

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 February 24, 1984 in room 529-S of the Capitol.

All members were present except:

Sen. Hess - Excused

Committee staff present:

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

Conferees appearing before the committee:

Gary Petz, Department of Aging  
Senator Jack Steineger  
Dr. Richard Morse, Professor of Family Economics

The minutes of February 23 were approved.

The hearing began on SB 549 dealing with a consumer savings disclosure and validation act. The chairman called on Gary Petz of the Department of Aging for his testimony in support of the bill. After briefly explaining the intent of the bill, Mr. Petz said that it is a practical way to sort out the confusions occurring in the use of savings accounts currently. He noted that in the retirement years, interest on savings is an important source of income, however, with the more complex savings accounts now, it is confusing. Mr. Petz feels that SB 549 will help people by simplifying the information so the consumer can make a decision where to invest and can confirm his returns. Also, it will be helpful because the full cost on the earnings on savings accounts will be provided. He concluded that SB 549 makes sense for the consumer and the financial institutions and asked for the committee's support of the bill.

Sen. Jack Steineger gave his testimony in support of SB 549. (See Attachment I.)

Dr. Richard Morse, Professor of Family Economics, followed with his testimony in support of SB 549. (See Attachment II.) Dr. Morse displayed examples of advertisements taken from the local newspapers concerning interest rates. He told the committee that the few advertisements he was displaying had 47 different types of rates and that the compounding was on the 360 day basis on some and on the 365 day basis on others. He explained that the method of computation for compounding is sometimes confusing and pointed out the different methods of compounding used by different institutions. He demonstrated to the committee how the computation in some of these advertisements could be listed more clearly. He feels that it is too much of a burden on the consumer to make "apples and oranges" conversions which the advertisements often require. Dr. Morse stated that if the bill is passed, people will become as accustomed to seeing this form of computation as they are to seeing the net weight printed on fronts of packages after the law requiring this was passed several years ago.

Dr. Morse distributed copies of a test he has given several times to students on interest rates. (See Attachment III.) He said that from 95% to 97% get the answers correct when given the rate in cents. He added that anybody that can shop for gas can figure out the rate computation outlined in the bill.

There were no other conferees.

The meeting was adjourned.

SENATE COMMITTEE  
ON  
COMMERCIAL AND FINANCIAL INSTITUTIONS

OBSERVERS  
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
	D. Luber		AP
	T Swider	Topeka	KLSI
	W. Burch	"	KCAF
	R L D Morse	Manhattan	-
	Coary PeTZ	Topeka	KDOA
	Jim McBride	Topeka	United Way <sup>Topeka</sup> of
	Don Phelps	"	Cons. Gr. Comm.
	John Spurgeon	Lawrence	Budget
	Jerel Wright	Topeka	KCUL

STATEMENT BY SENATOR JACK STEINEGER  
COMMERCIAL AND FINANCIAL INSTITUTIONS  
S.B. 549 FEBRUARY 24, 1984

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, AGAIN THIS MORNING I APPRECIATE THIS OPPORTUNITY TO PRESENT ANOTHER PIECE OF THE 1984 DEMOCRATIC CONSUMER FAIRNESS PACKAGE, OUR TRUTH IN SAVINGS BILL.

TRUTH IN SAVINGS IS THE NAME USUALLY GIVEN TO THIS KIND OF LEGISLATION, ALTHOUGH I THINK A MORE APPROPRIATE NAME MIGHT BE THE "APPLES AND ORANGES" BILL. I SAY "APPLES AND ORANGES" BECAUSE THAT'S THE BILL'S MAIN PURPOSE IS TO HELP KANSAS CONSUMERS SEPARATE "APPLES FROM ORANGES" AND MAKE AN INTELLIGENT, INFORMED DECISION WHEN CHOOSING A SAVINGS PROGRAM.

THIS KIND OF IDEA IS NOTHING NEW IN THE WORLD OF BUSINESS. SOME BUSINESSES---WITHOUT PROMPTING FROM A LEGISLATURE OR THE FEDERAL GOVERNMENT---HAVE VOLUNTARILY INSTITUTED THE SAME CONCEPT AS USED IN SENATE BILL 549. LET ME GIVE YOU AN EXAMPLE.

