



HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT

January 11, 2022

Senate Committee on Financial Institutions and Revenue Testimony on Senate Bill 596

Good morning!

Thank you Chairman Kooyenga and committee members for hearing Senate Bill 596 (SB 596), which makes several changes to statutes relating to banking practices. I am happy to be working on this proposal with Rep. Katsma, which has the support of the Wisconsin Bankers Association.

Key provisions of the Financial Institutions Modernization Act:

- The Federal Deposit Insurance Corporation (FDIC) guarantees bank deposits up to \$250,000. This limit was changed from \$100,000 in 2008, and the increase was made permanent in 2010. Municipal deposits are eligible for up to \$400,000 in additional insurance through the Department of Financial Institutions (DFI) by the Municipal Deposit Guarantee Program. Under current law, a municipal deposit account has \$650,000 in coverage.

AB 596 increases the existing insurance for municipal deposits, changing the maximum from \$400,000 up to \$1 million. The state guarantee has remained unchanged since 1985. If this bill is signed into law, total protection would increase to \$1,250,000 (FDIC + DFI). No payments from this fund have been distributed since a bank failure in 2003.

- Current law requires financial institutions to provide written notice to DFI of the establishment, removal or changes to automated teller machines (ATMs). This requirement, once created in the interest of consumer protection, no longer serves a purpose as technological advances have rendered it unnecessary. ATMs are readily available, and point of sale terminals with several merchants allow access to cash. The bill eliminates the requirement for written notice to DFI.
- Under current law, municipalities may borrow from the Board of Commissioners of Public Lands (BCPL) with a repayment term of 20 years. However, if the municipality borrows money from a financial institution, they are limited to a 10 year repayment term. The bill creates parity between the BCPL and financial institutions by allowing a municipality to borrow from a financial institution with a repayment term of 20 years – the same term allowable for loans through the BCPL.

To alleviate concerns raised by a number of interested parties, we introduced an amendment to remove the provisions of the bill related to “payable-on-death (POD)” accounts and “Knox Boxes”.

Passing this bill will have a positive impact on Wisconsin’s banking industry.

AB 596, the companion legislation to SB 596, received a public hearing in the Assembly Committee on Financial Institutions on October 6, 2021. Thank you again for hearing SB 596, and your timely action on this proposal.



TERRY KATSMMA

STATE REPRESENTATIVE • 26th ASSEMBLY DISTRICT

Phone: (608) 266-0656
Toll-Free: (888) 529-0026
Rep.Katsma@legis.wi.gov

P.O. Box 8952
Madison, WI 53708-8952

Date: January 11, 2022
To: Senate Committee on Financial Institutions and Revenue
From: Representative Terry Katsma
Re: Senate Bill 596: Financial Institutions Modernization Act

Dear Chairman Kooyenga and committee members,

Thank you for convening a hearing on Senate Bill (SB) 596. The proposals offered in this bill are intended to resolve or prevent real challenges that have been brought to my attention by one or more Wisconsin financial institutions:

- Under current law, municipal deposits are guaranteed against loss up to \$250,000 through the Federal Deposit Insurance Corporation (FDIC) and up to an additional \$400,000 through Wisconsin's Municipal Deposit Guarantee Program. The relatively low insurance guarantee creates a barrier, particularly for smaller financial institutions, to accept public deposits because of the amount of collateral required to secure the deposit. In fact, some municipalities choose to deposit their assets across multiple financial institutions to maximize their insurance protection. This bill increases the maximum insurance coverage available through the Municipal Deposit Guarantee Program from \$400,000 to \$1 million.
- Long ago, in an effort to protect consumers when ATM machines were introduced to the marketplace, the Legislature required financial institutions to notify the Department of Financial Institutions any time these machines were established, changed or removed. Neither state government nor private industry believe these protections are serving a useful purpose any longer. The bill eliminates the notification requirements.
- Under current law, municipalities may borrow from several sources, including the state Board of Commissioners of Public Lands (BCPL) and private financial institutions. The bill improves parity between the BCPL and financial institutions by allowing a municipality to borrow from a financial institution with a repayment term of up to 20 years—the same term allowed for loans through the BCPL. This proposal was unanimously recommended by the 2018 Legislative Council Study Committee on the Investment and Use of the School Trust Funds; it became 2019 Assembly Bill 48, which passed in the Assembly during the 2019-20 legislative session; but it did not reach the Senate floor in spring 2020, as the COVID-19 outbreak began.
- Like many states, Wisconsin permits the owner of a deposit account to designate it as a “payable on death” account. The account owner names a beneficiary; when the account



TERRY KATSMMA

STATE REPRESENTATIVE • 26th ASSEMBLY DISTRICT

Phone: (608) 266-0656
Toll-Free: (888) 529-0026
Rep.Katsma@legis.wi.gov

P.O. Box 8952
Madison, WI 53708-8952

owner dies, the funds transfer immediately to the beneficiary instead of becoming part of the owner's estate. This bill ensures that, if the account owner owed money to the bank, the bank may setoff (keep) the amount it is owed before paying the beneficiary. I am concerned that some financial institutions are operating today under the assumption that their contractual agreements with depositors provide the financial institutions with the right of setoff—but, in reality, the financial institutions may not be able to enforce this right.

