Approved March 23, 1983
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS.

The meeting was called to order by Sen. Neil H. Arasmith at
Chairperson

9:00 a.m.~~/p.m.~~ on March 22, 1983 in room 529-S of the Capitol.

All members were present except:

Sen. McCray - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor's Office

Conferees appearing before the committee:

Jim Maag, Kansas Bankers Association
Stanley Lind, Kansas Association of Finance Companies
Marvin Umholtz, Kansas Credit Union League
Bud Grant, Kansas Association of Commerce & Industry
Marge Tidwell, Kansas Manufactured Housing Industry
Jim Sullins, Kansas Motor Car Dealers Association

The minutes of March 17 were approved.

The hearing began on HB 2079 concerning finance charges on consumer transactions. Jim Maag, Kansas Bankers Association, appeared to give testimony in support of HB 2079. (See Attachment I.) Questions were posed to Mr. Maag as to how the banks weathered the turmoil resulting from the 18% ceiling in 1981 and as to how the two year limit for 21% was arrived at. Mr. Maag answered that banks in Kansas have not gone out of business as a result of the 18% ceiling and that the two year limitation was not a suggestion of conferees but a legislators' decision probably due to the possible study to be made of the UCCC.

Stanley Lind, Kansas Association of Finance Companies, appeared in support of HB 2079. Mr. Lind said that the 18% ceiling in 1981 was disasterous to consumer finance companies and that 101 of these loan offices were closed in that year. He stated that he believes that the market has bottomed out and that interest will go up which makes a 21% ceiling necessary to allow an area in which companies can operate in the future. To clarify his point, he referred to a rate chart which he had compiled. (See Attachment II.) He called the committee's attention to the "alternative rate" column on the chart noting that all of the UCCC states listed have a 21% permanent ceiling except Kansas and Maine. He said that there is no alternative rate provision under the installment rate statute so if this bill is not passed, there will be no alternative rate in Kansas. Sen. Karr asked what the rates are for the surrounding states of Nebraska, Missouri, and Arkansas. Mr. Lind answered that Nebraska has a much higher rate, Missouri has 22% plus 2% origination fee, and Arkansas has just recently passed a constitutional amendment allowing a maximum consumer credit rate of 18%.

Marvin Umholtz, Kansas Credit Union League, appeared in support of HB 2079 and asked for encouragement for an interim study to be made on the UCCC. (See Attachment III.)

Bud Grant, Kansas Association of Commerce and Industry, appeared in support of HB 2079 for the reasons already stated by others and because the bill affects not only financial institutions but also the retail community.

Marge Tidwell, Kansas Manufactured Housing Industry, appeared in support of HB 2079 and to encourage an interim study of the UCCC. (See Attachment IV.) In answer to questions as to what the interest rate is now on manufactured homes and what the term of the loan is, she said that the interest rate is 13 to 18% now and that the term is basically 12 to 15 years.

Jim Sullins, Kansas Motor Car Dealers Association, appeared in support of HB 2079 and to encourage an interium study of the UCCC.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS,

room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on March 22, 1983

The hearing on HB 2079 was concluded, and committee discussion of the bill followed. The chairman said that a banker from Wichita had suggested that an amendment be made to the bill which would change the 30 day notice provision for open end credit accounts to a one notice provision. He asked Mr. Maag if he believed that this amendment was necessary at this time. Mr. Maag answered that he felt the change is necessary but that it could wait until the next session if time did not allow for it now. The chairman noted that a bill could be introduced by an exempt committee or he could request that an interim study be made. It was the consensus of the committee to have a bill introduced by the Federal and State Affairs Committee and referred back to the committee.

Sen. Werts made a motion to report HB 2079 favorably. Sen. Reilly seconded the motion. The motion carried.

The next meeting will be held on March 23.

The meeting was adjourned.

SENATE COMMITTEE

ON

COMMERCIAL AND FINANCIAL INSTITUTIONS

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3-22-83	Marvin Umholtz	Topeka	KCUL
3-22-83	Gail Clum	"	Merchants Nat
3-22-83	Tom Reagan	"	KAFC
" " "	Jim Maag	"	KBA
" " "	Stan Lind	"	KAFC
"	BUD GRANT	"	KACI
"	JIM SULLINS	"	Ks. Motor Car Dealers Assn
"	Tom Wilder	"	KSLL
"	Carl R Sandstrom	"	State Banking Dept

March 22, 1983

KBA
The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

TO: Senate Committee on Commercial and Financial Institutions

RE: HB 2079 - UCCC Interest Rates

Mr. Chairman and members of the Committee:

The members of the Kansas Bankers Association appreciate this opportunity to appear before the Committee and discuss HB 2079 which makes several amendments to the Uniform Consumer Credit Code. Because the Legislature has followed a policy in the past several years of extending consumer interest rate limitations under the Code on a year to year basis, this has been an ongoing discussion and each year we believe these discussions have resulted in a more enlightened approach to consumer credit issues. HB 2079 continues the alternative rate for closed and open-end credit sales and consumer loans at 21% until July 1, 1985.

