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PHILIP D. LaCHAPELLE
PRESIDENT & CEO
SECURITY STATE SAVINGS BANK, LAS VEGAS, NEVADA

TESTIMONY - AB 389
Wednesday APRIL 9, 2003 - 2:00 PM - ROOM 4100

GREETINGS/INTRODUCTION:

Honorable Chairperson and Commerce and Labor Committee Members. My name is Philip LaChapelle and I am the founding President and CEO of Security State Savings Bank ("Security State") which is a Nevada Chartered "Thrift," or Industrial Loan Company, pursuant to NRS 677 and is FDIC insured. I appreciate the opportunity to present my views on **AB 389**, proposed legislation that, "Prohibits control of thrift companies by certain persons."

TESTIMONY:

In my testimony today, I will provide strong, solid reasoning and purpose in testifying **AGAINST AB 389**. The record should reflect that our opposition is based upon both issues related specifically to Security State as well as on general public policy grounds. Passage of this Bill will diminish the value of my company to its investors and shareholders, who thoughtfully and purposefully selected the Nevada Thrift Charter to best fulfill their investment objectives and the benefits for Nevada consumers. The passage of **AB 389** would adversely effect the contribution of my employees, my customers, the community, and the benefits of my Charter. Further, from a public policy point of view, this legislation, which when truly analyzed, falls within that old adage "if it ain't broke, don't fix it". There is no supportable public policy reason or mandate in this state that, after so many years of successful Thrift Charter ownership, including my own, and that of EagleMark by Harley Davidson, and USAA's ownership that control of a Nevada Thrift Charter should be restricted.

There is **NO** threat to Nevada, and there is **NO** evil ownership of the Thrift Charter by "certain persons" including commercial or retail ownership. This legislation is a blatant attack on Nevada's Financial Institution Division and the FDIC's ability to regulate Thrifts and is unwise, unnecessary and will destroy the value of this Charter, notwithstanding additional negative state economic results.

Security State is a good corporate citizen that is highly regarded by our customers, and our FDIC and State of Nevada regulators. I bring over 33 years of multistate financial services industry experience that includes Bank of America, Citicorp/Citibank, FannieMae, as well as successful management opportunities with financial institutions under \$100 Million. I was the President and CEO of a Federal Savings Bank located in California, and I have been a Director of the California Independent Bankers for approximately 10 years, am on the Board of Directors of the largest national banking trade association, the Independent Community Bankers of America ("ICBA"), and I am an active member of the Nevada Bankers Association. I understand my corporate governance role, responsibilities and personal liabilities as a senior officer of a highly regulated financial institution.

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DATE: 4/09/03 ROOM: 4100 EXHIBIT 5
SUBMITTED BY: Philip LaChapelle

Security State is a service oriented community business; it is a local Nevada employer; and, it is a user of many local vendor services. In addition, we consistently provide some of the highest interest rates for money market and certificates of deposit in this state. We can do that because we do not provide high overhead transaction accounts, such as, Demand Deposit Accounts or Checking Accounts, which is prohibited under our charter and therefore allows us to pass the savings on to our customers in the form of higher interest rates. We recently completed our third year of operation and have achieved several noteworthy milestones.

Please look at **Exhibit A** which is a recent World Savings advertisement in the Las Vegas Review Journal comparing Money Market Rates. On the right hand side, please compare our rates to all financial institutions listed. **As you can see, our customers enjoy a significant benefit.** Also please look at **Exhibit B** which is an internal rate comparison of local financial institutions that include both Money Market Rates and longer term Certificates of Deposit. **Again, our retail Nevada customers enjoy a significant advantage.**

We opened for business in April 2000 with capital of \$4 Million and have grown to an Asset size of approximately \$47 Million. We are owned by an early stage software development company in Irvine, California whose objective is to develop various software products that enable the efficient movement of funds through the ACH and Federal Reserve Payments System for both consumers and corporate clients. By owning the Thrift Charter, our parent company has access to the payment system, thus lowering financial transaction costs for their customers. I should add, as required by federal and state authorities, our Thrift board is independent from our parent company's board and governs the Thrift solely on the best interests of the safety and soundness of the Thrift.

Security State is supervised and regulated by the Nevada Financial Institutions Division and the FDIC in the same manner and upon the same standards and criteria as commercial banks. Our deposits are insured by the FDIC up to the full extent provided by law. We are owned by a commercial entity and yet the supporters of **AB 389** would have you believe that commercial or retail ownership of a Thrift will somehow destroy the financial underpinnings of the State of Nevada and the entire nationwide financial system.

When I did my analysis of where I wanted to locate my Thrift I looked at California which is where I lived and my long term support system resided; obviously an easy choice to start a business there. I reviewed Utah which is the domicile for many large Thrifts or ILCs, including, BMW, Volvo, Volkswagon, American Express, Merrill Lynch, Sears Roebuck Company, GE Capital and Chevron Credit Bank.

