

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS

The meeting was called to order by Representative Harold P. Dyck at  
Chairperson

3:30 ~~am~~/p.m. on Thursday, February 21, 1985, in room 527-S of the Capitol.

All members were present except: Representative Judith Rannels and Representative David Louis, each excused

Committee staff present: Arden Ensor, Revisor of Statutes  
Myrta Anderson, Legislative Research  
Virginia Conard, Committee Secretary

Conferees appearing before the committee: James Turner, President, League of Savings Institutions  
Representative Harold Guldner  
Bud Grant, Executive Director and Vice President, Kansas Chamber of Commerce and Industry  
Frances Kastner, Director, Governmental Affairs  
Kansas Food Dealers' Association, Inc.  
Shirley Atteberry, Research & Data Inc.  
John Bins, Plant Manager, Deluxe Check Printers, Inc.  
Jerel Wright, Kansas Credit Union League  
Bob Harder, Secretary, Social & Rehabilitation Services

Representative Dyck called the meeting to order and stated that the committee had two requests for introduction of bills, one from James Turner, President of League of Savings Institutions and one from Bob Harder, Secretary of Social & Rehabilitation Services.

Mr. Turner requested the introduction of a bill concerning cemetery funds. (See Attachment I for details.)

Rep. Homer Jarchow moved that the requested bill regarding cemetery corporations, amending K.S.A. 17-1311 and K.S.A. 17-1312(b) be introduced as a committee bill.  
Rep. Dorothy Nichols seconded. Motion carried.

Since Dr. Harder would be appearing before the committee toward the close of the meeting, Chairman Dyck called on Mr. Turner for testimony on HB2107.

Mr. Turner said that HB2107 would provide authority for finance subsidiaries on behalf of state-chartered savings and loan associations. (See Attachment II for details.) Mr. Turner urged the committee to report HB2107 favorably for passage.

There being no further conferees for HB2107, the chairman called on Rep. Harold Guldner, who testified in favor of HB2181.

Rep. Guldner, one of the sponsors of the bill, said it was interesting to see the statistics retailers have to go through with bad checks, that it is a loss of \$4 billion nation wide and he said that this high cost of loss means the consumers have to pay for it. Rep. Guldner said he wanted to offer an amendment to HB2181. (See Attachment III for the amendment.)

Rep Guldner said that this is an important issue and he did not think the retail people were asking too much in wanting legislation like HB2181 to help hold down the tremendous amount of bad checks which are written each year.

Bud Grant, executive director and vice president of the Kansas Chamber of Commerce and Industry, was the next conferee to speak in favor of HB2181. Mr. Grant said that there is a loss of \$60 million in bad checks in Kansas alone each year and that 80% of the checks are written on accounts less than one year old. He said HB2181 was a step toward trying to stop the issuing of bad checks and he urged the committee's support of it. (See attachment IV.)

Frances Kastner, Director of Governmental Affairs, Kansas Food Dealers' Association, Inc., was the next conferee to appear in favor of HB2181. (See Attachment V for

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS,  
 room 527-S, Statehouse, at 3:30 ~~xxx~~/p.m. on February 21, 1985.

details of Mrs. Kastner's testimony.) Mrs. Kastner also submitted testimony in favor of HB2181 from Dale L. Flaxbeard, President of TeleCheck--See Attachment VI for the written testimony.)

Conferee Shirley Atteberry of Research & Data Inc. appeared before the committee in support of HB2181. (See Attachment VII for her testimony.)

The chairman then called on the next conferee to testify on HB2181, John Bins, Plant Manager of Deluxe Check Printers, Inc. Mr. Bins stated that he and his company were not taking a position on this bill. He was testifying to point out some facts concerning this issue and to recommend amendments to HB2181. (See Attachment VIII for Mr. Bins' testimony and the recommended amendments.)

There being no other conferees in favor of HB2181, the chairman called on the first conferee appearing in opposition to the bill, Jerel Wright, legislative spokesperson for the Kansas Credit Union League. Mr. Wright stated that although KCUL opposes HB2181 they would like to suggest an amendment to the measure in the event the committee chooses to go forward with this legislation. (See Attachment IX for details.)

Second conferee to appear in opposition to HB2181 was James Turner of the Kansas League of Savings Institutions. Mr. Turner stated that they were opposed to the passage of HB2181 as introduced and that they would suggest the committee's serious consideration of several amendments. (See Attachment X for details.)

Jim Maag stated that the Kansas Bankers Association at this point has no official position on HB2181. He further stated, "I don't think our people would disagree with what Mr. Bins said or with what Mr. Turner said, but at this point I cannot give our clear-cut position on the bill."

There being no other conferees on HB2181, Chairman Dyck called on Dr. Bob Harder, Secretary of Social & Rehabilitation Services, who asked for the committee's consideration of a bill to be brought out by this committee and referred back to this committee. The proposed legislation would direct treasurers of financial organizations to provide the Secretary of SRS information relating to deposits, withdrawals, etc. (See Attachment XI for the details.)

Rep. Bob Ott moved that the requested bill by Secretary Harder be introduced as a committee bill. Rep. Lawrence Wilbert seconded. Motion carried.

With no further testimonies, Chairman Dyck directed the attention to the two bills, HB2224 and Sub for SB42, which had been heard at the previous meeting.

Rep. Ott moved that a technical clarification amendment to HB2224 be approved. Rep. Herman Dillon seconded the motion. Motion carried.

Rep. Kenneth Francisco moved that the committee recommend HB2224 favorably as amended. Rep. David Miller seconded. Motion carried, but with Rep. Homer Jarchow voting in opposition.

Rep. Miller moved that the committee recommend Sub. for SB42 favorably. Rep. Ott seconded. Motion carried.

Rep. Wilbert moved that the minutes of the Feb. 19 meeting be approved. Rep. Long seconded. Motion carried.

Meeting adjourned shortly before 5:00.



**KLSI** Kansas  
League of  
Savings  
Institutions

JAMES R. TURNER, President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

February 21, 1985

TO: HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS  
FROM: JIM TURNER, KANSAS LEAGUE OF SAVINGS INSTITUTIONS  
RE: REQUEST FOR INTRODUCTION - CEMETERY FUNDS

Recent audits of cemetery association deposits by the office of Secretary of State has revealed an inequity in the statutes relating to the type of financial institution that may receive such deposit. A literal reading of the statute would indicate that while state-chartered savings and loan associations could receive cemetery association funds, a federally-chartered association could not.

We are requesting introduction of the attached bill which would correct this inequity and maintain parity between the two types of institutions.

James R. Turner  
President

JRT:bw

Encl.

