

Kansas

Quarterly Interest

The Newsletter of the Office of the State Bank Commissioner

Commissioner's Corner

J. Thomas Thull
Bank Commissioner



What a tremendous opportunity I have been given by Governor Kathleen Sebelius. To work with all of you, and the staff at the Office of the State Bank Commissioner is an honor and a privilege. After four months in the position, I believe serving as State Bank Commissioner will be the best experience in my professional life.

I have had great life experiences, beginning with my collegiate career at Kansas State University where I earned a degree in Agriculture. After teaching for one year at Riley County High School, I began a nine year stint with USDA, working for what was then known as Farmers Home Administration. FmHA treated me well, but the allure of commercial banking was irresistible, and in 1985 I accepted a position at Central State Bank in Hutchinson. For the past 18 years I have worked for two national banks in Newton, Midland National Bank and Central National Bank, where I served as Vice-President and Branch President, respectively.

My family and I have lived in North Newton for 18 years. During that time I had the honor of serving as Mayor of North Newton for eight years, followed by four years in the Kansas State Legislature representing the 72nd District.

We have an extremely talented staff here at the OSBC. I am confident the bankers of Kansas will remain the beneficiaries of their experience and knowledge. I am hopeful my banking and legislative experiences will prove beneficial as we address the issues facing our industry.

I would like the opportunity to meet as many of you as possible. When we determine what works best for most of your schedules, we'll set some dates and contact you.

I promise to do my best to maintain the high standards set by former Commissioner Norris and will work diligently to maintain the public's confidence in our industry.

Summer 2007

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Key Elements to Loan Participations Purchased: Due Diligence and Documentation

Mike Jackson, Regional Manager-West

There has been a notable increase in participations purchased as financial institutions across the state of Kansas attempt to diversify the loan portfolio, and/or address the need to increase loan volume during periods of declining loan demand. Routinely, many of the participations purchased are from outside the bank's defined trade area and deviate from the expertise of the loan officers in the purchasing bank. This should not be interpreted to indicate that participations are "bad" or that bank management should not use them as a financial tool to address the needs of the bank. However, management must obtain the proper documentation to perform adequate due diligence before funds are advanced. Additionally, adequate documentation must be maintained to continually analyze the collateral coverage and repayment ability of the credit. While a general reliance on the credit analysis performed by the originating bank is typical, it is imperative that the purchasing bank also complete an independent analysis, ensuring the level of risk in the borrowing relationship is within the defined credit underwriting parameters of the bank.

The Board of Directors must provide daily management with the appropriate lending policies and procedures to ensure participations purchased are achieving desired goals, and are within the risk profile determined by the Board. At a minimum written policies should address: documentation requirements, types of credit preferred, acceptable trade areas, and loan officer limitations. Furthermore, the Board should ensure participation agreements clearly define the rights and responsibilities of both the buyer and the seller describing any recourse arrangements and the agreement by the originating bank to provide credit information on a continuing basis. Finally, the Board must ensure loan officers have the appropriate

expertise to analyze the type of lending represented within the participations purchased.



As stated above, participations purchased are not "bad" and can be a very useful product if used appropriately. However, the fact remains there is risk involved any time funds are advanced. How management identifies, measures, and monitors the risk associated

with participations will be the key to reducing losses and examiner criticism.

Elected to CSBS Board...

At the Conference of State Bank Supervisors' (CSBS) Annual Meeting in May, Deputy Bank Commissioner Judi M. Stork was elected chairman of District 4. During her one year term as District Chairman, Judi will serve on the CSBS Board of Directors. Additionally, she will chair district meetings which facilitate an exchange of issues with area bank commissioners as well as representatives from the federal regulatory agencies. District 4 comprises Colorado, Kansas, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming.

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Disaster Recovery Plan Put to the Test

On May 4, 2007, an EF5 tornado ripped through the town of Greensburg. Ninety five percent of the town was destroyed including numerous homes, businesses, the school, and the hospital. Three Kansas banks are located in Greensburg. The Greensburg State Bank, a branch of Centera Bank, Sublette, and a branch of The Peoples Bank, Pratt



Greensburg State Bank drive up window, three days after the storm.

serve the Greensburg community and surrounding areas. All three banks occupied locations on Main Street and all were either partially or totally destroyed. The vaults of all the banks withstood the storm and remained intact. Law enforcement provided protection of the vaults for all three institutions.