I'M SURE ALL OF US HAVE SHOPPED FOR GROCERIES AT ONE TIME OR ANOTHER. SOME GROCERY STORES IN KANSAS---NOTABLY DILLONS STORES---OFFER SHOPPERS "UNIT PRICING." IN OTHER WORDS, WHEN YOU'RE BUYING SOAP AT A DILLONS STORE, YOU DON'T HAVE TO FIGURE OUT WHICH SIZE OR BRAND IS MOST ECONOMICAL.

*Attachment I*

S.B. 549/2

AT DILLONS, THE STORE HAS ALREADY FIGURED THE "PER UNIT" PRICE AND POSTED IT ON THE SHELF. SO IT'S RELATIVELY SIMPLY TO DECIDE IF YOU WANT THE GIANT SIZE, THE ECONOMY SIZE, THE SUPER DOOPER SIZE, OR WHATEVER SIZE---BECAUSE YOU KNOW HOW MUCH THE SOAP COSTS PER OUNCE. REGARDLESS OF HOW BIG OR SMALL THE SOAP BOX MIGHT BE, DILLONS STORES---TO THEIR CREDIT---SUPPLY SHOPPERS WITH THE INFORMATION NEEDED TO MAKE AN INFORMED CHOICE.

APPARENTLY DILLONS HAS FOUND IT PROFITABLE TO GIVE THEIR CUSTOMERS AS MUCH INFORMATION AS POSSIBLE---IN THE CLEAREST MANNER POSSIBLE---BECAUSE THEY HAVE BEEN USING "UNIT PRICING" THROUGHOUT KANSAS SINCE 1970. THEY DON'T CONFUSE THEIR CUSTOMERS, AND THE CUSTOMERS REPAY THE STORE'S FORTHRIGHT APPROACH WITH THEIR BUSINESS.

SENATE BILL 549 TAKES MUCH THE SAME APPROACH TO SHOPPING FOR SAVINGS THAT DILLONS TAKES TOWARDS SHOPPING FOR SOAP---OR APPLES AND ORANGES. SPONSORS OF THE BILL BELIEVE IT WILL HELP BOTH MERCHANTS AND CONSUMERS BY INSTITUTING THE SAME KIND OF "INFORMED CHOICE" POLICY FOR THE SAVINGS BUSINESS. WE BELIEVE IT PARTICULARLY HELPS KANSAS CONSUMERS WHO NOW FACE A GALAXY OF INTEREST RATES FIGURED IN A VARIETY OF WAYS.

S.B. 549/3

ALTHOUGH SENATE BILL 549 DOES NOT CHANGE THE WAY A SAVINGS INSTITUTION CHOOSES TO COMPUTE INTEREST, IT WOULD REMOVE MUCH OF THE CONFUSION THAT OCCURS WHEN CONSUMERS TRY TO COMPARE ONE SAVINGS PLAN OR OFFER WITH ANOTHER. THE BILL HELPS REMOVE THAT CONFUSION BY REQUIRING A LITTLE "UNIT PRICING," JUST LIKE DILLONS USES, SO SHOPPERS CAN COMPARE OFFERS AND MAKE INFORMED DECISIONS.

LET ME GIVE YOU AN EXAMPLE OF WHAT KANSANS FACE IN TRYING TO MAKE AN "INFORMED CHOICE" IN TODAY'S SAVINGS MARKETPLACE. AT THE PRESENT TIME, TWO OF KANSAS' THRIFT INSTITUTIONS ARE BOTH ADVERTISING A RETURN OF 10.25 PERCENT ON MONEY DEPOSITED WITH THEM. ANY KANSAS SAVER WHO THINKS IT DOESN'T MAKE ANY DIFFERENCE WHICH INSTITUTION IS USED FOR SAVING, HOWEVER, IS PROBABLY MAKING A BIG MISTAKE.

IT'S PROBABLY A BIG MISTAKE FOR THE SIMPLE REASON THAT 10.25 PERCENT AT INSTITUTION "A" DOESN'T EQUAL 10.25 PERCENT AT INSTITUTION "B". IN FACT, \$10,000 IN ACCOUNT "A" WILL PRODUCE \$1,079 IN INTEREST IN A YEAR, WHILE THE SAME \$10,000 WOULD PRODUCE ONLY \$1,025 IN THE SAME YEAR IN ACCOUNT "B". IN OTHER WORDS, IF OUR AVERAGE KANSAS SAVER DOESN'T HAVE THE TIME, PATIENCE OF EXPERTISE TO FIGURE OUT THE FINE POINTS OF BOTH ACCOUNTS, HE OR SHE COULD END UP FOREGOING \$54 IN ANNUAL INTEREST.