ATTACHMENT 1

2/21/85

\_\_\_\_\_ BILL NO. \_\_\_\_\_

By \_\_\_\_\_

AN ACT relating to cemetery corporations; concerning permanent maintenance fund; requirements; use; custody; requirements; limitations; amending K.S.A. 17-1311 and K.S.A. 17-1312(b) and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1 K.S.A. 17-1311 is hereby amended to read as follows: 17-1311. Such corporation shall maintain, in a trust company, ~~a bank within the state of Kansas or a savings and loan association incorporated under the laws of this state, a state or national bank, a state or federally chartered savings and loan association or a federally chartered savings bank~~, a percentage of the purchase price of each burial lot hereafter sold by it, or any payment thereon, not less than fifteen percent (15%) thereof, for the permanent maintenance of the cemetery within which said burial lot lies, but the total amount so set aside shall not be less than twenty-five dollars (\$25) for each burial at the time of conveyance of such lot. Deposits to the permanent maintenance fund shall be made within forty-five (45) days of receipt of moneys for which deposits are required to be made. Moneys placed in such fund under the provisions of K.S.A. 17-1308 shall be credited for the purposes of fulfilling such requirement. Moneys in such fund may be held and invested to the same extent as is provided in K.S.A. 17-5004 and any amendments thereto, but the total amount of money invested in any mortgage upon real property

shall not exceed an amount equal to seventy-five percent (75%) of the market value of such property at the time of such investment. The income of the said permanent maintenance fund shall be used exclusively for the maintenance of said cemetery. No part of the principal of said fund shall ever be used for any purpose except for such investment. In no event shall any loan of said funds be made to any stockholder in such corporation. The treasurer of such corporation may deposit, to the credit of such fund, donations or bequests for said fund and may retain property so acquired without limitation as to time and without regard to its suitability for original purchase. As used in this section, the term "burial lot" shall mean a plotted space for one grave. Such maintenance shall include, but not be limited to, mowing, road maintenance and landscaping, but shall not include administrative costs, expense of audits or the portion of any capital expense for equipment used to maintain portions of a cemetery not sold for burial purposes or in use for grave sites.

Section 2 K.S.A. 17-1312(b) hereby amended to read as follows: 1312(b). The permanent-maintenance fund required to be established by K.S.A. 17-1311 shall at all times be in the custody of a trust company, ~~a bank within the state of Kansas or a savings and loan association incorporated under the laws of this state~~ a state or national bank, a state or federally chartered savings and loan association or a federally chartered savings bank. Any such trust company, bank or savings and loan association with which the custody of a permanent-maintenance fund has been entrusted may invest, reinvest, exchange, retain,

sell and manage the moneys within such fund. If the treasurer of any cemetery corporation shall entrust the custody of the permanent-maintenance fund to a savings and loan association or associations, the amount of moneys in the custody of any such association shall not exceed the amount for which deposits in such savings and loan association are insured by the federal savings and loan insurance corporation or other insurer approved by the state commissioner of insurance. If the treasurer of any cemetery corporation shall entrust the custody of the permanent-maintenance fund to a bank or banks, the amount of money in the custody of any such bank shall not exceed the amount for which deposits in such bank are insured by the federal deposit insurance corporation or other insurer approved by the state bank commissioner. Such trust company, bank or savings and loan association may serve without bond and may be reasonably compensated for its services out of the income of said fund. It shall be a provision of any such trust agreement that no moneys, other than income from the trust, shall be paid over to the cemetery corporation by the trustees, except upon the written permission of the secretary of state.

Section 3. K.S.A. 17-1311 and K.S.A. 17-1312(b) are hereby repealed.

Section 4. This act shall take effect and be in force from and after its publication in the statute book.

# KLSI Kansas League of Savings Institutions

JAMES R. TURNER, President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

February 21, 1985

TO: HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS  
FROM: JIM TURNER, KANSAS LEAGUE OF SAVINGS INSTITUTIONS  
RE: H.B. 2107 (S&L FINANCE SUBSIDIARIES)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the House Commercial and Financial Institutions Committee in support of H.B. 2107 which would provide authority for finance subsidiaries on behalf of state-chartered savings and loan associations.

On July 18, 1984, the Federal Home Loan Bank Board issued authority for federally-chartered savings and loan associations to create finance subsidiaries. The sole purpose of the finance subsidiaries must be to issue securities that the S&L could issue and to remit the proceeds of the offering (less reasonable costs) to the parent association. The intent of the finance subsidiary is to facilitate issuance of collateralized mortgage obligations (CMOs), mortgage backed bonds, Eurobonds, and subsidiary preferred stock. The subsidiary may not issue or deal in the deposits of the parent savings and loans. These regulations are set out in 12 CFR Parts 561-571 and 12 CFR 545.82.

To avoid a competitive imbalance between federally and state-chartered associations in this area, the State Savings and Loan Commissioner on September 21, 1984, issued a "Special Order," pursuant to K.S.A. 17-5601, allowing state-chartered savings and loan associations to establish finance subsidiaries. A copy of the "Special Order" has been attached.

The provisions of H.B. 2107 formalized the Commissioner's "Special Order" creating equity between federal and state-chartered associations by allowing state-chartered associations to create finance subsidiaries subject to the regulations of the State Savings and Loan Commissioner.

We would appreciate the committee's earliest attention to reporting H.B. 2107 favorably for passage.

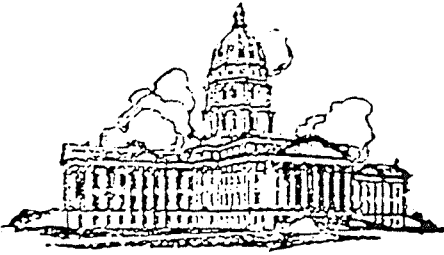
James R. Turner  
President

JRT:bw

ATTACHMENT 2

2/21/85





## *Savings and Loan Department*

Room 220

503 Kansas Avenue

TOPEKA, KANSAS 66603

JOHN CARLIN, Governor

MARVIN S. STEINERT, Commissioner

### SPECIAL ORDER OF THE COMMISSIONER

The Savings and Loan Commissioner hereby enters a Special Order pursuant to K.S.A. 17-5601, which provides that the Commissioner may authorize any and all state chartered savings and loan associations to engage in any activity in which such associations could engage were they operating as a federal savings and loan association. The Commissioner hereby finds it is necessary to adopt this Special Order; that this Special Order is reasonably required to preserve and protect the welfare of state chartered savings and loan associations and that it will promote competitive equality of state and federal savings and loan associations. This Special Order hereby grants the following powers to state chartered savings and loan associations to equalize powers granted to federal associations.

Notwithstanding any restrictions contained in the statutes of the State of Kansas, a state chartered savings and loan association which is a member of a federal home loan bank may, without limitation as to aggregate amount, borrow, give security, and issue notes, bonds, debentures, or other obligations, or other securities, including capital stock, directly or indirectly through a finance subsidiary, and may invest in, transfer or make available assets to any such finance subsidiary, to the same extent it could if it were a federal savings and loan association, subject to the provisions of 12 C.F.R. Parts 561-571 and 12 C.F.R. 545.82.

Signed and sealed this 21st Day of September, 1984 at Topeka, Kansas.

A large, stylized handwritten signature in black ink, appearing to read "Marvin S. Steinert".

Marvin S. Steinert  
Savings and Loan Commissioner  
State of Kansas

SEAL

This Special Order specifically approved by the Savings and Loan Board at a regular meeting held September 21, 1984.