When the Uniform Consumer Credit Code became effective in 1974 the Code set out specific bracketed rates for consumer loans made by licensed lenders and those remained basically in place over the next several years. In 1980 the legislature made a slight change by allowing an 18% alternative rate for all financial institutions on consumer loans and in 1982 raised the alternative rate on consumer loans to 21%.

Everyone is well aware of the tremendous volatility we have had in the Kansas and national economy over the past several years and the accompanying charts which show what the New York prime rate has been from 1979 through 1982 and what the 91-day Treasury bill rate has been in that same time period are classic examples of the "roller coaster" nature of our economy. Veteran members of this Committee will recall that in 1981 this same group appeared before the Committee requesting an alternative rate of 21% under the Code, but at that time (March 1981) the prime rate had dropped slightly below 18% at the time the legislature was considering this legislation. Thus, the legislative decision was to leave the ceiling on consumer loans at 18% through June of 1982. However, soon after the legislature adjourned in 1981 as the accompanying charts show, interest rates on a national and world-wide basis increased dramatically and for most of the remaining months of the year the prime rate stayed well above the 18% ceiling for consumer loans. Of course, Committee members are well aware that the prime rates constitute the lowest possible loan rates which are usually several percentage points above those.

The practical effect of the 18% ceiling throughout 1981 was to sharply restrict the availability of consumer credit--particularly in the $5000 and below loan category. Statistics from the office of the Consumer Credit Commissioner show that in 1979 there were 143,558 loans reported to his office in the category of $5000 and less. That figure dropped to 75,398 in 1981 for the same category of loans. This constitutes almost a 50% drop and in his official transmittal letter to the governor, Commissioner Don Phelps noted that "we look with concern on the fact that the number of loans made in the $0-$2500 category has dropped by over 14,000 in 1981 which would indicate a number of consumers are not being served."

Office of Executive Vice President • 707 Merchants National Building
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-3444

Attachment I

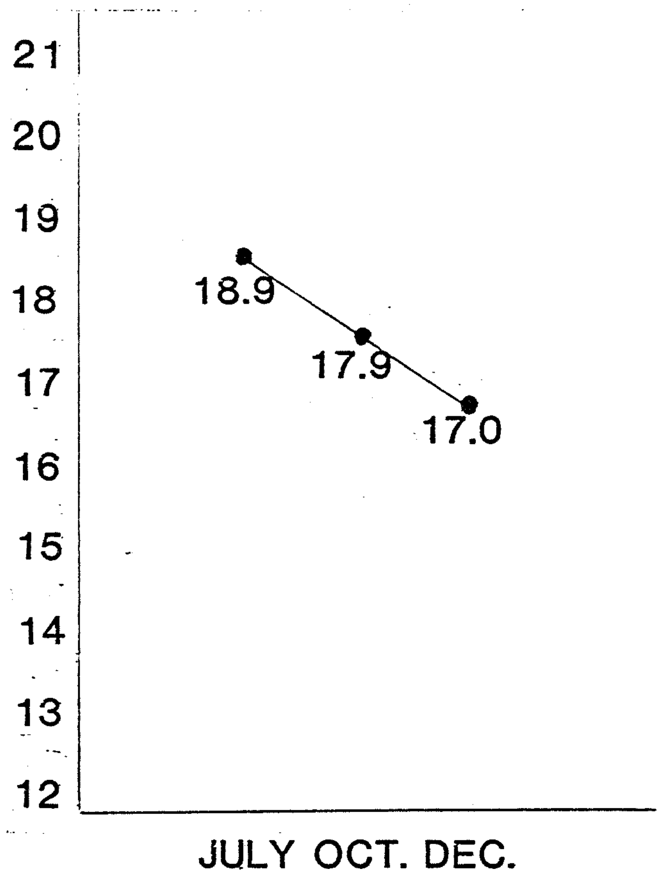
The accompanying charts on the New York prime rate and the 91-day Treasury bill rates over the past three years again emphasize the roller coaster nature of the economy. Committee members may legitimately wonder why with a present prime rate in the area of 11% to 12% there is a need for a ceiling of 21%. Our reply to this must take many forms. Unfortunately, none of the answers to this question lies within the scope of authority of the Kansas legislature. There are currently any number of underlying factors which lead creditors to express grave concern about what might happen to interest rates within the next year. For instance, we know that there will be enormous federal deficits for the coming fiscal years--some of them in the neighborhood of $200 billion or more. What effect will the financing of this debt have on interest rates? Secondly, there continues to be a dramatic inflow into the American economy of Eurodollars because of instability in markets throughout the world and the potential default on rollover of billions in loans to third-world countries. It should also be noted that by the end of 1985, there will be almost total deregulation on interest rates paid by financial institutions and there is always the possibility of an easing of monetary controls by the Federal Reserve. We already have the famous example of what happened in the past three years when the Federal Reserve pursued just such a policy in 1979 and 1980.