S.B. 549/4

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I DON'T THINK ANY INTELLIGENT SAVER WOULD DELIBERATELY THROW AWAY \$54 IN INTEREST, AND I FAIL TO SEE ANY SOUND BUSINESS OR ECONOMIC REASON TO ALLOW THIS KIND OF CONFUSION TO CONTINUE IN THE SAVINGS MARKETPLACE. FOR WHATEVER REASON, THERE'S LITTLE DOUBT THAT KANSAS SAVERS FACE SOME PRETTY MUDDY WATERS IN TRYING<sup>TO</sup> COMPARE VARIOUS OFFERS, AND SENATE BILL 549 WOULD GO A LONG WAY TOWARDS CLEARING UP THE CONFUSION.

AS FOR THE BILL ITSELF, PROBABLY THE KEY PROVISION IS A REQUIREMENT THAT EARNINGS BE STATED IN CENTS PER \$100 PER DAY. THIS IS THE "UNIT" WE WOULD APPLY TO SAVINGS, JUST LIKE DILLONS USES OUNCES OR POUNDS. RATHER THAN GO THROUGH THE BILL'S TECHNICAL PROVISIONS, HOWEVER, I WOULD LIKE TO DEFER TO PROFESSOR DICK MORSE OF THE FAMILY ECONOMICS DEPARTMENT AT KANSAS STATE UNIVERSITY. HE WILL BE HAPPY TO GIVE YOU HIS VIEWS ON THE BILL, AND HE CAN PROVIDE A DETAILED SECTION-BY-SECTION EXPLANATION IF YOU DESIRE.

AGAIN, I APPRECIATE THIS OPPORTUNITY TO TESTIFY IN SUPPORT OF SENATE BILL 549. WITH THE DEADLINE APPROACHING MARCH 7, I HOPE THE COMMITTEE TAKES SPEEDY ACTION IN REPORTING THIS BILL FAVORABLY TO THE SENATE FLOOR.

THANK YOU VERY MUCH.

Statement of Richard L. D. Morse  
on  
S.B. 549 Consumer Savings Disclosure and Validation Act  
before  
Senate Commercial and Financial Institutions

February 24, 1984

Dear Mr. Chairman:

I am Richard L. D. Morse, Professor of Family Economics at Kansas State University and appear before you today not as representative of the University but as a private citizen who has devoted much time since 1968 to the study of how interest rates are figured and quoted - in the hope that a less confusing, simpler and more meaningful way might be found. I am pleased to appear before you in support of such a measure.

I will limit my formal remarks to six points, leaving the remainder of my time for technical questions about the bill.

1. S.B. 549 will help everyone.

It will help consumers

- Compare rates when shopping for savings instruments
- Validate the interest paid

It will help financial institutions

- Compete on rates for consumer savings
- Reduce their costs of operations

2. The requirement of S.B. 549 is simple and meaningful.  
S.B. 549's only requirement is to quote

The daily compound rate

in easy-to-understand terms of

Cents per \$100 per day

"Cents" are easy to count

"100" units are easy to identify

"day" is obvious

- Money has use value every day.
- The consumer expects to be paid interest every day
- The financial institution should expect to pay interest on all the money on deposit every day.
- S.B. 549's only requirement is that this daily rate be disclosed

3. Cents per \$100 per day is easily understood and correctly interpreted.

Test results from over 2000 persons in 20 states show 97% correct choices between paired rates expressed in cents, but only 43% correct (less than the 50-50 chance) between the same rates in conventional terms.

Attachment II



The consumers who have no difficulty comparing gasoline pump prices will feel equally comfortable making saving choices based on Cents per \$100 rates.

4. Daily compounding is not required.

Institutions can continue to compound annually, semi-annually, quarterly and monthly; to use 360, 362, 364, 365, 366 and 368-day years; to pay on the average monthly balance; to pay on only even \$1, \$5 or \$25 amounts; and use any of the over 7 million different ways of figuring interest. But if they do, they must (1) Tell the saver what system is used and (2) Convert the yield of the system into its equivalent from daily compounding.

Presently, savers must make "apples and oranges" comparison, but under S.B. 549, rates will be comparable because rates use the same standard, so consumers can compare "apples with apples" and "oranges with oranges".