PROPOSED AMENDMENT

RE: House Bill No. 2181

On page 1, in line 29, by striking all before the period and inserting "following the name of the account";

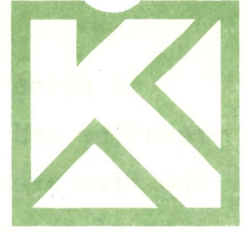


**BUD GRANT**  
Vice President & General Manager

**Kansas  
Chamber of  
Commerce  
and Industry**

500 First National Tower, One Townsite Plaza  
Topeka, KS 66603-3460 (913) 357-6321

**Commerce and Industry**



500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

A consolidation of the  
Kansas State Chamber  
of Commerce,  
Associated Industries  
of Kansas,  
Kansas Retail Council

HB 2181

February 21, 1985

**KANSAS CHAMBER OF COMMERCE AND INDUSTRY**

Testimony Before the

**HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS**

Mr. Chairman and Members of the Committee:

My name is Bud Grant I am appearing here today on behalf of the Kansas Chamber of Commerce and Industry to indicate our support to you of HB 2181.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses plus 215 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

Currently there are five bills being considered in the Kansas Legislature dealing with the problem of worthless checks. It would appear that this is a recognition on the part of the legislature that worthless checks and their costs to retailers, financial institutions and the consuming public are a problem.

(Over, Please)

*Atch. IV*  
*CFI 2/21/85*

In doing some research in this area I made two calls, one to a large Wichita retailer and one to a small Topeka retailer. I was advised by the large retailer that the firm averaged about \$15,000 annually in losses due to worthless checks. In the case of the small retailer in Topeka, the loss ran about \$4,000 annually. If you assume that even the amount the small retailer lost is twice the average, you are still talking about \$2,000 a year. If you conservatively estimate there are 30,000 retailers in Kansas, the costs of these losses is an astronomical \$60 million. The numbers in this magnitude certainly cannot be absorbed by the business and obviously show up in the price of the product for which you and I must pay.

Research by several national firms in the area of worthless checks have indicated that at least 80 percent of those which are written are written on checking accounts that are less than a year old. The provisions within HB 2181 which would provide that the date that the account open is printed on the face of the check would accomplish, not only that fewer worthless checks would be written, but that there would be less cost in the price of the product and less cost to the financial institution in processing checks.

As the committee knows, there are currently no standards set by the financial institutions for opening a checking account, and probably should not and could not be. But this results in the fact that anybody can open a checking account for \$50, receive their checks, and then proceed to write checks up to virtually an unlimited amount as long as their checks last.

The Kansas Retail Council feels that HB 2181 is just one small step in addressing this problem and its associated costs. At least six other states have enacted the provisions contained in HB 2181, with several including not only the date but numbering requirements.

I urge your support for HB 2181 and your support of Kansas small business.

Thank you Mr. chairman for the opportunity of appearing before you today.



# Kansas Food Dealers' Association, Inc.

2809 WEST 47th STREET SHAWNEE MISSION, KANSAS 66205

PHONE: (913) 384-3838

February 21, 1985

## HOUSE COMMERCIAL & FINANCIAL INSTITUTIONS

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Topeka

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AND SECRETARY  
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Overland Park

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### DIRECTOR OF GOVERNMENTAL AFFAIRS

FRANCES KASTNER

### SUPPORTING HB 2181

EXECUTIVE DIRECTOR  
JIM SHEEHAN  
Shawnee Mission

Mr. Chairman, and members of the Committee, I am Frances Kastner, Director of Governmental Affairs for the Kansas Food Dealers Association, and I appreciate the opportunity to appear before you today. Our membership consists of wholesalers, distributors and retailers of food products throughout Kansas.

Last year when the Legislature had to increase the amount of bad checks from \$50 to \$150 before it became a felony to decrease the prison population, we had no idea how soon our bad check losses would increase. At our Annual Convention in September, we found out that the word must have gotten out on the street about the same time the law went into effect, the middle of May, since many of our members reported triple the amount of bad checks starting in June!!!

We felt we had to have some method of identifying checks that were written on new accounts since our own statistics, as well as those nationwide, indicated that between 70% and 90% of bad checks ARE ON NEW ACCOUNTS.

This started the campaign for the introduction of HB 2181, and we are grateful to those who saw our plight and agreed to help us by co-sponsoring the bill.

Even though some banks are now printing the date the account was opened directly behind the name of the account as a matter of bank policy, IF the customer does not want it on there, it is not done. This exact thing happened here in Topeka last summer.

A group of three people came into town, opened a business account at the First National Bank (where it IS the policy of the bank to put on the date the account was opened). Yet when they objected, the date was NOT put on. The account was opened, false ID's were obtained, and within three days took our merchants for over \$20,000 in bad checks.

Having the date the account was opened on the face of the check MIGHT NOT have kept those checks from being cashed. However, it would have raised a "red flag" so to speak, to the cashiers that several pieces of ID should be presented, or perhaps have the manager O.K. the check. In one of the stores the cashier actually called the bank to see if indeed \$300 was in the account--and of course there was because none of the checks had been in circulation long enough to start coming into the bank. And, before the checks did get to the bank, the trio was out of town and hitting another area.

We all know that the information listed on a check, whether that is just the name of the account and the address, or whether it includes the phone number and driver's license number, it is all supplied by the customer when an account is opened.

Under HB 2181, the simple 3 or 4 digits behind the name of the account will indicate the date the account was opened. When subsequent checks are ordered, the date the account was opened can be supplied by the customer if the financial institution is not computerized so the date can be easily determined.

Opening a NEW ACCOUNT at ANY financial institution will NOT KEEP the HONEST CONSUMER from getting a check cashed. It will merely be used as a tool to alert a cashier to look closely at the photo ID on the driver's license, ask for more ID, or get the manager's approval.

We have had people tell our members they really appreciate a TOUGH check-cashing policy since they know they are shopping at a store that is NOT including large losses from bad checks to the price of the groceries. We all know that the bad check losses are added into the cost of doing business and should be interested in saving the HONEST CONSUMER as much money as possible on ALL purchases.

The May 15, 1983 issue of GROCER'S SPOTLIGHT, had a special section on bad check losses which indicated that nationwide losses from bad checks had doubled between 1974 and 1980, and continue to climb at an alarming rate. I'll only touch on details you will find in the attached articles.

"In 1974, the Department of Commerce estimated \$2 billion in check fraud a year, and said \$600 million of that was lost by banks. That would leave \$1.4 BILLION to be shared with other businesses that accept checks, and the nation's food stores constitute one of the major groups involved."

"The American Bankers Association in 1980 estimated that 40 billion checks are written each year and the Federal Bureau of Investigation estimated that some 30 million of these are fraudulent, resulting in a loss of \$4 BILLION."

The second article in that same edition said that in 1982 GROCERS lost \$4.4 BILLION through bad checks, and that bad check losses were responsible for a full one-third of all business closings in 1982.