Continuation of the 21% alternative rate provision by the legislature does not mean, of course, that there would automatically be any increase in rates charged to consumers. As we have noted above, just because there has been a 21% ceiling on consumer loans in the last seven months has not resulted in consumer loans going to that level. In fact, they have continued to drop in response to the demand of the marketplace. However, if the factors which determine the cost of money and inflation return, financial institutions want the flexibility to remain in business and give the public the opportunity to have credit available to them if they choose to use such credit.

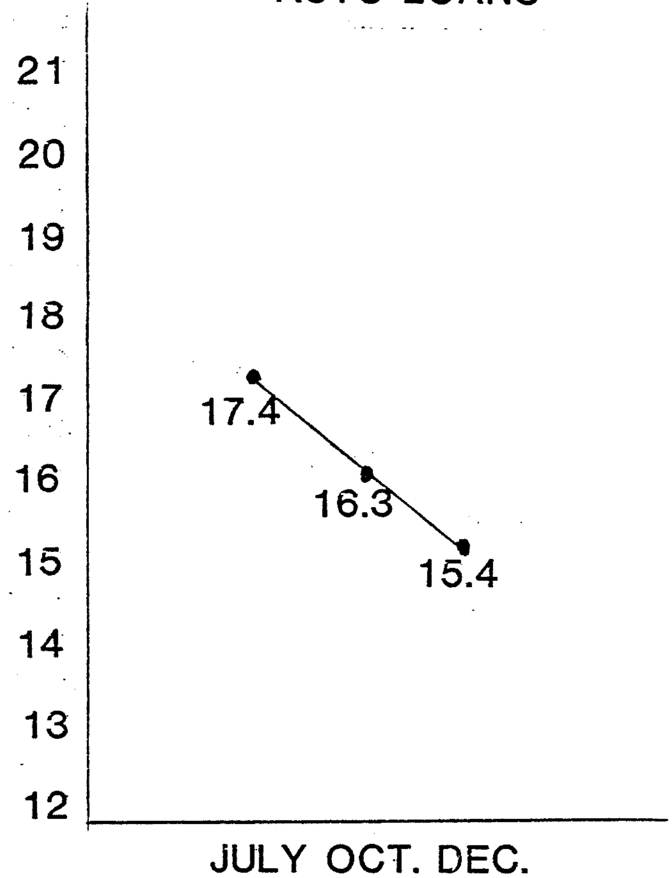
We believe that Kansas legislature is to be congratulated for the very objective and straightfoward approach they have taken to other usury laws over the years and we continue to believe that the legislature will objectively address the consumer loan issue and will act in the best interests of the Kansas consumer and creditor. We appreciate very much the opportunity to present this testimony on House Bill 2079 and we stand ready and willing to work with the members of this Committee and the legislature to create a workable consumer policy.

