 5h	estanoif B	lanks of Kar	is <b>as</b> (c) 5	hestunoff (	ù Co.		
Capital of bank to be acquired		\$252 (.	emounts in	(h <b>ousan</b> es	· )			5 .			
Total assets of bank to be acquired.		\$2,055 (	average ass	ots for y	ear)						
Capital to total assets ratio		12.26%									
 25% required equity		\$63									
75% to be financed		\$189			• •						
Rate of interest on financing		9.50%									
 Years for repayment (assume annual payments - twelve years maximum).		12			400						
Assumed annual earnings		\$35									
Calculated return on average assets.		1.70%			war-						
Assumed effective tax rate		36%									
Assumed dividend payout policy	• • • •	75%			-						
 Calculated annual payment on debt		\$27									
REPAYMENT SCHEDULE		m pa pa pa pa pa an rei ve ee e			and the bar and the training the training						
Year	1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Calculated dividend available	26	26	26	26	26	26	26	26	26	26	26
Calculated tax benefit	6	ь	Ь	£.	5	5	4	4	3	2	2
Amount available for	33	32	32	32	31	3 <b>1</b>	30	30	29	29	28
Beginning principal balance	189	180	<b>1</b> 70	_ 159	147	134	120	104	87	68	47
Interest	18	17	16	15	1.7	13	11	10	9	6	
Principal reduction	9	10	11	. 12	13	1 4	16	17	19	21	
 Ending principal balance	190	170	157	147	134	120	104	87	84	47	25
Debt service margin	6	5	S	t.	Ą	Ą	3	3	2	2	í
The second of the second secon	,		4.1	. 21	25	29	32	35	37	38	39

(\*) Debt service exceeds dividend policy (including tax benefit)

Cumulative debt service margin

1.1

Dividend policy needed for 75% 73% 71% 66% 57% 69% 64% 61% 63% 59% 60% debt service

m. lull - smith center, kansas - 1986

BANK NO. 16	Data	Source:	Year-end	1984: Shesh	unoff Banl	cs of Kansa	s (c) Shes	shunoff & C	Co.			
Capital of bank to be acquired	\$	1,135 (am	ounts in t	housands)								
Total assets of bank to be acquired	\$1	5,406 (av	erage assa	ts_for year	)							
Capital to total assets ratio		7.37%										
25% required equity		\$284										
75% to be financed		\$851										
Rate of interest on financing		9.50%										
Years for repayment (assume annual payments - twelve years maximum)		12		LIMPS -		. 1 000	ı					
Assumed annual earnings		\$51										
Calculated return on average assets.		0.33%										and the
Assumed effective tax rate		36%										
Assumed dividend payout policy		75%										
Calculated annual payment on debt		\$122		- 40								
REPAYMENT SCHEDULE Year	1 Y	ear 2	Year 3 '	Yea <u>r</u> 4 <u>Y</u>	ear 5 Y	rear 6 Y	ear 7 Y	'ear_8 Y	ear 9	Year 10, '	Year 11	Year 12
Calculated dividend available	38	38	38	38	28	38	38	38	38	38	38	38
Calculated tax benefit	29	*	¥	*	*	*	*	 *	ķ	×	*	*
Amount available for debt service	67	. 38	38	38	38	38	38	38	38	38	28	38
Beginning principal balance	851	*	* .		*	*	*	¥	*	*	*	*
Interest	*	<u>×</u>	*	*	*	*	*	*	*	*	*	ř
Principal reduction	*	*	*	. *	*	*	*	*	*	ň	**	*
Ending principal balance	*	ž	*	* -	÷	*	*	₩	*	*	¥	. *
Debt service margin	-55	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84
Cumulative debt service margin	-55	-138	-222	-305	-389	-473	-556	-640	-724	-807	-891	-975
(*) Debt service exceeds divide	nd polic	y (inclu	ding tax be	enef <b>i</b> t) _								
Dividend policy needed for debt service	182%	239%	239%	2091	239%	239%	239%	239%	239%	239%	239%	gan an ang a Der e