"The problem of bad checks in grocery stores is ten times worse than at other retail outlets." Nationwide statistics indicate that in grocery stores 67% of all checks cashed are converted into cash, and because of the low margins grocery stores operate on, a grocer would have to sell \$1,500 worth of groceries to recover the loss on a \$50 bad check.

I am sorry to say we do not have comparable statistics to share with you for Kansas. I do have some startling figures though provided to me by our members.

One state-wide chain of stores reported to me that in 1984 they had a total of \$2,188,540. worth of bad checks given in all their stores. They do, however, have an excellent program in place and were able to recover 79% of that amount. This STILL left them with a loss of \$460,000 which had to be added to THEIR COST OF DOING BUSINESS and which is paid for by EVERY HONEST CUSTOMER!!!

The figures given above do NOT include the store's cost for sending the check through the system the second time, the clerical time involved in writing or calling the writer of a bad check who is using the grocer for "float time" or their bank charges for having a bad check sent back to them etc.

In many cases the person writing a bad check has a fee charged against his account ranging from \$5 to \$10 and the person who TOOK the bad check also has an "accounting fee" charged against his business account usually in the neighborhood of \$1.50 per check. Effective January 1, 1983, the Federal Reserve has begun charging banks \$1 for every check it returns, and this could also be passed on to us.

A member in a metropolitan area has three stores and last year had over \$450,000 in bad checks, and again only about 75% of those were recovered through an agency spending full time in collection of bad checks. In addition to losing 25% of the \$450,000, that retailer had to set aside \$40,000 to keep in his banking account at all times to cover the checks used to "float" and to keep his own checks from bouncing. That \$40,000 COULD have been used for capital investment, or possibly eliminated having to BORROW an EXTRA \$40,000 at current interest rates for any capital improvement he planned.

The list could go on and on. Each year the amount increases. We can not say that printing the date the account was opened on the face of the check will solve ALL the bad check problems. We do firmly believe, however, that it will be a very important TOOL FOR EVERYONE who takes checks.

Seeing that date will alert the cashier and immediately put into practice the check-cashing policies of that particular store. It will NOT KEEP the honest person from getting a check cashed. It SHOULD help reduce bad check losses and thereby reduce the cost of doing business. You have all heard me say that anytime a businessman is no longer making a profit he will go out of business.

We thank you for this opportunity to appear before you and we urge you to recommend HB 2181 favorably for passage, with the amendment submitted to you by Repr. Guldner.

I will be happy to answer any questions you may have either now or when the other conferees we have asked to appear today have finished with their testimony.

Frances Kastner, Director  
Governmental Affairs, KFPA

## Pay Attention To The Check

A check can tell you a lot if you pay attention. A forged check, for example, can trip up the person attempting to pass it if the recipient of the check takes time to look for certain telltale signs of forgery.

The magnetic routing numbers which appear at the bottom of a check should be raised, because of the dull ink's effect on the reflective light duplication process. Numbers appearing on forged checks will be shiny instead of dull. Because the color is created by a chemical process rather than by ink, moisture from the fingers will often cause them to smear an opposite color.

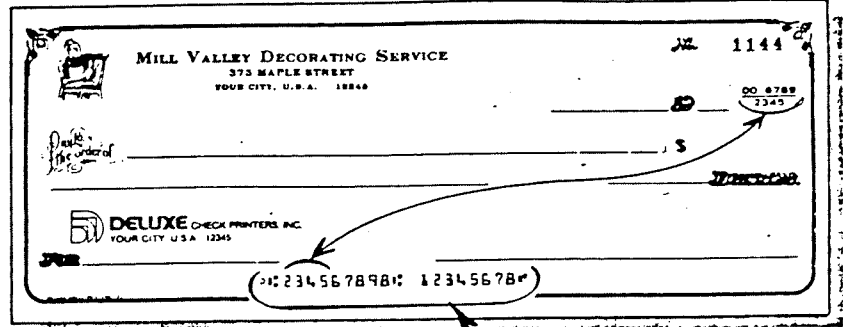
All legitimate checks are perforated on at least one edge, with the exception of government checks printed on computer card stock. Most forgers use a paper cutter to separate the checks, leaving all four sides smooth.

One easy way to detect bad checks is to check the first two numbers between the brackets which appear on the lower left side of the check. These numbers tell you which of the 12 Federal Reserve Districts the bank issuing the check is located in.

If a bank is located in San Francisco, for example, these numbers should read 12. If there is a difference between the address of the bank and the locations of a geographically close Federal Reserve District the check has been altered.

The following is a list of Federal Reserve Bank Codes for the United States:

- 01 - Massachusetts, Maine, New Hampshire, Connecticut, Vermont, Rhode Island;
- 02 - New York, New Jersey, Connecticut;
- 03 - Pennsylvania, Delaware, New Jersey;
- 04 - Ohio, Pennsylvania, Kentucky, West Virginia;
- 05 - Virginia, Maryland, North Carolina, Washington, DC, South Carolina, West Virginia;
- 06 - Georgia, Alabama, Florida, Tennessee, Louisiana, Mississippi;
- 07 - Illinois, Michigan, Indiana, Iowa, Wisconsin;
- 08 - Missouri, Arkansas, Kentucky, Tennessee, Indiana, Illinois, Mississippi;
- 09 - Minnesota, Montana, North Dakota, South Dakota, Wisconsin, Michigan;
- 10 - Missouri, Colorado, Nebraska, Iowa, Wyoming, Kansas, New Mexico;
- 11 - Texas, Arizona, New Mexico, Louisiana, Oklahoma;
- 12 - California, Oregon, Washington, Utah, Hawaii, Alaska, Idaho, Nevada, Arizona.



These nine numbers are the routing code for the bank the check is drawn on. The first two numbers indicate which Federal Reserve District the bank is located in. Forgers sometimes change these numbers to buy more float time while the check is routed to an incorrect Reserve Bank. These numbers should also agree with the Routing Fraction appearing in the upper right hand corner.

The special magnetic ink required for automatic sorting of checks is flat and dull. Tilt the check under normal lighting, if it shines or reflects light, the check is probably forged. Real ink is expensive and restricted and most forgers don't bother to obtain it.

## Check Losses Estimated At \$4 Billion A Year

by Bob Gatty

WASHINGTON, DC — The mountain of worthless checks passed over the counter at the nation's food stores, banks and other retail outlets every year result in annual losses of at least \$4 billion, according to the Federal Bureau of Investigation.

That could be termed a plague, a financial plague on both businesses and law-abiding consumers alike. Because both are hurt, and in the end, both must pay in the form of higher prices.

While the problem is acknowledged as widespread and costly, there are no exact figures on the number and amount of bad checks that are passed.

"Nobody, not even the FBI, has figures on the number of bad checks," said John Wolff, associate director of the American Bankers Association. "A lot of merchants and banks don't even bother to report them. They are considered one of the costs of doing business. Sometimes it costs more to try to recoup than to forget about them. No one takes them lightly, but it happens so often and the volume is so large that they can't all be investigated."

