

MINUTES
SAVINGS AND LOAN COMMITTEE
March 19, 1965

Meeting of this Committee was at 9 a.m. in Room 528 with Chairman Strowig presiding.

Messrs. Robinson and Pannbacker were absent.

Mr. Trachsel, Commissioner of Consumer Credit, was present to discuss several proposals with the Committee.

HB 758, to lower the interest rate on the first \$300 portion of a loan from 3% to 2% - Mr. Trachsel stated that the cost of making small loans is economically unprofitable even though they carry a higher rate. He submitted statistics showing that about 10% of loans are under \$300 and that the average cost of servicing per month is \$7.80. He says the small loan companies show the lowest net earnings rate in five years. "In my opinion, if lowered to 2%, the fellow who needs money to buy school books, pay income taxes or taxes, living expenses or doctor would be out of the picture if he wanted to borrow. To lower the rate would have the effect of driving these marginal risks into the black market or they just could not get credit." He further stated that the average monthly rate was 1.7% in 1963; that bad debts totaled \$1,991,772, or about 2% of the total loans; that they were more than the net income of \$1,778,000. Mr. Tobias moved, and Mr. Winters seconded, that HB 758 be recommended "be not passed". Motion carried without dissenting vote.

HB 897, relating to interest, charges and expense on loans - Regarding Mr. Loux's suggested amendment thereto: Mr. Trachsel said his feeling is neutral; that they have examiners checking on this and have the authority to take steps. Penalty is loss of both principal and interest. He said there are some few instances, but that the "chains" usually know our laws. Mr. Drew moved, and Mr. Tobias seconded, adoption of amendment to HB 897, page 5, line 26 by inserting after the word "licensee" the following: "or licensees having more than fifty per cent common ownership". Motion carried. Mr. Myers then moved recommendation for passage of HB 897 as amended (both yesterday and today). Mr. Tobias seconded such motion and it carried without dissenting vote.

HB 898, relating to Kansas sales finance act - Mr. Tobias moved, and Mr. Myers seconded, recommendation for passage of this bill. Motion carried without dissenting vote.

Chairman stated he would have Mr. Tom Wilson over on SB 283.

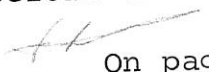
Meeting adjourned.

Augusta M. Laing

On page 1, in line 13, by inserting after the word "hereof" the following: "and where a loan is repayable in installments and is not otherwise governed by statute,".

On page 3, in line 29, after the semicolon, by striking the words "before computing the defer-" and by striking all of lines 30 and 31.

On page 4, by striking all of line 1; in line 7, by inserting after the period the following: "The lender may also add to the unpaid balance the cost of insurance incidental to the deferment plus any accrued delinquency charges, and shall deduct therefrom any refund that may be due."; /in line 8, by striking the period and inserting in lieu thereof the following: ": Provided, That if prepayment in full occurs during the deferment period, the borrower shall be refunded that portion of the deferment charge applicable to the unexpired full months in the deferment period."; and in line 21, by inserting before the word "amount" the word "dollar".

 On page 10, line 1, by inserting after the period the following: "The lender may also add to the unpaid balance the cost of insurance incidental to the deferment plus any accrued delinquency charges, and shall deduct therefrom any refund that may de due."; and in line 2, by striking the period and inserting in lieu thereof the following: ": Provided, That if prepayment in full occurs during the deferment period, the borrower shall be refunded that portion of the deferment charge applicable to the unexpired full months in the deferment period."

On page 5, line 26 by inserting after the word "licensee" the following: "or licensees having more than fifty percent common ownership".

- A. Section 16-410 provides for a charge of 3% per month to \$300 and 5/6% on balances above.

Section 16-202 (b) provides for a charge of \$8 add on per one hundred dollars.

Section 16-202 (a) provides for a charge of 10% simple per annum which is approximately equivalent to \$5.50 add on per hundred dollars per year.

EXAMPLE

On a \$500 loan advance to be repaid in 12 equal monthly installments the charges and notes would be approximately as follows:

	<u>Under 16-410</u>	<u>Under 16-2026</u>	<u>Under 16-202 (a)</u>
Amount of advanced	\$500.00	\$500.00	\$500.00
Amount of note	587.64	540.00	527.50
Amount of charges	87.65	40.00	27.50
Average cost per month	7.30	3.33	2.29

- B. The 1963 Annual Report of the Consumer Credit Commissioner shows the following items:
1. Average cost per account per month \$7.80.
 2. Average cost per account per year \$93.60.
 3. 90.68% of loans made were in excess of \$300.
 4. Net earnings on total assets used and useful (before deducting interest expense) 3.44%.
 5. A constant gradual decline in net earnings during past 5 years.
 6. A total bad debt expense of \$1,991,772.86.
 7. An actual average monthly charge of 1.7% or an annual interest rate of 20.40% on balances, versus rate of 36% permitted under 16-410 on balances of under \$300.

C. **Conclusions**

1. A rate of charge which is too low forces the necessitous but worthy borrower to either forego credit or seek illegal sources. The effective rate tends to seek the ceiling on all loans where the rate is low.
2. A rate of charge which is adequate permits competition to provide an effective rate which is below the ceiling except on borrowers with sub standard credit resources.

STATE OF KANSAS

HOUSE OF REPRESENTATIVES

MR. CHAIRMAN:

I move to amend House Bill No. 897,

Page 5, Line 26, by inserting after the word
"licensee" the following

, or licensees having more than 50% common
ownership

R C Lued
67th District.