Immediately after the tornado, all three banks began actively working through their disaster recovery plans, implementing those plans to arrange alternative buildings to house their banking activities. Employees of Greensburg State Bank, whose charter and only office is located in Greensburg, arrived on Main Street in front of their building with a folding table and a cash box the Monday morning after the tornado. Cash disbursements were made, as well as a few loans, and some deposits were accepted. As this bank lost its computer system to the storm, bank officials had to make arrangements for a back-up



Dea Corns of GSB helps a customer.

computer to be delivered and set up in a neighboring town. Centera Bank and Peoples Bank opened temporary facilities in Mullinville and Haviland, respectively, to provide services to their customers. Additionally, all three banks had modular banking units brought in to the city within



Centera Bank placed their new facility next to an existing ATM on Hwy 54.

two weeks after the tornado. Peoples Bank and Centera Bank located their modulares on Highway 54, while the unit of Greensburg State was placed at the back part of their existing location on Main Street.

The OSBC examining staff from Dodge City made a trip to Greensburg on May 7, 2007 to visit the bank locations and offer assistance. A follow up visit by



Steps were being added to the new facility of The Peoples Bank.

Commissioner Tom Thull and Deputy Bank Commissioner Judi Stork on June 4, 2007 allowed them to call on the banks in the new locations and to see first hand the devastation of the city and the destruction to the banking facilities. At each location bankers shared their personal stories of the tornado, their plans about rebuilding, and their hopes for the town of Greensburg. All the bankers emphasized the importance the bank's business continuity and disaster recovery planning played in getting the bank back up and running. The plans worked as they were meant to.

What About Those Numbers?

Dana S. Hampton, Director of Corporate Activities

Since year-end 2006, two banks have merged out of existence and one new bank has opened for business. There are 254 state-chartered banks operating in Kansas. No changes have been reported in Kansas state-chartered trust companies.

On January 16, 2007 Millennium Bank opened for business in Junction City. The bank opened with total capital of \$4,800,000 and Maureen Gustafson is bank president. The bank operated from temporary quarters at 203 South Washington while the permanent building was under construction. A move to the new building at 121 North Washington occurred on June 22, 2007.

On January 22, 2007 First Community Bank, Kansas City merged into Security Bank of Kansas City, Kansas City. Effective March 17, 2007, First State Bank, Junction City, merged into Intrust Bank, N.A., Wichita.

On June 26, 2007 The Trust Company of Manhattan, Manhattan moved from 330 Poyntz Avenue into a new office at 800 Poyntz, Manhattan.

Also, since the first of the year, we have received notice of the opening or relocation of several branch offices. Information about these offices follows.

Signature Bank, Haddam - opened a branch office at 8880 West 151st Street, Overland Park, on January 3, 2007

United Bank & Trust, Marysville - opened a branch office at 2000 North Tuttle Creek Boulevard, Manhattan, as a result of a branch acquisition from Armed Forces Bank, N.A. on January 8, 2007

Commerce Bank, Topeka - opened a branch office inside Wal-Mart at 2600 NW Rochester Road, Topeka, on January 22, 2007

Kansas State Bank, Manhattan - opened a branch office at 716 North 119th Street West, Suite 116, Wichita, on February 1, 2007.

Peoples Bank, McDonald - opened a branch office at 122 West Laurel, Garden City on February 5, 2007.

Labette Bank, Altamont - moved a branch office from 119 North Broadway, LaCygne, to 501 Market, LaCygne, on February 20, 2007

First State Bank & Trust, Tonganoxie - moved a branch office from 1106 155th Basehor, to 15505 Pinehurst Drive, Basehor, on February 26, 2007.

First Bank Kansas, Salina - moved a branch office from 326 NE 14th Abilene, to 1410 North Buckeye, Abilene, on February 26, 2007

Bank of Blue Valley - opened a branch office at 9500 Lackman Road, Lenexa, as a result of the acquisition of the former Western National Bank office on March 29, 2007.

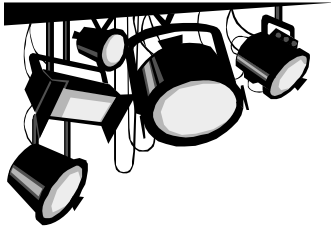
The First State Bank & Trust Co. of Larned - opened a branch office at 7206 College Boulevard, Overland Park, on April 23, 2007.

Scandia State Bank, Scandia - opened branches in Belleville, Abilene and Chapman as a result of the merger of First National Bank, Belleville on May 7. On May 10 the name of the bank was changed to Astra Bank.

Cottonwood Valley Bank, Cedar Point - opened a branch office at 200 Broadway, Cottonwood Falls, on May 21, 2007.

Morrill & Janes Bank and Trust, Merriam - opened a branch at 3215 Carnegie Drive, Suite 100, Lee's Summit Missouri, on May 25, 2007. In order to establish the branch office, the bank first acquired Exchange Bank, Mound City, Missouri. After opening the branch office, assets and liabilities of the former Exchange Bank were sold to Nodaway Valley Bank, Maryville, Missouri.

If you desire more details of any of the transactions, please feel free to contact our office.