The ABA in 1980 estimated that 40 billion checks are written each year and the FBI estimated that some 30 million of these are fraudulent, resulting in a loss of \$4 billion.

That's double the estimated loss of just six years earlier.

In 1974, the Department of Commerce estimated \$2 billion in check fraud a year, and said \$600 million of that was lost by banks. That would leave \$1.4 billion to be shared by other businesses that accept checks, and the nation's food stores constitute one of the major groups involved.

By an exercise of basic math, it's possible to get a further idea of the magnitude of the problem.

The Federal Reserve says it handles between 30 and 40 percent of the checks written. In 1982, according to Lorin Meeder, associate director of the Division of Federal Reserve Bank Operations, the Fed handled 12.4 billion checks. Of these, 177.3 million were reprocessed through the system—returned. But not all were uncollectible.

But using the figure of 40 percent of all checks written, with 177.3 million returned, and if the same percentage holds true for checks not processed by the Fed, then in 1982 there were some 443.25 million checks that weren't paid the first time around.

That's almost a half-billion bad checks for the year, nationwide.

"Percentage wise this is a fairly consistent figure over about a five-year period," said Meeder. "We've seen no obvious major growth trend."

Meeder also observed that "most of the returned checks are for relatively small values and appear to have been written by individuals rather than companies."

Compiling statistics on worthless checks is complicated by just what the term "bad check" means. In some cases it could include those that were made out incorrectly or those that became "good" once they were redeposited.

People often try to "play the float" as the money is transferred from one account to another. In these instances, though the value of the check is recovered, the check writer and often the retailer face penalties to cover the cost of rehandling the check.

As the volume of bad checks has increased as the economy has shifted over the years from cash to checks and credit, so has the cost of handling worthless checks. No longer is it just a matter of contacting the local bank or of a store calling someone in the

neighborhood whose check was returned.

Having to contact out-of-town financial institutions or send the check back, perhaps several times, through a more complicated financial system all adds to the cost.

Dealing with returned checks is far more costly, said Meeder, than with first-time checks because of the manual handling that is involved. It costs the Fed \$85, he said, to process 1,000 returned checks compared to \$13.52 for the same number of first-time checks. These costs, Meeder explained, are in line or below those of a bank's, which routinely charge the check writer a substantial fee for a returned check in order to discourage the practice. Retailers often are also charged a fee, though usually less than the customer, to cover handling costs, Meeder said.

There is no pending national legislation to deal with the bad check problem, but many states have laws making it a crime to pass a worthless check. Other state and local legislation either on the books or proposed deals with such things as collection standards, what information must appear on a check, allowing retailers to charge a penalty for a bad check, and the amount of penalties.

In Howard County, MD, a bill before the County Council would raise the penalty for a bad check written to the county from \$15 to \$20. The County Office of Law reported that it costs the county \$18 to handle a bad check.

There are two primary ways for retailers to counter the bad check—one new, one old.

Electronic check verification terminals allow the retailer to verify a check immediately, but, noted Wolff, "they are costly and, as with anything new, it takes time for them to be accepted."



# It's Hard To Stop The Professional

by Ryan Mathews

HOUSTON, TX - "My big thing is that you really can't stop the professional forger who's out to get you," Frank Abagnale told Grocers' Spotlight.

Abagnale, who now runs Frank W. Abagnale & Associates, Inc. a Houston-based security counseling firm, is an expert on the topic of bad checks.

According to FBI records, before he "went straight" and began advising banks and retailers how to protect themselves against bad check artists, Abagnale cashed at least 17,000 bad checks totaling \$2,500,000, over a five-year period.

Based on his experience as both a bad check passer and security advisor, Abagnale preaches the doctrine of training for cashiers and courtesy booth personnel as the most effective means for foiling the bad check passer.

He doesn't advocate highly expensive training programs because of the cost involved and the high turnover rate among cashiers, but says a two-hour training seminar will immediately begin to pay itself off in terms of stopping bad check activity.

The problem of hot checks at retail has, "Definitely gotten worse," according to Abagnale, "mainly as a reflection of the economy."

Last year in the continental United States Abagnale said grocers lost \$4.4 billion through bad checks.

Abagnale estimates that bad checks were responsible for a full third of all business closings in 1982.

The problem of bad checks in grocery stores is, "Ten times worse," than at other retail outlets

and associations, Abagnale said, "Banks make money on worthless checks."

"Grocery stores cash 67 percent of all checks converted into cash," he said adding that because of low margins traditionally associated with retail food stores a grocer, "would have to sell \$1,500 worth of groceries to recover the loss on a \$50 check."

Asking, "Why do grocery stores cash checks," Abagnale answered, "Nobody wants to, but who wants to be the first one to quit?"

"Banks can't believe grocers cash those checks because they wouldn't."

The recession has seen a different kind of check writer emerge.

Abagnale said in years past the majority of NSF checks were passed by housewives who couldn't balance their checkbooks, or by individuals looking for "a short-term loan" from their retailer.

Today, however, the "transient check writer" has surfaced; and his "sole purpose is to write bad checks."

Citing what this difference means in dollars Abagnale said that three years ago 74 percent of all bad checks were recoverable while today 62 percent aren't.

"When you are in a recession," he explained, "you're dealing with people who are out of work and have to feed their families."

While these people are not the kind to rob a bank, Abagnale said they think nothing of writing bad checks to get food and extra income.

"In a lot of cases," he said, "check writing is like alcoholism, it becomes addictive."

Despite the fact that his client list includes a number of banks and other financial institutions

and associations, Abagnale said, "Banks make money on worthless checks."

In his dealings with banks, he stresses that, "banks have a moral obligation to the retail community, "to investigate new checking account customers and develop methods to help curb bad check loss.

Abagnale said a bank could use simple techniques such as phoning to verify employment or checking with the customer's former bank to see if their new "customer" is really a bad check artist.

"The whole reality of it is," he asked, "where can a bank lose so long as you (the check writer) pay the service charges?"

It was Abagnale who developed the date coding system for checking accounts, but bank lobbies in certain states have been the most vocal opponents of date code legislation claiming their industry is already overregulated.

Abagnale said the opposition to coding makes no sense since it does not cost the banks anything, is good for the retailer, and at the same time establishes consumer credibility.

If it were not for retailers he pointed out, most banks would have to eliminate checking accounts since there would be only a limited need for checks.

However, he added by charging service charges to both the check writer and the retailer submitting a bad check, the bank actually makes money on the checks.

This handling charge may increase, he warns, since effective January 1, 1983, the Federal Reserve has begun charging banks \$1 for every check it returns, a charge he feels may be passed back.



ABAGNALE

As the problem grows, so does the need for controls. Abagnale pointed out the size of the bad check problem today by quoting a March 29, 1983 article from the San Diego Tribune which estimated the cost of bad checks to California's supermarkets, liquor stores and convenience stores at \$444 million.

He favors a courtesy booth system where all checks over the amount of purchase are centrally cleared, in part because of a lower employee turnover rate.