James S. Maag
Director of Research

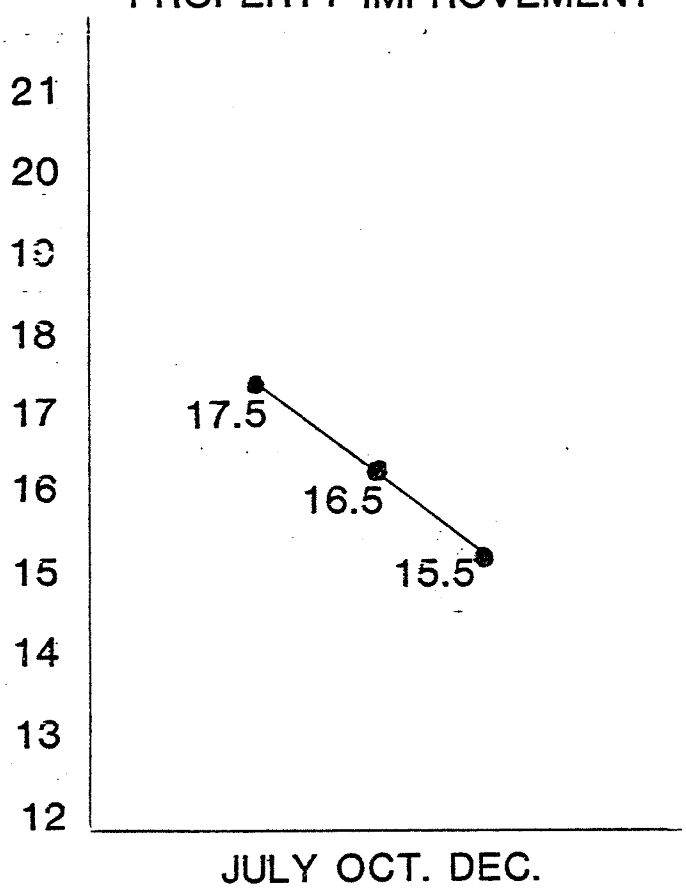
PERSONAL LOANS



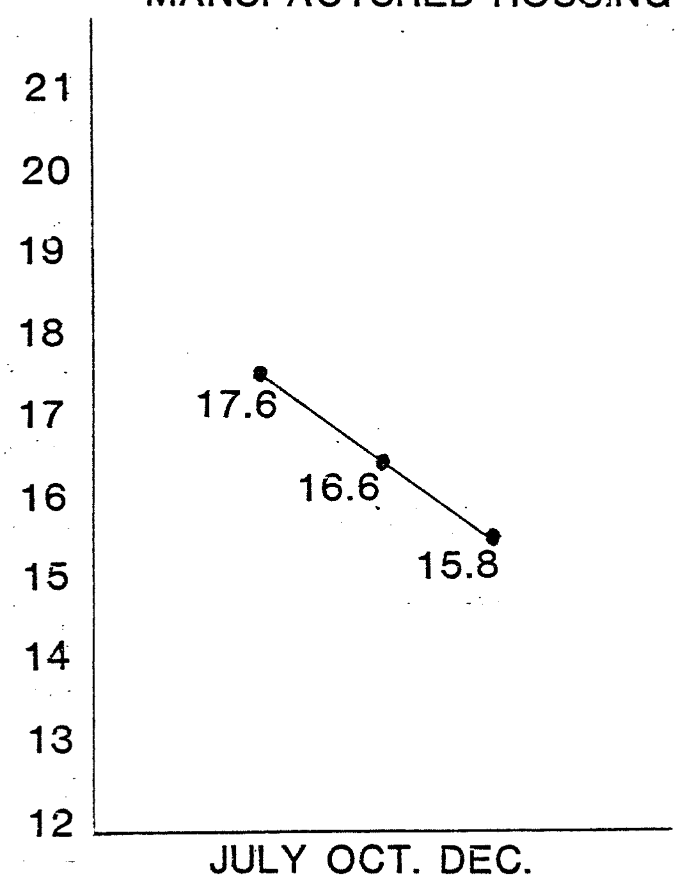
AUTO LOANS

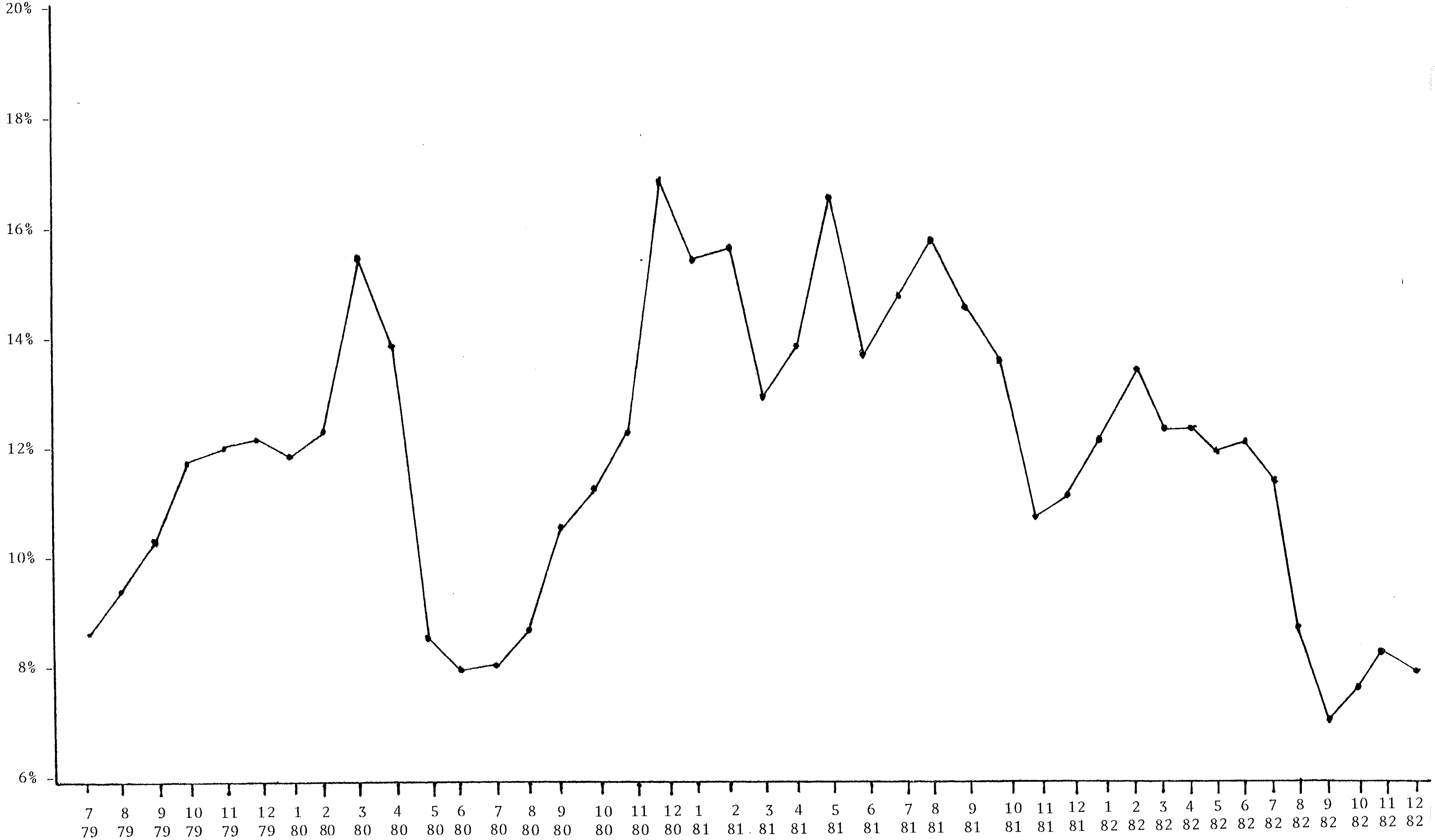


PROPERTY IMPROVEMENT

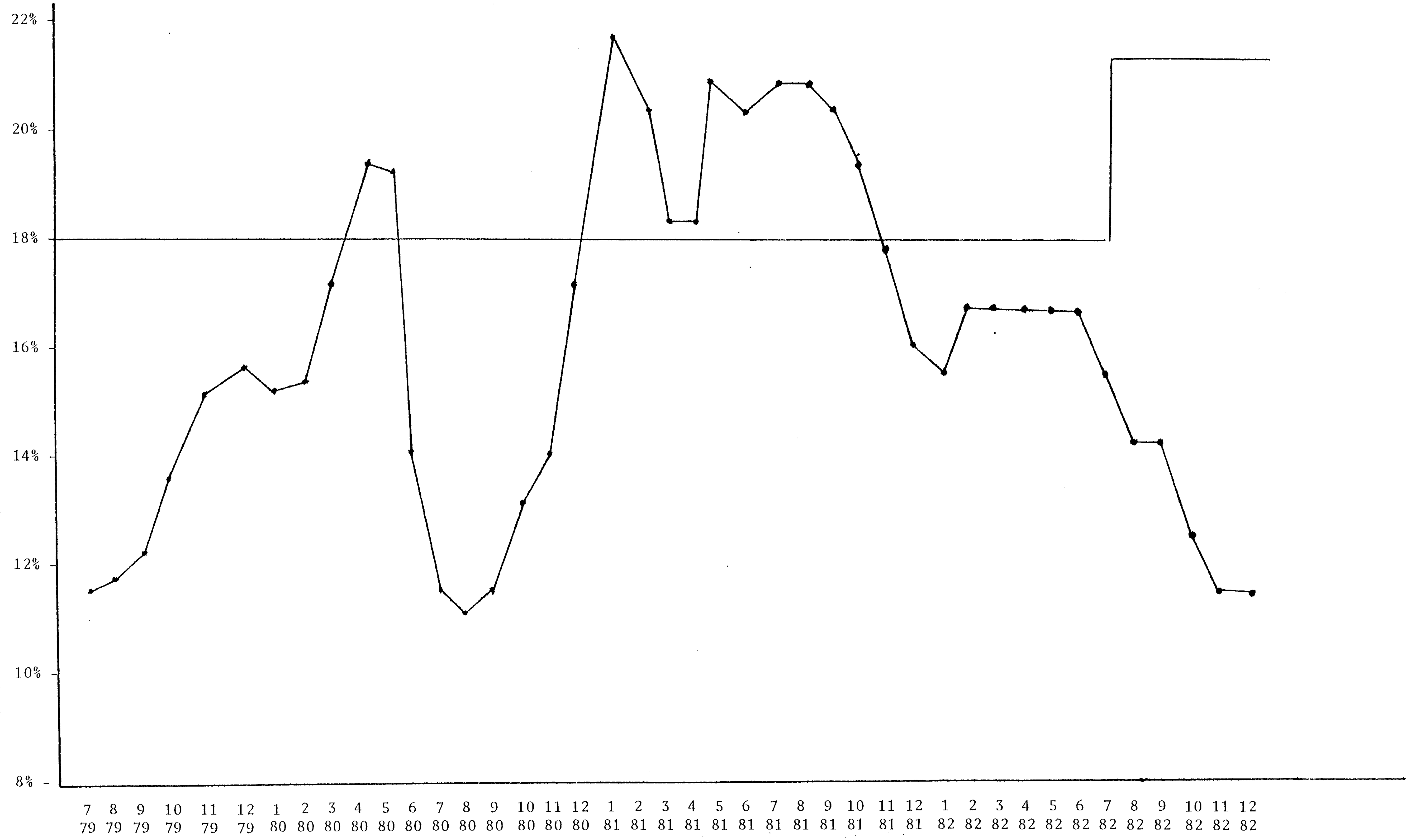


MANUFACTURED HOUSING





91-DAY T-BILL RATE



NEW YORK PRIME RATE

Treasury Borrowing Needs Are Projected At $203 Billion New Cash in Fiscal 1984

By LAURIE McGINLEY
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Treasury, which is expected to borrow a record $215 billion in the current fiscal year to finance the federal budget and lending programs, plans to borrow $203 billion in new cash next year, the Reagan administration says.

The projected borrowing for fiscal 1984, which starts Oct. 1, is a sore point for President Reagan, who took office promising to balance the budget by next year. Private economists worry that the government's enormous credit demands over the next several years could keep interest rates high or drive them higher, shutting businesses and consumers out of the credit markets, and hampering the long-awaited economic recovery.