5. S.B. 549 will not require fancy high priced computers.

- Calculations of the daily rate take less than 30 seconds by hand on a \$20 calculator.
- Tables for any rate can be printed and as a public service given to customers so they can figure interest even without a calculator

6. S.B. 549 requires no new government agencies.

- The Office of Attorney General presently prohibits false, misleading and deceptive advertising and practices
- The various commissions and agencies cited in S.B. 549 are already established

Finally:

1. I am attaching for your study a section-by-section analysis of S.B. 549.
2. You may be interested to know that this is not a new idea. The state of New York enacted similar legislation in 1977 and the New York Superintendent of Banking is pleased with it. I have on display a brochure of The New York Bank for Savings in which you will find the Cents per \$100 quotations.
3. The Iowa Legislature is considering a similar bill, H.F. #2213, introduced by Representative Chiodi and was voted out 21-0 with two abstentions for debate by the House.



An interpretation by Richard L. D. Morse 2/24/84

Sec. 1 Title. This revision of the so-called "Truth in Savings Act" is properly labeled a Disclosure Act because its basic requirement is for the terms of savings contracts to be made explicit and known to both contracting parties. Most savings contracts are deficient in being fully informative.

Validation has been included to underscore the importance of having information that can be proved out.

Sec. 2 Purposes. The purposes are clearly stated in The Act. The Act merely requires sharing with the saver and the clerical staff who serve the public information already known to the computer program. A desirable effect will be to reduce costs arising out of misunderstanding, and greater responsibility on the part of both parties may be expected with access to information in standardized language about rates and methods. Most savings account statements cannot be verified readily.

Sec. 3 Disclosures. These can be very simple.

(a) (1) Only the daily rate is required if interest is paid daily on daily balances and there are no charges.

The institution may disclose less conspicuously the annualized daily rate, that is, the APR and APY, but is not required to do so. Disclosure requirements are consistent with federal regulations.

There is no "information overload". Nor is there "information deficit" because the DR is all the information needed to compare rates and validate earnings.

(2) Freedom of choice, however, is provided. Institutions paying interest other than daily, on other than on all the money on deposit each day, and which assess charges and fees, must not only disclose these facts but also perform the calculations necessary to translate whatever they choose to do into daily rate equivalents.

The intended effect is to shift the burden of getting the information needed to compare different savings options from the saver to the expertise of the savings institutions. Savings institutions whose experts desire creative savings instruments will bear the cost of explaining these instruments in daily rate terms. Thus each institution will need to make cost effectiveness estimates of whether to simplify their operations to compound daily on DIDO or DD-DW balances (Day in-to Day out or Day-of-Deposit-to Day-of-Withdrawal balances) or employ other methods and bear the added cost of disclosing the methods as well as translating them to daily rate equivalents.

(b) Advertised disclosures follow the same pattern and otherwise comply with current law.

(c) Notification is required upon request, when an account is opened, 10 days prior to making a change in contract terms, and at least annually together with itemized records.

Sec. 4 Definitions. "Individual", "savings institution" and "consumer savings" limit the scope of The Act to accounts of less than \$100,000.

"Earnings" is broadly defined.

"Payable" is carefully drafted to set it apart from such commonly used words as "paid", "posted" and "accrued".

"PPR", "APR" and "APY" tighten up concepts commonly used under some 26 different terms. Also the word "annual" is identified with a 365-day year, thus eliminating another major source of confusion to whether the day base is 360, 362, 364, 365, 366 or 368 days.

"Daily Rate", "DR" provides a meaningful way to express rates. It had a 97 percent accuracy score from tests given in 20 states. This should come as no surprise since most people can recognize that gasoline with posted price of 122.9¢ is cheaper than gasoline priced at 124.9¢. Likewise, savings paying 3.0137¢ per \$100 can be expected to be correctly identified as paying more than savings posted at 2.9734¢. Yet, both might well have been advertised as 11%!

Furthermore, just as the process of validating the total amount charged for gas is simply the price per gallon multiplied by the number of gallons, the amount of interest paid is the daily rate times the number of \$100 units on deposit. The Morse Daily Rate Tables or inexpensive pocket calculators eliminate the need for daily calculations, so earnings can be calculated very easily if the daily rate is known.

DRe, APRe and APYe are defined for use by those institutions choosing not to pay interest daily on all the money on deposit each day; they will be expected to express the equivalent of their chosen method in rates which are comparable with savings which do pay interest daily on daily balances.

