

Approved March 7, 1985  
Date

MINUTES OF THE House COMMITTEE ON Commercial & Financial Institutions

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

3:30 ~~xxx~~/p.m. on March 6, 1985 in room 527-S of the Capitol.

All members were present except: Rep. Dorothy Nichols, excused  
Representatives Martha Jenkins, Mary Jane Johnson, and  
Herman Dillon

Committee staff present: Bill Wolff, Legislative Research Department  
Bruce Kinzie, Revisor of Statutes Office  
Myrta Anderson, Legislative Research Department  
Virginia Conard, secretary

Conferees appearing before the committee:

Dr. Richard Morse, Kansas State University Professor, Manhattan  
George Dugger, Department on Aging  
Donald O Phelps, Consumer Credit Commissioner  
Wayne Hundley, Attorney General's Office  
Kathy Lewis, Intern with Rep. Ken Francisco & Law Student at Washburn University  
James Turner, President, Kansas League of Savings Institutions  
Marvin Umholtz, Vice President, Credit Union Development, Kansas Credit Union League  
Hank Booth, Kansas Broadcasters Association, Lawrence  
James Maag, Director of Research, Kansas Bankers Association  
Stanley Lind, Counsel & Secretary, Kansas Association of Finance Companies

Chairman Harold Dyck called the meeting to order and called on Dr. Richard Morse, Kansas State University Professor of Family Economics, who spoke in favor of HB2380. (For details of Dr. Morse's testimony see Attachment I.) (For a section by section analysis of the Consumer's Savings Disclosure and Validation Act presented by Dr. Morse, see Attachment II.)

Next conferee testifying on HB2380 as a proponent was George Dugger of the Department on Aging. (See Attachment III)

Third proponent for HB2380 Donald O Phelps, Consumer Credit Commissioner, stated that his agency supports this bill and certainly agrees with the concept; however, he said that they had not studied the mechanics involved in getting such legislation into operation.

Wayne Hundley of the Attorney General's Office, stated that the key word in the bill is "disclosure" and since disclosure would mean an informed consumer the Attorney General's office could support the bill.

Kathy Lewis, an intern of Rep. Kenneth Francisco's, told the committee that she had done a mini-survey with 7 banks and savings and loans institutions on investments and came up with five problems in attempting to get interest rate information. (See Attachment IV)

Chairman Dyck asked if anyone else wished to speak in favor of HB2380 and Ms. Lori Class of the Kansas Citizens Council on Aging stated that she heartily concurred with Dr. Morse's position.

The chairman then called on James Turner of the Kansas League of Savings Institutions who spoke in opposition to HB2380. (See Attachment V) Marvin Umholtz of the Kansas Credit Union League was also an opponent. (See Attachment VI) as were Hank Booth of the Kansas Broadcasters Association (see Attachment VII) and James Maag of the Kansas Bankers Association (see Attachment VIII).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS,  
room 527-S, Statehouse, at 3:30 ~~xxx~~ ~~xxx~~ /p.m. on March 6, 1985

Because a hearing had not been held on HB2136, Chairman Dyck told the committee he would appreciate a reconsideration by the committee of its actions of yesterday on HB2136.

Rep. David Miller moved that the committee reconsider its action of yesterday on HB2136. Rep Bob Ott seconded the motion. Motion carried.

Rep. Kenneth Francisco withdrew his motion of yesterday to pass out HB2136 as amended and Rep. Miller withdrew his second.

Chairman Dyck then called on the proponents for HB2136 as amended. Stanley Lind, Counsel and Secretary of Kansas Association of Finance Companies said that he "could live with the subcommittee's recommendations".

James Turner, an opponent of HB2136, stated that he had some concerns because of the plain language contract section.

Marvin Umholtz, an opponent to HB2136, said that his association has appeared before in opposition to mandating plain language contracts and that they are concerned about resulting increased liability.

Mr. Lind pointed out that since it takes the two houses to pass the bill, the changes suggested in the bill can be made later in the Senate.

Rep. Ott moved, and Rep. David Louis seconded, that the minutes of the March 5 meeting be approved. Motion carried.

Meeting adjourned at 4:55 p.m.

