

Peoples Bank and Trust

Date: November 18, 2024

To: Special Committee on Centralized Pooled Collateral and Pooled Money
Investment Board (PMIB) Modernization
Senator Jeff Longbine, Chair
Representative Nick Hoheisel, Vice-Chair

From: Tom Pruitt, President & CEO, Peoples Bank & Trust Company
McPherson, KS

Re: Public Funds Pooled Collateral and Linked Deposit Loan Modernization

Mr. Chairman and committee members, I am Tom Pruitt, President and CEO of Peoples Bank & Trust, McPherson. Peoples Bank just celebrated our 126th year of serving our customers in central, southern, and western Kansas. We currently serve 15 communities found in 8 counties with 17 banking branches. Our corporate offices are in McPherson, in the same building in which our bank was founded in 1898. We will expand our footprint to 21 locations with the acquisition of Kanza Bank in early April 2025, bringing our total assets to approximately \$1.5 billion. Today I speak on behalf of our bank and also as a Board Member of Community Bankers Association of Kansas.

I am very grateful for this opportunity to express my thoughts on the importance of public funds and how they assist banks across the state in supporting and improving their respective communities. I would like to give a few examples.

First, at Peoples Bank, we stress four core values that lead to our core focus of *"Impacting the Communities We Serve"*. We impact those communities in several ways, most significantly with our lending programs to consumers and businesses. Peoples Bank strives to be a core deposit lender, meaning we prefer to fund our lending needs with customer deposits first. We are fortunate to have numerous public sector customers throughout our banking footprint and we strive to satisfy their depository needs. In turn, just as we use consumer deposits, we then use those public deposit funds to help fund the loans. Currently, we are loaning up to 85% of our deposits to our customers. Public funds of nearly \$100 million represent at least 10% or more of our total deposit balances. As you can see, our mission to support and impact our communities would be greatly hampered without the use of public funds.

Second, coming out of the Covid years of 2020 and 2021, our bank, like others across the state, had a surplus of deposits. However, we found that as our local economies came



back to life, loan demand was very high and continues to be strong yet today. Unlike many banks, we were able to maintain and build our deposit base in the face of growing loan demands. Obviously, public funds played a crucial role in meeting our customer loan needs and were instrumental in bringing our communities back following the pandemic. However, the banking industry began to experience loan growth on their balance sheets that rapidly consumed their capacity to fund the loans. Generally, loan growth greatly exceeded the ability to raise deposits to fund the growth, creating a liquidity crisis.

Third, as you may recall, in April of 2023 the nation was rocked by the failure of three large regional banks. These banks were significantly stressed with liquidity issues which led to their demise. Two months later, our bank began a Safety and Soundness Exam with FDIC which had been scheduled many months prior. A major emphasis of this exam, as you might expect, was investigating the liquidity of our bank. In general, liquidity is measured by the cash on a bank's balance sheet plus the availability of investment securities that can be used for pledging to help secure the safety of customer deposits beyond the FDIC insurance coverage. I am thankful to report our bank passed the intense scrutiny of this FDIC exam, but liquidity remains a hot topic for banks going through exams today.

Finally, in discussions with other banks across the state, I find many are experiencing lots of loan demands for lending needs in agriculture, commercial business, and housing. These are critical areas for our state and the needs are great in the face of housing shortages and the current stresses of an ag economy that is dealing with drought and low commodity prices. Yet the liquidity issues continue to plague many of our state's community banks. In some cases, I believe it has led to an increased merger and acquisition activity throughout our state. Within the last week, I received a phone call from a fellow banker who has also experienced rapid loan growth with limited deposit growth. His request was for our bank to purchase a participation of his customer's loan balance to help fund their growing business. While our bank has helped in the past, because of recent large commitments we have made for agriculture and housing projects, regrettably I had to pass on assisting with this need.

I give you these examples of real-life banking situations in Kansas to further my point of how important public funds are to the lifeblood of our Kansas communities. The public sector develops these funds from the services they provide to the residents of our state. In turn, it is so important for the wellbeing of our state's economy that all public fund dollars be invested in our own state. The best means for doing this is to make available those public funds to the community banks of Kansas, who effectively and efficiently use those funds to build our Kansas economy.

In summary, the community banks of Kansas stand ready to meet the growing demands of our state's loan demands, thus enhancing the quality of life in Kansas. To meet those demands, however, community banks need access to the deposit funds of our state's public sector. Thank you for reviewing the processes to keep these funds invested in our state rather than allowing them to move out of Kansas for investment purposes.



Thank you, Mr. Chairman and your committee, for allowing me to testify today. I am available to answer any questions or respond to comments you may have.

Sincerely,



Tom Pruitt
President & CEO
Peoples Bank & Trust Co.