The Reagan administration is projecting a budget deficit of $189 billion in fiscal 1984. The government also must borrow to finance an estimated $14 billion in programs that by law aren't included in the budget.

The deficit for the current fiscal year is estimated at $208 billion, with "off-budget" spending at $17 billion, the administration says. All but about $10 billion of the total requirement will be raised by public borrowing, the administration says.

Off-budget programs include the Agricultural Department's rural electrification program and the strategic petroleum reserve. In addition, federally sponsored agencies, such as the Federal National Mortgage Association, borrow to finance their programs.

U.S. Borrowings Rise

Federal borrowing totaled 48.9% of the funds raised in credit markets in fiscal 1982, up sharply from 33.3% the year before, according to the budget. If the trend continues, says Maury Harris, chief economist for Paine Webber Inc., "we'll probably get only a weak recovery in capital spending." The administration didn't provide an estimate for the current fiscal year.

In an effort to reduce borrowing next year, the administration is proposing a 9.4% decrease, to $137.6 billion, in its federal loan and guarantee programs. "Recent experience has shown that these programs preempt private-sector investment resources, and this absorption has an inhibiting effect on productivity and economic growth," the budget says.

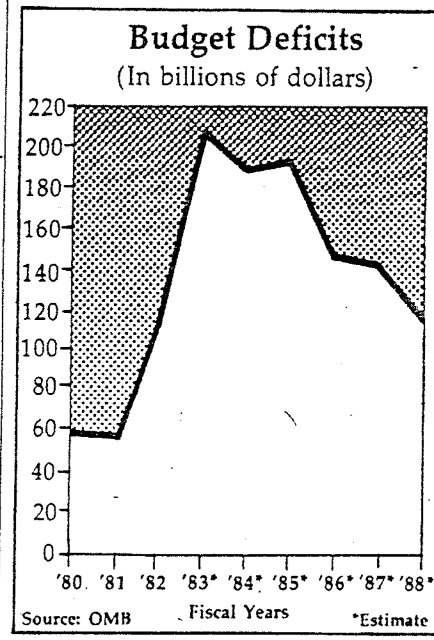
The credit budget for the current fiscal year is projected at $151.8 billion, up 49.9% from $101.3 billion in 1982. The budget says the low 1982 figure was "largely due to the effect of the recession and high interest rates on demand-based" federal housing programs.

The 1984 budget calls for a reduction in direct loans to $38.8 billion from the $49.1 billion projected for the current fiscal year. Guaranteed loans would decline to $98.7 billion from this year's estimated $102.7 billion.