Abagnale does not favor the "technological" solution to the bad check problem, (computer check verification systems, etc.).

"Why should you pay for a service the employee can already provide?" he asked.

He said check cashing personnel often lack motivation to detect checks because they don't know what to look for on a check.

## Familiarity With Checks Very Important

Anyone in a check approval or check cashing position in your store should be familiar with the seven basic kinds of checks they may encounter

A lack of familiarity may cause confusion and confusion is one of the most effective weapons in the bad check passer's arsenal.

Perhaps the most common type of check accepted in supermarkets is a personal check written and signed by the individual offering it. The check is made out by the individual to the store.

A two-party check is issued by one person to a second person who endorses it so that it may be cashed by a third person. This type of check is susceptible to fraud because among other reasons, the maker can stop payment at the bank.

Payroll checks are also often cashed in stores. In most cases the name of the employer is printed on the check, the check is numbered

and it is signed. The employee's name is usually printed by a check writing machine or typed.

A person cashing the check should be suspicious of "payroll" checks which are hand printed, rubber stamped or completely typewritten, even if it is written against a local business and/or drawn against a local bank.

Government checks are also cashed in great numbers, just as they are stolen in great numbers.

Checks issued by federal, state or local governments cover salaries, tax refunds, pensions, welfare allotments and veteran's benefits among other things.

Government checks are often stolen and the endorsements forged, particularly in large urban

areas.

In cashing government checks, it is especially critical to know the endorser. A study conducted several years ago indicated that over 50 percent of stolen social checks were cashed by teenagers.

A rarer form of check is a blank check which is not issued by a bank, but is available at some specialty stores. The writer of the check fills in the appropriate blanks including bank. The risk in cashing such checks is obvious.

A counter check is issued by a bank to depositors when they are withdrawing funds from their accounts. A counter check is not negotiable and should be so marked.

Traveler's checks may be seen

by retailers doing business in tourist or resort areas. Traveler's checks should only be cashed when countersigned in the presence of the person cashing them.

Money orders are also sometimes passed as checks. Most of the time it is a bad idea to accept a money order for payment in a face-to-face transaction.

If you sell money orders, don't accept a check for their payment. If a person has a valid checking account he has no need to purchase a money order.

Some manufacturer's rebate certificates are designed to look like checks. They are not negotiable and cashiers should be trained not to accept them thinking they are a payroll or expense check.

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KANSAS CITY  
3651 West College Blvd  
Suite 200  
PO Box 10009  
Overland Park, Ks 66210-0009  
(913) 331-6963

ST. LOUIS  
2055 Craigshire Drive  
Suite 405  
PO Box 28731  
St. Louis, Mo 63146-1031  
(314) 571-7550

MEMPHIS  
1076 Directors Row  
PO Box 18250  
Memphis, TN 38186-0050  
(901) 348-8841

OMAHA  
1111  
PO Box 18250  
Memphis, TN 38186-0050  
(901) 348-8841



WICHITA  
(316) 633-4487

SPRINGFIELD  
(417) 831-4111

February 18, 1985

Ms. Frances Kastner  
Director of Government Affairs  
3310 W. 7th Street #2  
Topeka, Kansas 66606

Dear Ms. Kastner:

In keeping with our recent telephone conversation, this is to confirm that approximately 35 to 37% of the checks warranted by TeleCheck are never collected. Legislation requiring the ~~day~~ and month of an account opening at a bank, to be placed on the face of the check, would greatly benefit merchants.

*year*

I trust this information is helpful.

Very truly yours,

A handwritten signature in cursive script that reads 'Dale L. Flaxbeard'.

Dale L. Flaxbeard  
President

DLF/kh  
cc: Hugh Jewett

Feb 21, 1985

PHONES  
TOPEKA, KAN. (913) 267-4931  
LAWRENCE, KAN. (913) 841-3902  
LELAND W. ATTEBERRY, President

RE: House Bill 2181--information printed on checks.

Research & Data supports this bill. We feel it would help eliminate some of the bad checks that are costing the businesses, banks in ever increasing losses, so therefore they have to increase the prices and services to the public. The public is the one who pays for these crimes--in the end. That is if these businesses haven't closed up because of these crimes against them. Over \$21,000 in over 80 NO FUND checks was lost one weekend last summer in Topeka by 3 forgers. They had opened a bank checking account under a fictitious company name--employed an answering service for their phone and address (for the printed checks to be delivered to) and waited until they got the checks, made 2 cash deposits of \$300 each. Then, 3 weeks after opening the account & "getting established", getting proper ID, they stole the \$21,000 by 'paper' from Topeka businesses. There was nothing on the checks to show this was a new account and the check numbers were high--in the #1045 thru 1199 series.

This forgery ring has hit at least 12 towns since last summer, using the same M.O. averaging losses of \$20,000 to \$30,000 per town, or over \$240,000 in 8 months for their "work". They also hit banks and savings and loans.

Topeka alone has had 5 other BIG Insufficient type check frauds--where new bank accounts are opened & immediately misused. Since June 1984 these have averaged \$3000 per fraud. This type of fraud has increased 200% in the last year.

Our own local people do the same thing--frequently in a smaller way,

Of the reports R&D sent to the District Attorney in 1983 on 132 people--involved in Insufficient-Account closed checks--they involved 2005 checks, totaling \$81,631.39 face amounts. These averaged \$618 loss per person.

10 of these people involved in \$14,656 loss (\$1465 per person) used the following check numbers on their 502 checks:

- 20.9% in the series 101 thru 199;
- 72.2% in series 200 thru 299
- 4.8 % in series #300 thru #399.

None of these had the date the account was opened on these checks. Yet these were all new accounts, misused within several months after they were opened----

In another group of unpaid checks--over a year old and after much work was done in collections, the figures were similar if we had the #s 101 thru 299. This is a group of 1188 checks written by 94 people. These were NOT hand picked but all had been one stores losses from each of these 94 people. That store only had one check from each of these 94 people.

- 48 % of the checks, and 51% of the people used checks from #101 thru 199.
- 23% of the checks and 24.4% of the people used checks from #201 thru 299.
- 3.11 % of the checks and 7.4% of the people used checks #301 thru 399.
- 2.8% of cks in #401 thru 499; 3.11% of cks in #501 thru 599, the balance over #600.

You can see that at least 75% of the losses from bad checks are people who use NEW bank accounts, and the numbers are from 101 thru 299---especially if it is the banks policy to start new accounts at a low number.

\$108,336.00 in bad checks were unpaid in 1984 to 7 Topeka supermarkets---after they were run thru the bank the 2nd time and had been worked on for a week. Of these stores, some had 80%, some 60% collections, depending on location in town,

ATTACHMENT 7 2/21/85

VII

and type of check cashing procedures--like courtesy booths. Total unpaid, so far is \$45,464. Some stores had \$1306. unpaid, some have \$12,633 unpaid for the year.