debt service

Data Source: Year-end 1984: Sheshunoff Banks of Kansas (c) Sheshunoff & Co. BANK NO. 17 Capital of bank to be acquired..... \$3,113 (amounts in thousands) Total assets of bank to be acquired.... \$26,886 (average assets for year) Capital to total assets ratio..... **\$778** 25% required equity..... 75% to be financed...... \$2,335 Rate of interest on financing..... Years for repayment (assume annual 12 payments - twelve years maximum).... \$313 Assumed annual earnings..... 1.16% Calculated return on average assets.... 36% Assumed effective tax rate..... 75% Assumed dividend payout policy..... Calculated annual payment on debt..... REPAYMENT SCHEDULE Year 11 Year 9 Year 10 Year 5 Year 1 Year 2 Year 3 Year 4 235 235 235 239 235 235 235 235 235 235 Calculated dividend available 235 80 Calculated tax benefit Amount available for 235 235 235 235 235 235 235 235 235 235 debt service Beginning principal balance 2,335\_\_\_ Interest Principal reduction Ending principal balance -100 -100 -100-100-100 -100 -100 -100 -100 -100 -20 Debt service margin -1.015-1,115 -816 -916 -517 -617 -717-219 -318 -418 -119 Cumulative debt service margin (\*) Debt service exceeds dividend policy (including tax benefit) Dividend policy needed for 107% 1 771 107% 107%

107%

167%

81%

1071

107%

107%

78%

74%

72%

713

76%

BANK NO. 18 Data Source; Year-end 1984: Cheshunoff Banks of Kansas (c) Sheshunoff & Co.

64%

63%

65%

Capital of bank to be acquired...... \$2,103 (amounts in thousands) Total assets of bank to be acquired.... \$22,749 (average assets for year) 9.24% Capital to total assets ratio..... 25% required equity..... \$526 75% to be financed..... \$1,577 9.50% Rate of interest on financing..... Years for repayment (assume annual 12 payments - twelve years maximum)..... \$271 Assumed annual earnings..... 1,19% Calculated return on average assets.... 36% Assumed effective tax rate..... Assumed dividend payout policy.....

REPAYMENT SCHEDULE

Dividend policy needed for

debt service

Calculated annual payment on debt.....

	Year i	Year 2	Year 3	Yea <u>r</u> 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	_Year _11	Year 12
Calculated dividend available	203	203	203	203	203	203	203	203	203	203	203	203
Calculated tax benefit	54	51	48	45	42	38	3.4	30	25	19	13	7
Amount available for debt service	257	255	252	249	245	241	237	233	228	223	217	210
Beginning principal balance	1,577	1,501	1,418	1,327	_ 1,227	1,118	998	867	724	567	395	205
Interest	150	143	135	126	117	106	95	82	69	54	37	20
Principal reduction	76	83	91	. 100	109	120	131	143	157	172	188	205
Ending principal balance	1,501	1,418	1,327	1,1227	1,118	998	867	724	567	395	206	0
Debt service margin	31	29	26	23	19	16	12	7	2	-3	-9	-16
Cumulative debt service margin	31	60	86	109	128	144	155	162	165	161	152	137
(*) Debt service exceeds dividend policy (including tax benefit)												

68%

97%

81%

83%

97)7

m. lull - smith center, kansas - 1986 Bankbuy Study Data Source: Year-end 1984: Sheshenoff Parks of Kansas (c) Sheshenoff & Co. BANK NO. 19 Capital of bank to be acquired..... \$3,586 (amounts in thousands) Total assets of bank to be acquired.... \$45,860 (average assets for year) Capital to total assets ratio..... 7.82% 25% required equity..... \$2.690 75% to be financed..... 9.50% Rate of interest on financing..... Years for repayment (assume annual 12 payments - twelve years maximum).... \$403 Assumed annual earnings..... 0.88% Calculated return on average assets.... 35% Assumed effective tax rate...... Assumed dividend payout policy..... 75% Calculated annual payment on debt..... REPAYMENT SCHEDULE Year 12 Year 10 Year 11 Year 7 Year 8 Year 9 Year 6 Year 3 Year 4 Year 5 Year 1 Year 2 302 302 302 302 302 302 302 302 302 302 302 302 Calculated dividend available 23 12 42 33 58 51 72 65 83 77 Calculated tax benefit Amount available for 314 360 353 344 335 325 357 380 374 390 385 debt service 352 673 1,234 2,072 1,906 1.702 1,479 2,263 2,418 2,560 Beginning principal balance 2,690 64 33 92 162 140 117 215 199 181 230 256 243 Interest 293 321 352 245 268 223 204 142 155 170 186 130 Principal reduction 966 673 352 - () 1,234 1,702 1,479 1,906 2,418 2,263 2.092 2,560 Ending principal balance -50 -60 -71 -25-32 -41 -18 -0 -5 -11 Debt service margin -279 -228 -45 -73 -118-168 -3 -21 14 Cumulative debt service margin (\*) Debt service exceeds dividend policy (including tax benefit)

78%

76%

75%

74%

73%

79%

V 6 (2.7)

Dividend policy needed for

debt service

BANK NO. 20

Data Source: Year-end 1984: Sheshunoff Banks of Kansas (c) Sheshunoff & Co.