Employee Spotlight

ADMINISTRATIVE SERVICES

Kim Mick, Human Resource Professional, joined the OSBC in 1999. She carries out responsibilities in the following areas: recruitment, employer/employee relations, personnel policies, benefits and payroll. Kim has prior state service with Kansas State University and the Department of Revenue. Kim lives west of Holton with her husband Rick. They have two children Sirena, age 23 and Skyler, age 20 and two beautiful grandbabies, Gaby and Eva. She cherishes spending time with her family, especially her granddaughters. Kim has been involved with the Bible Study group at the Evangel United Methodist Church in Holton for the past eight years. Kim enjoys the familiarity she has with all the OSBC employees and hopes they feel the same.

Barbara Worford is a Senior Administrative Assistant and serves as the front desk receptionist. She has been at the OSBC since April of 2003. Her additional duties include recording timesheet and payroll information for all OSBC staff members and updating annual information to bank fidelity bonds. Barbara has one son Marquito who is married to Tammy, who are parents to Barbara's two beautiful grandchildren, eight year old Marquito and four year old Amari. Barbara values spending time with her family and friends and visiting local coffee shops. What Barbara enjoys about OSBC is the friendly pleasantries in our office. She thinks this is awesome.

Judy Bowman is the Accountant for the OSBC. She joined the staff on March 26, 2007. She works with accounts payable and receivable, purchase orders and travel expense reimbursement. She has over 30 years of financial management experience. Judy has two children. Stephanie is a second year law student at UMKC. Her son Brandon is a project manager in product development for Embarq. Fishing, camping, browsing for antiques and stained glass are a few of her interests. Judy enjoys the people she works with in Administrative Services.



Kim Mick, Barbara Worford, Judy Bowman and Louise Monell. Not Pictured: Jennifer Ogleby.

Louise Monell has served as Director of the OSBC Administrative Services Unit for nine years, overseeing the activities of the unit. She is celebrating her 26th year of state service in July. A Washburn graduate with a BA in Administration and Accounting, Louise is a member of the American Academy of Certified Public Managers. Louise has a daughter Mary, age nine. She also enjoys doing arts and crafts and is active in the Ladies Auxiliary and with Mary's school fundraisers. Louise indicated she enjoys the OSBC's perpetual state of growth and change in what the organization does.

Jennifer Ogleby, Public Service Administrator, has worked in Administrative Services since March of this year. Her employment with the OSBC began August 5, 2005 as a Financial Examiner in the Consumer and Mortgage Lending Division. Jennifer is also a new mom, explaining her absence from the photo. Jennifer and her husband Blair welcomed Emma Sidney Ogleby on June 18, 2007. Congratulations to Jennifer and Blair! Jennifer lists biking, swimming and running as leisure activities.

Technology



Matters

Glen Caspers, Regional Manager-Technology Division

Physical Security Controls for Server Locations

As part of our on-site examinations, OSBC staff review a bank's security measures to control both physical and environmental threats to servers and other critical technology components. Basic controls are necessary to help protect the servers and the data stored on those servers. An important step in securing your network's servers is to ensure that they cannot be tampered with physically. One of the worst ways of starting an IT examination is having the examiner march in and spy your servers stacked up behind the teller line. Servers should be located in a locked room to which access is strictly controlled and documented. Banks should not depend on "security through obscurity," thinking that putting these critical computers in an out-of-the-way, but unlocked closet will thwart a determined data thief or disgruntled employee with sabotage on their mind. The following are some physical security controls you should consider at your institution:

1. The room where servers are located should be secure and separate from all other activities. Ideally, this room should be specifically designated as a "server room", with only the servers and related computing equipment stored there. Doors to the room should be kept locked and secured with a key lock, combination lock, card access system, or some other type of lock. Access to the room should be restricted to only those people who need to have access to the servers to perform their normal job functions. Intrusion alarms on the doors or motion sensors in the server room should be considered. If the location has windows facing the outside, they should also be secured, alarmed, and covered so the equipment cannot be seen from the outside. Installation of bars or metal mesh over the windows should also be considered.
2. If a separate room is not available or feasible, consider locking the server case so that an unauthorized person cannot steal the hard disk or

damage the machine's components. Or, at minimum, completely enclose the server(s) in a locked cabinet or cage, making sure to allow adequate ventilation.

3. The server room should have fire/smoke detection monitors. Additionally, fire suppression equipment should be in the room, whether it is a sprinkler system or hand-held fire extinguishers. No one believes it could happen to them — a fire in the data center. But all it takes is a malfunctioning power supply or an improperly maintained AC unit and your data center, and possibly your entire building, goes up in smoke.

4. Water detectors should be placed in the room if the area is prone to moisture, water seepage, or is located near water pipes. Basement locations or locations below or next to bathrooms would be good candidates for moisture detectors.