Some stores have a standard policy of checking additional information on checks in the #100 and #200 series. This does not mean they do NOT CASH that check, but they may check our information, the bank, and may use additional information and investigation before cashing the check. We have frequent inquiries on check passers whose checks are in these series. And these inquiries are definitely NOT ALL BAD. BUT SOME OF THEM ARE BAD & therefore REFUSED by that potential victim.

Your bill mentions putting the date under the check number. Most banks that put this date on the checks have it by the name. If it is in the same place on all checks, it would be easier to read--and by the name-we feel would be the best place. I have copied my check here to show how the date does NOT stand out. Also note the copy of "COLLINS FAN & FIRE" company check--one of the 80 some checks totaling over \$21,000 that took Topeka businesses. Would you have cashed the "COLLINS FAN AND FIRE CHECK"?

MR. & MRS. LELAND W. ATTEBERRY 852  
R. R. 1 379-5369  
TECUMSEH, KS 66542

5759  
5-27-84  
44-16/1011

Pay to the order of Shuggs \$ 42<sup>53</sup>/<sub>100</sub>

Forty two & 53/100 DOLLARS

**MNB** **MERCHANTS NATIONAL BANK**  
TOPEKA, KANSAS

**COLLINS FAN AND FIRE**  
3715 S.W. 29TH ST. 357-8048  
TOPEKA, KS 66614

296571190  
44-15/1011  
August 24 19 84

PAY TO THE ORDER OF Kenneth McCoy \$ 296.57

THE SUM 296 DOLS 57 CTS DOLLARS

**First National Bank**  
ONE TOWNSITE PLAZA - TOPEKA, KS 66603

FOR Expenses Janelle Collins

⑈00001190⑈ ⑆101200155⑆ ⑆17⑈377⑈1⑈ ⑆0000029657⑆

Since legislature RAISED the felony to \$150 on ISF checks, and lowered the penalties last year, the check losses has increased. THE CRIMINALS have told us it is much easier to make money with this 'paper' crime--they have much less to lose if they get caught. These businesses need any help they can get to keep these losses from bankrupting them. We urge YOUR help by passing this bill.

Thank you for listening to these facts and problems of these businesses.  
*Shirley Atteberry*  
Shirley Atteberry  
Research & Data Inc.

TESTIMONY OF HOUSE BILL NO. 2181

February 21, 1985

Mr. Chairman and members of the Committee:

Thank you for this opportunity to speak before you concerning House Bill No. 2181.

I am John Bins, and represent Deluxe Check Printers, Inc. Our principal business is, as the name implies, printing checks for financial institutions. In the State of Kansas we service these institutions with plants in Lenexa and Wichita. I have a copy of House Bill No. 2181 and would like to point out several aspects of the bill which, if enacted as written, would create problems for Kansas financial institutions, their depositors and the printer of these documents.

NEW ACCOUNT KITS:

As presently written, the Bill would apply to new account kits. These are small pads of six to eight nonpersonalized checks which are provided to new accounts to use until personalized checks can be printed for them. The new account kits are printed prior to the date the accounts are opened, so it would not be possible for them to have the opening date printed on them.

Accordingly, we suggest that House Bill No. 2181 be amended to exempt non-personalized new account kit checks. Exemption of new account kit checks would not detract from the objectives of the Bill because the absence of a depositor's name and address on the checks would constitute notice to the retailer that the depositor is a new account.

POTENTIAL CLAIMS BASED ON CHECK ORDERS:

Although financial institutions and printers will use due care in ordering and printing checks, there may be instances in which an account opening date or sequential number could be incorrectly printed; in those instances, a financial institution or printer could be subject to claims for losses a retailer might suffer as a result of having cashed such a check. Accordingly, we suggest that the bill be amended to include a provision specifically relieving the financial institution and printer of liability for any unintentional errors in printing account opening dates or sequential numbers.

LOCATION OF OPENING ACCOUNT DATE:

Currently, most printers print new account opening dates without any additional charge. This has been possible because in most cases, the date has been added to the right of an existing name. (See enclosed sample).

Under this bill, location of the month and date below the consecutive number of each check would require, in each instance, an additional press run, resulting in additional costs. This additional cost could be avoided if the account opening date information is relocated to the right of the account holder's name.

SEQUENTIAL NUMBERING OF DOCUMENTS:

With respect to sections 0035 and 0036, it should be noted that approximately 8 percent of the check orders received by our Company in the State of Kansas, represent reorders submitted to us on new account order forms. In many instances, depositors reorder checks by telephoning their financial institution instead of mailing the reorder form. This could also occur when a depositor has lost or misplaced the order form or wishes to expedite the reorder. In those instances, the depositor will be required to furnish the financial institution with their last check number in order to insure that the reordered checks will be printed in continued sequence. That will be difficult because in most cases the requests are received from depositors who for one reason or another is not able to recall their last check number.

As a matter of information, we have been printing account opening dates to the right of the customer's name on checks during the past few years at individual financial institution's requests. Although it's been a subject of concern in a number of states, we are currently aware that five states have similar legislation.

Thank you for this opportunity to present our testimony and are there any questions?

John Bins  
Plant Manager  
Deluxe Check Printers, Inc.  
14600 West 106th Street  
Post Office Box 242  
Shawnee Mission, Kansas 66201-0242  
913-888-3801



**JAMES C. MORRISON** 284  
1765 SHERIDAN DR.  
YOUR CITY, STATE 02084

121

0-6789/

Pay to  
the order of

19

\$

*DOLLARS*



**DELUXE** CHECK PRINTERS, INC.  
1234 COMMERCE AVENUE  
CITY, STATE 12345

**SAMPLE-VOID**  
DELUXE CHECK PRINTERS, INC.

*Memo*

⑆000067894⑆ 12345678⑈

DELUXE AG

TESTIMONY ON H.B. 2181  
AN ACT relating to financial institutions;  
requiring certain information to be printed on checks

Presented to the  
HOUSE COMMITTEE ON  
COMMERCIAL AND FINANCIAL INSTITUTIONS

February 21, 1985  
by the

KANSAS CREDIT UNION LEAGUE

Mr. Chairman, members of the Committee:

I am Jerel Wright, legislative spokesperson for the Kansas Credit Union League (KCUL). Our association represents 97% of the 168 state-chartered and 46 federally-chartered credit unions located in Kansas. Credit unions are non-profit financial cooperatives chartered under state or federal law which are owned by the people who save and borrow there. Kansas credit unions serve the personal financial needs of over 400,000 individual credit union members and have almost \$1 billion in combined assets. Kansas credit unions range in asset size from approximately \$26,000 to \$61 million and range in size of membership from 57 members to 25,000 members.

KCUL POSITION

I appreciate having this opportunity to appear before the Committee to oppose the passage of HB 2181, the bill designed to mandate that all checks, drafts or similar negotiable orders of withdrawal be printed with the month and year the account was opened.

Although KCUL opposes HB 2181, we will also suggest an amendment to the measure which would improve the bill in the event that this Committee chooses to go forward with this legislation.