Capital of bank to be acquired..... \$3,066 (amounts in thousands) Total assets of bank to be acquired.... \$37,992 (average assets for year) Capital to total assets ratio...... 8.07% 25% required equity..... \$767 75% to be financed..... \$2,300 Rate of interest on financing..... 9.50% Years for repayment (assume annual 12 payments - twelve years maximum)..... \$475 Assumed annual earnings..... 1.25% Calculated return on average assets..... 36% Assumed effective tax rate..... Assumed dividend payout policy..... 75% \$329 Calculated annual payment on debt.....

REPAYMENT SCHEDULE

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year_12
Calculated dividend available	356	356	356	356	356	356	356	356	356	356	556	354
Calculated tax benefit	79	75	71	66	61	56	50	43	36	28	29	10
Amount available for debt service	435	431	427	422	417	412	406	399	392	385	376	367
Beginning principal balance	2,300_	2,189	2,067	1,934	1,789	1,630	1,455	1,264	1,055	826	575	301
Interest	218	208	196	184	170	155	138	120	100	78	55	29
Principal reduction	111	121	133	145	159	174	191	209	229	251	275	301
Ending principal balance	2,189	2,067	1,934	1,789	1,630	1,455	1,264	1,055	826	575	301	- ()
Debt service margin	108	102	98	93	68	83	77	70	63	55	47	37
Cumulative debt service margin	106	207	305	3 <b>9</b> 8	486	569	646	716	779	835	881	919

(\*) Debt service exceeds dividend policy (including tax benefit)

Dividend policy needed for debt service 53% 54% 54% 55% 55% 55% 56% 56% 62% 63% 65% 65%

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Bankbuy Study		n.	1 u 1 1	- smit	h cent	ier, kansa	s - 198	B6			02-	20-86 03:	:19:53P
BANK NO. 21	Data	Source:	Year-e	nd 1984:	Shesh	nunoff Ban	ks of Kansi	as (c) She	shunoff & C			The state of the s	
Capital of bank to be acquired	&	1 015 (2	mounts i	n thousa	nds)								
			verage a			r)							
Total assets of bank to be acquired.			iverage a	(336(3	1 / 1.41	, ,							
Capital to total assets ratio		11.91%			**								
25% required equity		\$254											
75% to be financed		\$762	1.0	=									
Rate of interest on financing		9.50%											
Years for repayment (assume annual payments - twelve years maximum).	, . , .	12											
Assumed annual earnings		\$71											
Calculated return on average assets.		0.83%	a commit										
Assumed effective tax rate		36%						T.					
Assumed dividend payout policy		75%		con table is									
Calculated annual payment on debt		\$109	· · · · ·										
REPAYMENT SCHEDULE Yea	r. 1Y	ear 2	Year 3	Year	4 (1)					•		ear_11	/ear 12 53
Calculated dividend available	53	53	53	;	53	53	53	53	53	53	53	J. J	
Calculated tax benefit	26	*		#	*	ę.	*	*	*	¥	*	×	¥
Amount available for debt service	79	53	 53	3	53	53	53	53	53	53	53	53	53
Beginning principal balance	762	*,		.*	¥	¥	*		*	*	.*	*	ŧ
Interest	*	*		*	¥	*	*	*	*	*	*	*	*
Principal reduction	*	¥	+ N.W. IA	* .	*	*	*	*	Ħ	*	*	*	*
Ending principal balance	*	*		*	*	*	*	*	*	*	* *	*	*
Debt service margin	-30	-56	-54	ь ·	-56	-56	-56	-56	-56	-56	-56	-56	-56
Cumulative debt service margin	-30	-86	-14	2 -	197	-253	-309	-365	-421	-477	-533	-588	-644
(*) Debt service exceeds divide	end poli	cy (incl	uding ta	x benefi	t)								
Dividend policy needed for debt_service	117%	154%	15	4%	154%	154%	154%	154%	154%	154%	154%	154%	154%

