



February 6, 2012

To: House Committee on Financial Institutions
From: Doug Wareham, Kansas Bankers Association
Re: H.B. 2505 Derivative Transactions – State Chartered Banks

Chairman Knox and Members of the Committee:

In response to a request for written example of a derivative transaction please accept the following illustration:

Derivative Transaction Example:

An asset backed security (ABS) is one example of a security that would be classified as a derivative. Such a security could be a group of auto-loans that are securitized by a Wall Street investment house and then offered to potential investors, which could include financial institutions. In this example, the bank doesn't actually own the individual auto loans that comprise the asset backed security (ABS), but they do own an interest in the security and are paid principle and interest on the investment as long as the security (group of auto loans) performs well as a whole.

Why do Kansas banks need this tool?

Investing in securities that are classified as derivatives is simply an investment tool that Kansas banks can and do utilize today. Much like a futures contract used in the agriculture sector, investments in derivatives are a tool that allows a bank to diversify its investment portfolio and spread risk.

Thank you for the opportunity to provide additional information regarding derivative transactions. We hope this information increases awareness of how these types of investment options are utilized and we encourage the House Financial Institutions Committee to take positive action on H.B. 2505.

For more information, please contact Doug Wareham at dwareham@ksbankers.com or at (785) 232-3444.

Attachment 1
HFI 2-7-12