January 2022 update: Senator Marklein and I have introduced an amendment to AB 596/SB 596 that removes all POD-account-related provisions from the bill. It is no longer my intent at this time to advance these provisions of the original bill.

- Some municipalities require commercial buildings to have access boxes (commonly known as “Knox Boxes”) that contain keys to the premises located near the entrances. Although such ordinances are intended to enable first responders to rapidly access the locked building without forced entry, the ordinances generally do not contemplate the significant security needs of some buildings—such as financial institutions that contain substantial stores of cash, valuables and data. The bill prohibits state and local government from requiring financial institutions to leave the keys to their secure spaces right next to the front door.

January 2022 update: Senator Marklein and I have introduced an amendment to AB 596/SB 596 that removes all Knox-Box-related provisions from the bill. It is no longer my intent at this time to advance these provisions of the original bill.

Thank you for your time and consideration of SB 596.



Testimony of the Wisconsin Bankers Association

John Cronin, Director – Government Relations, WBA

**Senate Committee on Financial Institutions and Revenue
Senate Bill 596**

January 11, 2022

Chairman Kooyenga and members of the Senate Committee on Financial Institutions and Revenue,

My name is John Cronin, and I am Director of Government Relations at the Wisconsin Bankers Association.

Founded in 1892, WBA is the state's largest financial industry trade association, representing over 200 banks and savings institutions, their branches, and over 21,000 employees. The Association represents banks of all sizes in Wisconsin, and over 98% of banks in the state are WBA members.

Joining me today are two bankers from here in the Madison-area: Gary Kuter and Theresa Wiese. Gary is the Senior Vice President of Retail Banking and Chief Compliance Officer at Capitol Bank, and Theresa is Managing Director of Compliance and Risk Management at First Business Bank.

Thank you for the opportunity to testify today in favor of Senate Bill 596, legislation designed to update several statutes relating to banking practices. Our organization is very appreciative of the efforts of Rep. Terry Katsma and Sen. Howard Marklein for bringing this legislation forward.

In many ways, banks are the cornerstones of Wisconsin's communities, having long provided services to individuals and business customers. Bankers relish the opportunity to build and maintain relationships and offer products that help propel Wisconsin's diverse and vibrant economy.

Banks are also subject to many rules and regulations and are regularly examined for safety and soundness. Therefore, regulatory compliance, operations and security are key areas of emphasis for financial institutions both large and small.

SB 596 will help us realize efficiencies in all three of these areas without jeopardizing safety and soundness. The common-sense pieces of regulatory relief in this legislation will allow our members to spend more time focusing on what's most important: serving their customers.

Briefly, the bill seeks to accomplish five objectives. Members of this committee have likely seen some of the bill's provisions in other forms or bills in previous sessions.

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First, SB 596 modernizes the Department of Financial Institutions' municipal deposit guarantee program to provide up to \$1 million of coverage for losses of public deposits in case of a bank failure. The current limit is \$400,000, a level set in 1985.

Next, the bill levels the playing field between the loan terms a bank may make to a municipality and what the Board of Commissioners of Public Lands (BCPL) may offer by allowing banks to make loans with 20-year terms.

Under current law, financial institutions must provide advanced written notice to DFI before acquiring, placing, operating, or changing off-site ATM's. SB 596 would repeal these outdated regulations that track back to the mid-1970s.

Fourth, the bill exempts financial institutions from local ordinances requiring the installation of access boxes designed to hold keys for use by first responders. In addition to coins and currency, banks are also repositories of vast amounts of personal information that must be kept confidential by law. Access boxes create a single point of security failure and the severity of potential exploitation by a criminal outweighs the benefit such a box would provide. The genesis of this provision was a citation a Wisconsin bank received for not complying with an ordinance requiring the installation of an access box. That bank had decided the risks associated with these boxes outweighed any benefit one would have provided.

Thankfully fires at financial institutions are exceedingly rare. However, there are numerous examples from across the country of nefarious actors, who are not firefighters, obtaining access box master keys and committing crimes inside businesses. A motivated criminal entering a financial institution could be devastating and is a scenario we are trying to prevent.

Lastly, SB 596 clarifies financial institutions' right to setoff against a payable-on-death (POD) account the amount owed on a loan before paying out the net amount to the POD beneficiary.

After conferring with the bill authors, other legislators, and stakeholders, it is our intention to remove the access box provision and the payable-on-death account changes from the bill, which is reflected in Senate Amendment 1. WBA still believes in the merits of those two provisions but is of the opinion that their removal provides the strongest chance for this legislation to pass and be signed into law.

Thank you for your consideration.