Under the administration's proposal, the Small Business Administration's subsidized direct-loan program would end, as would the mortgage-purchase activities by the Government National Mortgage Association. In addition, the Commodity Credit Corp.'s price-support and related programs would be cut $3.8 billion, to $8.04 billion; the Farmers Home Administration's rural housing insurance fund would be reduced $3.1 billion, to $316 million.

The administration said that the sharp reduction in Commodity Credit Corp. programs reflects the administration's proposed "payment-in-kind" program, which would provide farmers with surplus commodities in exchange for reducing their crop production. The decrease in FHA housing funds reflects a proposal to include these funds as part of a rural block grant to states, the administration said.

The budget also includes $3.8 billion in Export-Import Bank loans for the next fiscal year, the same as in the current year. But, the budget says that the president will seek a supplemental authorization for direct-loan obligations of as much as $2.67 billion for 1984, if necessary to meet subsidized foreign competition.



The projected decline in the budget deficits from a peak of about $208 billion in the current fiscal year assumes congressional approval of all the Reagan administration's proposed program changes, including adoption of the surtax on income and an excise tax on oil starting in fiscal 1986.

Large deficits loom; credit market jumpy

By JOHN CUNNIFF
AP business analyst

NEW YORK — Beneath the seemingly calm acceptance of more big budget deficits lies a frightened, jumpy credit market.

Some home mortgage rates have turned a bit higher. Earlier this week the yield on Treasury borrowings rose. And so, as a consequence, did the rate that savings banks can pay on six-month certificates.

Dealers in money and credit link such activity directly to the realization that in just two fiscal years, 1983 and 1984, the federal budget deficit is likely to total about $400 billion.

That deficit has to be financed. There is only one way in which to finance it, and that is by borrowing money in the same marketplace where you borrow money to buy a house, a car or anything else on credit.

Mammoth federal deficits can sop up most of the money into the credit pool, leaving little for others. And if the others insist on a share, then there is only one way in which the price of money can go. That is, up.

It is such fears, money people say, that leave credit markets so edgy, no matter what the economic seers say about a continued fall of inflation and interest rates.

Most scenarios of lower inflation and interest rates, including that of the Reagan administration, are based on a disturbing assumption — that the recovery will be weak or, as it is more euphemistically stated, modest.

Students of credit say a weak demand for money — that is, a weak recovery in the consumer and business sector — might allow the government to have the credit pool mostly for itself. Like an elephant in the water hole.

But what if the other credit-using creatures also seek to take a dip? With the federal government already planning to take a huge portion of the credit pool, the demand for money could be greater than the supply.

"Projections now indicate that the federal government will preempt nearly three-fourths of new private saving for the year 1983," says a report from the Center for the Study of American Business at Washington University, St. Louis.

The center, headed by Murray Weidenbaum, recent chairman of President Reagan's Council of Economic Advisers, concludes that "precious little" is left with which to finance an enduring private-sector recovery.

If it wasn't clear before it is now: Many and probably most forecasts of lower interest and inflation rates are based on the assumption that the recovery is going to be weak.

That doesn't rule out an unexpectedly strong recovery. But if a strong recovery develops, then it would seem to rule out falling interest and inflation rates.

Already the credit markets are nervous.

Lind

COMPARISON OF THE KANSAS UNIFORM CONSUMER CREDIT CODE

LOAN RATES WITH THE OTHER UCCC STATES

January 1983

STATE	First Step	Second Step	Third Step	Alternative Rate	Revolving Rate
KANSAS	36% to $540	21% to $1800	14.45% to $25000	18% (with no sunset) 21% (sunset: 6-30-83)	36-21-14.45% on the same steps shown opposite or 21%
COLORADO	36% to $630	21% to $2100	15% to $25000	21%	21%
IDAHO	36% to $840	24% to $2800	18% to $70000	21%	21%
INDIANA	36% to $660	21% to $2200	15% to $55000	21%	21% or graduated rates as shown opposite
MAINE	30% to $660	21% to $2200	15% to $55000	18%	18%
OKLAHOMA	30% to $600	21% to $2000	15% to $45000	21%	30-21-15% on the same steps as shown opposite or 21%
SOUTH CAROLINA	Deregulated	Deregulated	Deregulated	Deregulated	Deregulated
UTAH	36% to $840	21% to $2800	15% to $70000	21%	No limit
WYOMING	36% to $300	21% to $1000	15% to $25000	21%	21%