Standard values for cents per \$100 per day and standards of accuracy for computing and reporting earnings are established.

Sec. 5 Administration. The Act does not create a new government agency but utilizes those currently responsible for savings instruments. It empowers them to issue rules and regulations to "proscribe" and "prescribe" to (1) insure compliance with the purposes of The Act and (2) meet the disclosure performance standards of "readability" (to prevent their following the precedent of Truth in Lending which often legalized obfuscation) and "repeatability" (to assure the facts can be proven out).

Sec. 6 Compliance. This section follows provisions of other laws including reasonable attorneys fees. One innovation is allowance of rewards to persons who discover errors and who thereby provide a valuable service in reducing white collar computer crime. Also it incorporates the services of the Attorney Generals Office of Consumer Protection which has proven its ability to recognize and take effective action in curbing false, misleading and inaccurate disclosures.

Sec. 7 No Comment.

Non-graded test

Interest rates can help you make comparisons and calculate how much interest to expect. But they can be confusing depending on how they are expressed.

So we are asking you to help us determine which ways are most useful and correct.

Circle what you think or guess is the right or better answer. Then tell us how confident you are of your answer. So if you are guessing, circle 1 or 2. But if you know you are right, circle 5 or 6.

Thanks for your willingness to take the test.

•Please write in your name or number\*  \* (confidential)\*

COMPARISONS OF RATES - Which would you prefer?		Preference (Circle)	Not Sure	Fairly Sure	Very Sure
1.	to get interest compounded monthly at the same rate to get interest compounded daily at the same rate	a. b.	1 2	3 4	5 6
2.	to get 2.876¢ per \$100 per day to get 2.864¢ per \$100 per day	a. b.	1 2	3 4	5 6
3.	to get interest figured daily on a 360-day basis to get interest figured daily on a 365-day basis	a. b.	1 2	3 4	5 6
4.	to get 10.5% compounded daily to get 11.3% annual yield	a. b.	1 2	3 4	5 6
5.	to get 10.5% compounded daily on a 360-day basis to get 10.5% compounded daily on a 365-day basis	a. b.	1 2	3 4	5 6
6.	to get 10.6% compounded daily on a 365-day basis to get 10.5% compounded daily on a 360-day basis	a. b.	1 2	3 4	5 6
7.	to get 10.5% compounded monthly on a 360-day basis to get 10.5% compounded daily on a 365-day basis	a. b.	1 2	3 4	5 6
8.	to get 10.5% compounded monthly on a 365-day basis to get 10.5% compounded daily on a 365-day basis	a. b.	1 2	3 4	5 6
9.	to get 2.859¢ per \$100 per day to get 2.916¢ per \$100 per day	a. b.	1 2	3 4	5 6

CALCULATIONS OF APPROXIMATE AMOUNT OF INTEREST YOU WOULD EXPECT TO GET---

10.	-on \$100 deposited 2 days before the end of month in your 5½% NOW account: Circle:      1¢                  3¢                  5¢                  5½¢                  10¢	1 2	3 4	5 6
11.	-on \$100 deposited the first day of the month so it earned for 30 days at 5½%: Circle:      5¢                  15¢                  30¢                  45¢                  60¢	1 2	3 4	5 6
12.	-on \$100 for 3 days in an account paying 10.5%, compounded daily: Circle:      3¢                  6¢                  9¢                  10.5¢                  12¢	1 2	3 4	5 6
13.	-on \$200 for 1 day in an account paying 3¢ per \$100 per day, compounded daily: Circle:      1¢                  3¢                  4¢                  5¢                  6¢	1 2	3 4	5 6
14.	-on \$200 for 100 days in an account paying 3¢ per \$100 per day, compounded daily: Circle:      Under                  Between                  Over \$3                  \$3                  \$3 & \$6                  \$6                  \$6	1 2	3 4	5 6

How much math have you had? \_\_\_\_\_ years in high school \_\_\_\_\_ semesters in college

NOTE: 360 = 365/360 and 365 = 365/365 as described with other terms in Morse: Check Your Interest.  
Available from Morse Publications, 2429 Lookout Drive, Manhattan, Kansas 66502. \$2.50 pp.

\*We will use identities only if required to defend the legitimacy of the data and prove they are not fabricated. Your test paper will be held confidential and your answers will be used only to compile statistical summaries. Thank you.

*Alch. III*