m. lull - smith center, kansas - 1986

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BANK NO. 22	Data S	Source:	Year-end 19	84: Sheshi	inott Banks	3 Of Kansa	5 (E) SHEST	lanon a c					
Capital of bank to be acquired	\$1	.057 (amo	unts in the	ousands)									
Total assets of bank to be acquired					)								
Capital to total assets ratio		7.52%	•										
		\$264				. · · -							
25% required equity		*793											
75% to be financed		9.50%											
Rate of interest on financing		7.104											
Years for repayment (assume annual payments - twelve years maximum)		12											
Assumed annual earnings		\$110											
Calculated return on average assets		0.78%	lead				. ,						
Assumed effective tax rate		36%											
Assumed dividend payout policy		75%											
Calculated annual payment on debt.		\$114											
REPAYMENT SCHEDULE Ye	ar 1 Yea	ar 2 Y	ear <u>3</u> Ye	ear 4 Y	ear 5 Y					ear 10 Y	ear 11 Y	ear_12 83	-,
Calculated dividend available	83	83	83	83	83	83	83	83	83	0.5		x	
Calculated tax benefit	27	*	*	¥	*	*	*	*	¥	*	*	·	
Amount available for debt service	110	83	83	83	83	83	83	83	83	83	83	83	
Reginning principal balance	793	*	*	*	*	*	* .	*	*	<b>.</b>	*	* .	
Interest	*	*	*	*	*	*	*	*	*	*	*	*	
Principal reduction	*	*	*	, *	*	*	*	*	*	ň	¥	*	
Ending principal balance	<b>*</b>	*	¥	*	*	, *	<b>7</b> :	*		¥	*	*	
Debt service margin	-4	-31	-31	-31	-31	-31	-31	-31	-31	-31	-31	-31	
Cumulative debt service margin	-4	-35	-66	-97	-128	-159	-190	-221	-252	-283	-314	-345	
(*) Debt service exceeds divi	dend policy	/ (includ	ing tax ber	nefit)									
Dividend policy needed for debt service	79%	103%	103%	107%	103%	103%	103%	103%	103%	103%	103%	103%	

## REFLECTIONS ON THE STUDY

Given that the appendix A data indicates that only one of the twenty-three banks utilizing a 50% dividend policy can provide sufficient cash flow to service the acquisition debt lends strong argument that there are other benefits to Senate Bill 636.

Utilization of a consolidated cash flow from the acquired and absorbed bank with that of the acquiring/absorbing bank seems necessary to adequately service the acquisition debt of the acquired bank. Assuming that the financial condition of the acquiring bank is satisfactory, and that it might have little, if any, debt prior to the acquisition and absorbtion of the second bank, the combination of banks could more safely repay the acquisition debt compared to a unit-bank purchase situation with no absorbtion by another.

It appears some correspondent banks that have, in the past, provided financing for bank purchases have tightened credit available to purchasers somewhat, and it is probable that obtaining as much as 75% acquisition financing might be difficult in some instances. The strengthened cash flow, and additional collateral available, that would come from a purchase and absorbtion situation should make financing a much more feasible proposition.

## TESTIMONY REGARDING SENATE BILL 636 before the Senate Committee on Financial Institutions & Insurance

## Presented by

J.B. Warren February 26, 1986

Mr. Chairman and members of the committee. I am Jim Warren,
Chairman of the Farmers State Bank in Galva, Kansas and
President of the Kansas Independent Bankers Association.

I appear here to strongly oppose SB 636.

It is a bill that would authorize statewide branch banking.

For the last several years many of you have observed a parade of witnesses before this committee discussing bank structure issues stating their strong opposition to statewide branch banking. You have copies of testimony on record of numerous officers of the Kansas Bankers Association expressing their strong opposition. The Kansas Independent Bankers Association is also on record many times expressing their opposition to statewide branch banking.

SB 636 as I interpret it, would permit any bank, chain of banks or multibank holding company system to take the assets, liabilities, capital, surplus and undivided profits and merge them with one central bank leaving only a string of branches across Kansas. There is no mention in the bill of a distressed bank or any other specific qualifications for such a merger. In fact, there appears to be few restrictions other than the acquired bank must have been in existence for five or more years.

S. FII 2/26/86 Attachment II Warren Testimony 2/26/86 Page -2-

Since there are no specific requirements to justify such a merger and there is no criteria or guidelines to provide any direction for the bank commissioner, it is assumed that the commissioner could approve any such proposal upon receipt of an application. Coupled with the current multibank holding company law in Kansas, it is easily conceivable under SB 636 to have even small multibank systems in Kansas with more than 150 branches. This total would be feasible considering the inclusion of the three authorized detached facilities stated in the bill.

Branching could hopscotch across the state even though the bill states home and contiguous county branching.

In a hypothetical example using a multibank holding company owning banks in just Topeka and Hutchinson, each of these two banks could own 3 detached facilities. In addition to this, each bank could acquire any number of banks in the home counties and contiguous counties of these two cities, plus up to 3 more facilities for each acquired bank. An illustration of this is included on the last page of my handout.

You can see how easily statewide branch banking could spread across the state and how the control of Kansas banks would become more and more centralized.

The Kansas legislature has historically been opposed to the concentration of the financial resources of this state in the hands of fewer and fewer individuals.

Chairman, members of the committee, we respectfully request you report SB 636 adversely.