I looked at Nevada and it became the obvious choice for Security State. Why was it an easy decision? There was a niche market for our business plan within the competitive environment of other large and small financial institutions in Nevada, the Nevada statutes support this charter, the state was business friendly, there were **NO** state income taxes affecting my marginal tax rate, and given Nevada's growth, our ability to grow with it was also ensured. The competition for talented and skilled bankers was very strong in Nevada. However, given the business plan and ownership authorized in the Nevada Thrift Charter, I was able to hire a highly skilled and very talented staff that continues with me today.

The regulatory burden for smaller financial institutions is very significant with serious negative earnings impact. Regardless, because this charter allows us to conduct our business differently than

a traditional community bank, we both meet and exceed the regulatory requirements encountered. Let me provide a few examples of my employee's community involvement and the recognition received, which I believe is an important contribution to the health and welfare of Nevada.

As a matter of public disclosure, Security State achieved an **"OUTSTANDING"** CRA or Community Reinvestment Act rating at the conclusion of its FDIC examination July 16, 2002.

Since November 1, 1999, 5 regulated financial institutions in Nevada achieved the coveted **"OUTSTANDING"** CRA rating. Two, or 40%, are Thrifts and both are owned by commercial or retail companies. The Nevada CRA Performance Ratings are available on the FDIC's internet site.

My employees have volunteered over 300 hours of off site time during working hours to support the linkage of literacy and an educated workforce in the Clark County READS Program. Security State actively participates in classrooms up to the 5th grade.

As a volunteer member of the San Francisco Federal Home Loan Bank's Affordable Home Loan Program, we sponsored 3 low to moderate affordable housing projects for over \$1.3 Million. The most recent project is in Reno, which fills a critical housing need for very low income persons with disabilities in the Reno/Sparks area. (Accessible/Butterworth Estates)

In addition, a focus of the CRA examination criteria is the Investment Test. Over the last 3 years we purchased over \$3.5 Million of Clark County, Nevada CRA – Targeted and Affordable Mortgage Backed Securities, which recycles dollars used by direct mortgage loan originators, including large and small banks, to re-lend those monies back into Nevada communities.

My point is that Security State, as a small community oriented Thrift, owned by a Commercial parent, continues to demonstrate its corporate and community commitment and citizenship for the benefit of Nevada.

Ownership by companies that can raise capital or provide capital to support jobs and growth because of their size should **NOT** be the cause for simply writing them out of the Nevada statute. Look at the size of CitiGroup and its ownership of Solomon Smith Barney among other large entities. Citigroup on several occasions has been rumored to be looking to acquire AMEX or Merrill Lynch, both of whom have Utah ILC's. I am sure both companies are possible targets for Bank of America as well. My question to you is; What differentiates these companies from Toyota, or any other company that desires to provide additional services to its customers in Nevada instead of going to Utah for a Thrift Charter? Nevada should enjoy that benefit, assuming a safe and sound business plan.

The FDIC and the respective Nevada regulators are exceedingly capable of regulating Thrifts or state charters. All you need to truly understand is that Security State is annually examined jointly by the FDIC and the State of Nevada for Safety and Soundness and upon conclusion, given a risk rating. Security State continues to meet the regulatory definition of **"Well Capitalized"** and presents **NO** risk to the Bank Insurance Fund. In addition, all senior officers and directors of regulated financial institutions, including Thrifts, are subject to personal financial liability to ensure strong and meaningful corporate governance. These examinations are intense and comprehensive and are conducted on the same rigorous standards as they are for commercial banks. It should also be noted, that all the restrictions against transactions with affiliate companies, including extensions of credit, acquisitions of assets, and service agreements apply to Thrift companies and their parent companies as well.

As an experienced CEO, I value my reputation, integrity, knowledge, and skill which represents the attributes required to successfully manage any financial institution, regardless of the owner or charter.

Supporting Thrift Charters and diverse ownership, including the ability to sell a viable charter to a retail or commercial buyer, does not put the financial system at risk. In fact, Thrift Charters provide alternative business plans and strengthen the financial system. It ensures that the playing field is level. It brings needed capital into the system. And more specifically as it relates to Nevada, it allows for choices and brings jobs and competition that will ensure the consumer gets the best rate and service.

Before summarizing, I would like to comment on Wal-Mart's recent attempted acquisition of a self-liquidating Thrift in California. Wal-Mart stated it only wanted to capture its own ACH business through the Federal Reserve Payments Processing system by ownership of a Thrift, and thus save the corporation over \$300 Million a year in payments processing costs. I am not here to debate the Wal-Mart issue but to emphatically state that California's actions have nothing to do with the welfare of this state; **the welfare of Nevada**.