Attachment II

COMPARISON OF THE KANSAS UNIFORM CONSUMER CREDIT CODE

INSTALMENT SALES RATES WITH THE OTHER UCCC STATES

January 1983

STATE	First Step	Second Step	Third Step	Alternative Rate	Revolving Rate
KANSAS	21% to $300	18% to $1000	14.45% to $25000	21% (Sunseted)	21-18-14.45% on the same steps shown opposite
COLORADO	25% to $630	21% to $2100	15% to $25000	21%	21%
IDAHO	36% to $840	24% to $2800	18% to $70,000	21%	21%
INDIANA	36% to $660	21% to $2200	15% to $55000	21%	21%
MAINE	30% to $660	21% to $2200	15% to $55000	18%	18%
OKLAHOMA	30% to $600	21% to $2000	15% to $45000	21%	21%
SOUTH CAROLINA	Deregulated	Deregulated	Deregulated	Deregulated	Deregulated
UTAH	36% to $840	21% to $2800	15% to $70,000	21%	No limit
WYOMING	36% to $300	21% to $1000	15% to $25000	21%	21%

Kansas
Credit
Union
League

1010 TYLER, SUITE 205
TOPEKA, KANSAS 66612

DATE: MARCH 22, 1983

TO: SENATE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS

FROM: MARVIN C. UMHOLTZ, KCUL GOVERNMENTAL AFFAIRS DIRECTOR

SUBJECT: HB 2079, AS AMENDED

Mr. Chairman, Members of the Committee:

The Kansas Credit Union League fully supports HB 2079, as amended. The two year extension of the current alternative rate ceiling is essential if the credit needs of Kansans are to be adequately served.

Additionally, our association asks the Members of this Committee to encourage the Legislative Coordinating Council to assign an interim study concerning the entire Kansas Uniform Consumer Credit Code, which has not been seriously reviewed since its passage ten years ago.

Thank you for the opportunity to appear in support of this measure. I stand ready to respond to questions at the direction of the Chairman.

ASSOCIATION OF
KANSAS CREDIT UNIONS
AFFILIATED WITH CUNA, INC.
AND THE
WORLD COUNCIL OF CREDIT UNIONS

Attachment III

KANSAS MANUFACTURED HOUSING INSTITUTE
100 East Ninth Street • Suite 205 • Topeka, Kansas 66612 • (913) 357-5256

TO: Members of the Senate Commercial and Financial Institutions Committee

FROM: Margie Tidwell, Executive Director, Kansas Manufactured Housing Institute

The Kansas Manufactured Housing Institute is a trade association representing all facets of the manufactured housing industry in Kansas, i.e. manufacturers, dealers, suppliers, transporters, mobile home park owners and managers, financial and insurance institutions.

Our interest In H.B. 2079 stems from our position in the business community and our desire to continue to do business. If the 21% ceiling on interest rates for consumer loans is allowed to expire in July, 1983, a return to the original ceiling of 14.5% could bring the manufactured housing business in Kansas to a standstill, or at least bring about a tramendous slow-down.

As I'm sure you are all aware, today's housing market is putting more and more low and middle income people in the position where a manufactured home is the only affordable home, if they choose to own instead of rent. For many of these people, a consumer loan is the only available means of financing such a home. High interest rates, of course, make the choice of purchase much more difficult but when these people are further placed in the position where they cannot even choose to pay the high interest rates because of statutorily imposed limits on the amount of interest a financial institution can charge, we are, in essence placing yet another stumbling block in the path of those who are most in need of an affordable home.

Attachment IV

Certainly, high interest rates have a negative effect on sales but our dealer members have experienced some periods in the past two years when the statutory ceiling prohibited people from buying homes because financial institutions simply could not afford to provide loans below those rates. This experience of the past two years tells us that a ceiling on interest rates does not necessarily serve to keep interest rates at what is considered a proper or desirable level. Obviously, that is determined by the business climate--rates rise and fall as the market place dictates, not as the statutes dictate.

A poll of dealer members of KMHI indicates that the are currently experiencing interest rates ranging from 13.5 to 19 percent. We hope that the lower rates will continue, but there are certainly no guarantees and we certainly have not reached a level where re-imposition of the old ceiling of 14.5% would be adequate. We would not like to see our already depressed economy thrown into a further decline if interest rates should remain at the current level or even rise again after July 1, 1983, with the Legislature having failed to act to extend the 21% ceiling.

We understand the concern about where we are going with all the changes currently in progress in the financial community, both on the state and national scene--we admit that we do not understand all the changes taking place nor do we claim to be able to forsee what these changes predict for the future. For this reason, we would be pleased to see the Legislature approve an extension of the current 21% ceiling on consumer loan interest rates, together with a mandate that an interim study be made of the entire UCCC.

We believe that ours is an important segment of the economy of this state and we know that we have potential homeowners in need of our product, ready and willing to purchase if financing can be available.

On behalf of the manufactured housing industry and these potential homebuyers, who want to purchase our product, we will appreciate your consideration of an extension of the 21% ceiling on consumer loans for a period of time during which the entire subject of consumer credit could be thoroughly studied by the Legislature.