5. Monitoring environmental conditions such as temperature and humidity is also a good idea. Depending on the volume of space in the area and the amount of equipment in use, heat buildup can occur. Separate cooling units for the area should be considered. Systems are available that monitor room temperatures and notify someone if temperatures reach a predetermined critical point.

6. An uninterruptible power supply (UPS) or battery backup should be considered for the servers. While a UPS or battery backup may keep servers from crashing during a short-term power loss, they will eventually lose power during a long-lasting power shortage. If a UPS or battery backup is used, software should be considered that will properly shut down your equipment before the battery expires.

7. All of the equipment discussed above (alarms, monitors, heat/air conditioners, fire suppression systems, etc.) should be tested on a regular schedule and receive preventative maintenance. Regardless of who actually performs the testing and maintenance, written reports should be retained that document the process and results.

OSBC Raises Funds for Project Topeka & Relay for Life

Topeka-based OSBC employees participated in several volunteer activities. One activity employees have been taking part in for several years is the Project Topeka Community Food Drive. This drive benefits several Topeka organizations that provide assistance to those in need. As in previous years, denim was again an incentive! For every 40 ounces of food that an individual donated, they received a "Project Topeka Jeans Sticker" which gave them the right to wear jeans to the office on any day of their choice. The maximum number of stickers an individual could earn was ten which required a donation of 400 ounces of food or \$50. There will be a lot of jeans seen in the office because 17,872 ounces of food was donated. This amount is the most food collected in the past four years. As part of the drive, employees competed in a paper airplane contest and an "Office Olympics" obstacle course. Pierre Sutphin, an Administrative Specialist for the Banking Division, had the best airplane and won a leather bag donated by Hillmer's Luggage Leather and Gifts. Winning the obstacle course was Courtney Bevan, an Administrative Specialist for the CML Division. She received a \$20 gift certificate donated by Herman's Meat and Deli Shop. Another part of the fund-raising effort was the OSBC sixth Annual Chili Cook-off and the third Annual Bar Cookie Bake-off. Dana Hampton, Director of Corporate Activities for the Banking Division, recaptured the chili trophy she's won a few times in years past. Amy Atkinson, an examiner in the CML Division, won the Bar Cookie Bake-off with Caramel Apple Cheesecake Bars. Each winner received a \$10 gift certificate for dry cleaning from Village Cleaners and a traveling trophy they can proudly display in their office until next year.

On June 1st and 2nd, 2007, eight OSBC employees, along with family and friends, walked in the 16th Annual Topeka/Shawnee County Relay for Life held at Hayden High School. The Relay for Life is a key fund-raising activity for the American Cancer Society. Nationwide, relays unite millions of people in thousands of communities each year to raise money to help prevent cancer, save lives, and diminish suffering from the disease. It is the largest non-profit fund-raising event in the world. For the fourth year in a row, The OSBC (Office Staff Beating Cancer) Avengers raised more than \$1,500 for the cause. Group fund raisers included a burrito sale and luncheon, bake sale and the ever popular "Jeans Stickers". Team members also collected donations and sold luminaries for the luminary ceremony. This year Relay participants were sent home at midnight on June 1st because of potentially severe weather. A Relay Rally to finish fund raising events is scheduled for July 20th at the Capitol Plaza Hotel Ballroom. Team members from the OSBC were Amy Atkinson, Dedra Duran-Gray, Dana Hampton (Captain), JoAnne Minihan, Alan Rice, Judi Stork, Julie Tipton, and Robin Wilson.



Pictured: (left to right): Anna Serene, Adrian Serene, Amy Atkinson, Candi Brown, Joanne Minihan, Juanita Wilson, Judi Stork, Robin Wilson with her nephew Alex Valdivia, Dedra Duran-Gray, Dana Hampton, Alan Rice, Mari Tucker, Mike Tucker.

Allen to Serve on MTRA Board...

Sonya Allen, General Counsel for the OSBC, has been appointed to the Board of Directors of the Money Transmitter Regulators Association. She was appointed to fill a vacancy on the MTRA Board effective in May, 2007. She will serve until October 9, 2007, when Board positions will be up for election. MTRA is a national non-profit organization dedicated to the efficient and effective regulation of the money transmission industry in the United States. Incorporated in 1989, the MTRA membership consists of state regulatory authorities in 40 states and the District of Columbia who are in charge of regulating money transmitters and sellers of traveler's checks, money orders, drafts and other payment instruments. MTRA is governed by a ten-member board of directors who are elected to serve two-year terms. MTRA holds an Annual Conference, and recently launched a new examiner training school. Regarding her Board appointment, Sonya said she is honored to have been appointed to the Board, and looks forward to helping advance the ongoing efforts of MTRA in establishing a core examination report and common rating system for use by MTRA member states.



We're back!
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issue of Quarterly
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in OSBC staff.

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