SUMMARY:

In summary, I will conclude where I began and that is, **AB 389** is an unwise and unneeded piece of legislation for the future vision, job growth, financial products and services growth, and state economic growth in Nevada. **It is a bad bill and needs to die right here.** I believe your focus should be on attracting strong ownership of the Thrift Charter and requiring these retail or commercial companies to contribute to the state economy and growth of Nevada, including benefits to the local communities in which they are headquartered. Diversification stabilizes the economy, making it more resilient, recession proof and ultimately much stronger.

Thank you for your valuable time and consideration.

EXHIBIT A

Be prosperous.

Thurs 3/15/03

"...money market deposit accounts may be your best bet right now for stashing cash."
—CBS MarketWatch

2.29%
APY*

\$50,000 minimum deposit
Open World's Hi-Yield Insured Money Market Account and take advantage of FDIC insurance and a yield that beats our competitors' money market accounts by an amazing amount. Plus, you'll have the added security of keeping your money with the bank *Fortune* magazine named one of "America's Most Admired" financial services companies. Start your own economic recovery and open an account at a nearby branch or www.worldsavings.com today.

World's Hi-Yield™ Insured Money Market Yields vs. the Competition*

| Balance | WORLD SAVINGS | Bank of America | Citibank | Nevada State Bank |
|----------|---------------|-----------------|----------|-------------------|
| \$50,000 | 2.29% | 0.75% | 1.01% | 1.21% |
| 25,000 | 2.18 | 0.75 | 1.01 | 1.21 |
| 10,000 | 2.18 | 0.75 | 1.01 | 0.70 |

APY
↓
SSSB

2.71
2.71
2.46

NOTE: WORLD LOWERED FROM 2.39 to 2.29



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Near Vons
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Fri 9-6
Sat 9-1

FDIC
INSURED
TO LEGAL MAXIMUM

07/02A4

*Annual Percentage Yields are effective as of date of publication and may change thereafter. \$10,000 minimum balance to open; \$250,000 maximum per household. APY on balances of \$2,500 to \$9,999 is 1.02%. APY below \$2,500 is 0.21%. Personal accounts only. Fees could reduce earnings. **APY comparisons based on independent shopping survey of other institutions' money market accounts' APYs on 03/04/03. 1.Gift offer not available in branches. World Savings and the Globe are registered marks of GWFC © 2003 World Savings, FSB N3028-57

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EXHIBIT B

NEVADA RATE SURVEY AS OF APRIL 4, 2003

Certificate of Deposits

| Term | Security State Savings Bk | Citibank of NV | First Republic Bk | Nevada State Bk | Valley Bk | Washington Mutual | World Savings |
|------------|---------------------------|----------------|-------------------|-----------------|-----------|-------------------|---------------|
| 3 Month | 1.51% | 1.01% | 1.35% | 1.05% | 1.55% | 1.06% | - |
| 6 Month | 1.76% | 1.01% | 1.40% | 1.05% | 1.75% | 1.06% | - |
| 1 Year | 2.21% | 1.01% | 1.45% | 1.10% | 2.25% | 1.15% | - |
| 18 Month | 2.41% | - | 1.70% | 1.45% | 2.50% | 1.50% | - |
| 2 Year | 2.66% | 1.45% | 2.00% | 1.50% | 2.75% | 1.75% | 2.03% |
| 2 1/2 Year | 2.94% | - | - | - | 2.75% | 1.75% | - |
| 3 Year | 3.22% | 1.95% | 2.35% | 2.05% | 2.75% | 2.50% | - |
| 4 Year | 3.61% | 2.40% | 2.85% | - | 2.75% | 2.50% | - |
| 5 Year | 4.01% | 2.75% | 3.25% | 2.80% | 2.75% | 3.15% | 3.16% |

Money Market Accounts

| Balance | Security State Savings Bk | Citibank of NV | First Republic Bk | Nevada State Bk | Valley Bk | Washington Mutual | World Savings |
|----------------------|---------------------------|----------------|-------------------|-----------------|-----------|-------------------|---------------|
| Balance | | | | | | | |
| \$1,000-\$4,999.99 | 2.46% | 0.75% | 0.25% | 0.75% | 0.70% | 0.65% | 0.91% |
| \$5,000-\$19,999.99 | 2.46% | 0.75% | 0.35% | 0.75% | 0.70% | 0.65% | 2.13% |
| \$20,000-\$49,999.99 | 2.71% | 1.10% | 1.10% | 0.75% | 2.00% | 0.90% | 2.18% |
| \$50,000 and over | 2.71% | 1.25% | 1.10% | 0.90% | 2.00% | 0.90% | 2.18% |

Prepared by Security State Savings Bank

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