VOLUNTARY VS. MANDATORY

Our association has adopted an official policy position statement addressing "check dating". During our 1981 KCUL Governmental Forum, the delegates representing our association's member credit unions discussed and adopted the following:



"Credit unions favor a voluntary approach to the issue of having the date a transaction account was opened printed on the face of a check or draft and would oppose a mandatory requirement."

Also during 1981, our association printed an article in one of its publications (which reaches over 3,000 credit union professionals and volunteers) which outlined the reasons some retailers favor "check dating".

#### ALTERNATIVES EXIST

While sympathetic to the concerns expressed by proponents of "check dating", credit union officials indicated that the increased use of existing alternatives by retailers might be a better solution. A few examples:

1. Retailer's own check cashing card
2. Automatic Teller Machines (ATMs)
3. Point-of-Sale (POS) terminals
4. Financial Institution check guarantee cards
5. Debit (cash) cards
6. Acceptance of credit cards for consumer purchases

#### PROPOSED AMENDMENT

As a practical matter, credit unions have not had transaction accounts (checking) as long a time as have banks. Many credit union members take great pride in the length of time which they have been members of their credit union and are very proud of their positive credit and other account records.

In an effort not to penalize the vast majority who have acted responsibly, KCUL offers the following amendment which is designed to recognize the positive account performance of the majority of CU members:

Amend HB 2181 in section 1 by adding a new subsection (c) which reads:

(c) Notwithstanding subsections (a) and (b) of this section, any credit union or any credit union member may substitute the date any account was opened at the credit union for the dates required by subsections (a) or (b) of this section.

## SUMMARY

KCUL is opposed to the passage of HB 2181. The proposed amendment would improve the bill, but would not remove our opposition.

KCUL does not believe that mandatory "check dating" legislation is the best solution to the concerns expressed by proponents and would instead penalize the vast majority of credit union members who are responsible account holders. Better alternatives already exist.

Thank you, Mr. Chairman for this opportunity to appear before the Committee. I will respond to questions at your direction.

### GENERAL INFORMATION:

Kansas credit union Expandachek (tradenname) and sharedraft programs information--  
55 Kansas CUs offer transaction accounts to their members  
64,000 total accounts (approx.)  
Avg. # items cleared/mo. -- 1.7 million (approx.)  
Avg. \$ cleared/mo. -- \$80 million (approx.)

# **KS** Kansas League of Savings Institutions

JAMES R. TURNER, President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

February 21, 1985

TO: HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS  
FROM: JIM TURNER, KANSAS LEAGUE OF SAVINGS INSTITUTIONS  
RE: H.B. 2181 (REQUIRED INFORMATION - PRINTED CHECKS)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the House Commercial and Financial Institutions Committee to express our concerns regarding the provisions of H.B. 2181 which would mandate certain information be available on printed checks.

Not only does this proposal infringe on the individual choice of customers, it imposes an indirect involvement by financial institutions in scrutiny of the check cashing policies of retailers.

For many years financial institutions have encouraged customers, on a voluntary basis, to include the date on which their account was opened on their printed checks. However, customers who have transferred communities or merely switched financial institutions have learned that the new account date subjects them to six or eight months of undue scrutiny not imposed on other check cashing customers.....at times bordering on harrassment. Consequently, many customers have opted not to include the account opening date on their checks.

Further, the awareness by customers of this differentiation in check cashing policies creates a serious impediment for financial institutions competing in the checking account business.

To require that all existing account holders be required to print an "account opening" date on all check reorders would subject existing customers, with established credit records, to the aforementioned problems. Further, since it is unlikely that more than 5% of present customers will have a record of the date on which their account was opened, the passage of H.B. 2181 will result in needless confusion for customers and expense to financial institutions for record search.

House Committee on Commercial and Financial Institutions  
Page 2  
February 21, 1985

We are opposed to the passage of H.B. 2181 as introduced. If it is the intent of the Legislature to address check cashing problems then we would urge that much stiffer penalties be prescribed for use of worthless checks or for the obvious fraudulent use of a check.

Should the committee feel that this encroachment on individual choice is necessary then we would suggest that serious consideration be given to the following amendments:

1. Mandated account opening date be required for first time checking account customers,
2. That the financial institution have no requirement to verify dates provided for reorder purposes from existing customers,
3. That an optional five year phase-in period be considered for existing customers,
4. That any proof of date by new account holders of a previous checking account could be used, and
5. That retailers must impose standard and uniform identification procedures on all check cashing customers regardless of the date on which the account was opened.

To assist the committee in their deliberations, we have enclosed a redraft of H.B. 2181 containing these suggestions.

James R. Turner  
President

JRT:bw

Encl.

HOUSE BILL NO. 2181

Section 1. (a) All checks, drafts or similar negotiable orders of withdrawal which are printed for use by customers not previously having such an account of this type of all financial institutions, banks, credit unions, savings and loan associations or others providing check-writing services, shall be printed with the month and year the account was opened. Such month and year shall appear on the face of the check directly below the consecutive number of each check. ~~All-new-accounts-shall-automatically-have-these-dates-printed on-the-face-of-the-checks.~~

(b) Until July 1, 1990, on all accounts that are already using printed checks, the month and year ~~will~~ may be provided by the customer to the financial institution at the time the printed checks are re-ordered and will be imprinted in the method prescribed in subsection (a). Reordered printed checks will be printed in continuing sequence. Any proof of prior checking account will be accepted as an original date. Financial institutions providing check-writing services shall not be required to verify dates provided for reorder purposes by existing customers.

(c) All retailers must impose standard and uniform identification procedures on all check cashing customers regardless of the date on which the account was opened.

Section 2. This act shall take effect and be in force from and after its publication in the statute book.

Income Maintenance

PROPOSAL FOR LEGISLATION

Summary

It is proposed that legislation be initiated to direct treasurers of financial organizations to provide the Secretary of SRS, upon request, information relating to deposits, withdrawals, and interest transactions of applicants and recipients of public and medical assistance.

Background

As evidenced by quality control findings in the cash and medical assistance programs, assistance is being provided to persons who own resources that are in excess of the allowable levels. In some cases the receipt of assistance is a direct result of willful misrepresentation on the part of the client while in other instances there is no intent to defraud the department such as when an application is filed on behalf of an elderly or disabled client by a friend or relative. Without knowledge of a particular asset that may be available to the client, the department has no mechanism for routine inquiries relative to the resources owned by applicants and recipients.

When a client owns excess resources, all cash and medical benefits result in overpayments. This not only subjects the state to possible fiscal sanctions resulting from the quality control system, but also creates a credibility gap in the department's ability to manage the cash and medical programs in a cost effective and cost efficient manner.

Alternatives

1. Maintain the existing error prone system of relying on information provided by the applicant, recipient or interested party filing the application, or
2. Initiate legislation to empower the Secretary to obtain resource information through a matching of SRS applicants and recipients with financial institutions. The Secretary should have the power to bring a civil action should there be a failure on the part of the financial institution to provide the requested information.

Recommendation

It is recommended that alternative No. 2 above be adopted.

Robert C. Harder  
Office of the Secretary  
Social & Rehabilitation Services  
296-3271  
February 21, 1985