

Minnesota House Commerce Committee remote hearing Wednesday, May 6, 2020 at 2:30pm

HF 4067 (Elkins) Bank and trust company authorized investments modified

In 1975 the Statute was added to allow the creation of the nation's first "Bankers Bank", then called Independent State Bank of Minnesota. The reason for its creation was to allow Minnesota community banks to invest in, and operate a correspondent bank to exclusively serve their needs since the larger multi-state banks that were then offering those services were also competitors for the smaller bankers customers.

The bank is now known as United Bankers Bank ("UBB") and continues to only do business with community banks as it was initially set up to do. Since the "Bankers' Bank" was so successful in serving the needs of community banks in Minnesota, it became a model for the country and throughout the decades that followed other states also started similar banks.

Over the years the Minnesota model (UBB) expanded beyond state borders to better serve the region, especially in areas where similar institutions did not exist. In the more recent past some of the other bankers' banks have decided to merge to achieve economies of scale and allow more efficient access to the broader economy most banks now operate in.

In 1975 when Independent State bank was organized, legislation stated that no less than 51% of the ownership had to be held by Minnesota banks as a way to ensure the novel experiment would not become controlled by a larger out of state bank. Although that intent was good at the time, it now has the potential to be counterproductive to the Minnesota charter it was intended to support.

With bankers' bank mergers now occurring, our bankers' bank is concerned the restriction of 51% could impede their efforts to be the survivor in a proposed merger. Every other state with a bankers' bank does not have a similar restriction. Therefore if a merger were to occur, the possibility exists that even though the Minnesota bankers' bank (UBB) may be better positioned with staffing and resources the restriction on ownership may cause a significant enough impediment that the surviving bank charter may go to a state which could accommodate a wider field of ownership. In addition, removing the last part of the statute helps ensure that the Minnesota banks who are shareholders of UBB will not end up with a "non-conforming investment" (legal when purchased, but, due to business changes, would not be legal now) if/when MN bank ownership dips below 51% of the total outstanding shares of UBB.

For that reason HF 4067 is in front of us today to simply remove the 51% restriction, putting our state on equal footing with others, so in the case of a merger we have a better opportunity to retain the charter and jobs here in Minnesota, rather than risking they move to some other state because of a technicality in the statute.