March 6, 1985

## GUEST REGISTER

## HOUSE

## COMMERCIAL &amp; FINANCIAL INSTITUTIONS

NAME	ORGANIZATION	ADDRESS
JIM TURNER	KLSI	Topeka
John Peterson	KAFB	"
Tom Reegan	KAFB	"
JIM MAAG	KSA	"
HANK BOOTH	KLWN/KLST-KAR	LAWRENCE
STAN LIND	KAFB	K.C.Ks.
Nancy Humphrey	KMHI	Topeka
JOHN RUEKER	KSCUD	Topeka
Don Phelps	CONS. CR. Comm.	"
M.C. Umholtz	KCUL	Topeka
George A. Duggan	Ks Dept on Aging	"
Wayne Hundley	A.G.	"
Richard M. Mone	KCCA	Manhattan, Ks
Kathleen Corpus	Kansas State Univ.	Manhattan, KS
Frances Kastner	Ks Food Dealers Assn	Topeka
Joe Ellen Day	KCUK	Wichita
Janel Wright	"	Topeka
Zori Class	Kansas Citizens' Council on Aging United Way	Topeka
John Spurgeon	Budget Div	Lawrence

Statement of Richard L. D. Morse  
representing the  
Kansas Citizens Council on Aging, Inc.  
in support of

The Consumer Savings Disclosure and Verification Act

Savings, Social Security, and retirement benefits are major components of the elderly's finances. Social Security and pensions are non-negotiable. But the amount of interest income from savings is negotiable and varies considerably depending on how accurately we shop for and compare rates, and then verify whether we get what we bargained for. So Disclosure and Verification are of vital importance to our effectiveness in being self-reliant.

Basics

The basics of what we expect and need to know about rates on savings are:

- We expect all our savings (dollars and cents) to earn interest every day, so we need to know what that daily rate is and will be paid on all our money each day.
- We need that daily rate to be quoted, not in long decimals or percentages, but in common words we can understand and use, that is:
  - in cents which we can count
  - per \$100 units which we can easily identify
  - per day which we all know is 24 hours

HB 2380 meets these basic needs and expectations. It also provides standards for enforcement and administration. We cite five reasons for our support of HB 2380:

1. HB 2380 requires disclosure of:
  - The daily rate, if earnings are computed by daily compounding on daily balances, or
  - The daily rate equivalent, if earnings are computed otherwise.

The financial institution is free to choose any method of computing interest, but is required to translate the method used into daily rate standard mode, so rates will be comparable. Indeed, financial institutions have computing skills and calculators to make the high finance calculations more easily than can savers. Savers presumably can and must do this now to have comparable information on which to make decisions.

2. HB 2380 does not restrict how financial institutions conduct their business. There is no straight jacket imposed. But they are required to tell us what they do with our savings:

- Before we open an account and in their advertising
- At the time we open an account by giving us a copy of the savings contract with terms fully disclosed
- After we have opened the account by giving us periodic reports of account activities along with a restatement of the current contract terms so we can verify performance with contract terms and validate the agreement.

With the periodic reports being made at least annually, there should be a reduction in the number of "unclaimed accounts" and "mystery" accounts often discovered when estates are settled.

In-Service Training Manuals and instruction aids are available for assisting financial institutions adjust to Cents per \$100 per Day.

3. HB 2380 gives an incentive to pay more attention:

- With rates more meaningfully disclosed and easier to understand, we will be encouraged to shop for places to invest our savings. Comparing daily rates will be as easy as comparing prices posted at gasoline pumps or unit prices on cereals at the supermarket.
- With facts so clearly and routinely stated in language which is precisely defined, we can avoid the intimidation we so frequently experienced when we have asked for information. Many of us will find finance to be fun and will grow in self confidence in handling our own finances.
- With an opportunity of a reward for discovering errors, we can help the financial institutions reduce the increasing cost of internal and external audits.

HB 2380 can make interest more interesting!

4. HB 2380 will bring a higher order of discipline into finance:

- It establishes a standard reference table for Cents per \$100 values which are correct to the penny for amounts up to one trillion dollars.
- It establishes a standard for computing and reporting earnings which allows for no error for up to 11 posted earnings. It allows a cent error per 11 posted earnings, with the error favoring the institution.
- It closes the wide latitude now given banks for figuring interest, such as paying as little as \$808.23 or as high as \$853.83 on \$10,000 for 295 days and still quoting 10%. Both figures are considered legal, accurate and not misleading under existing federal regulations. Those days would be over!
- It will curb temptations for white collar computer crime because inquisitive savers will not be satisfied with "That's the way our computer figured it". The saver with a \$15 pocket calculator can check the computer and be rewarded for the service.

HB 2380 can restore the old banking standard of accuracy: that accounts should balance to the penny, or else!

5. HB 2380 provides for fair administration and proper enforcement.

The Office of Attorney General, which has more than a decade of experience of prosecuting violations of false and misleading contracts and advertising under The Consumer Protection Act, will enforce this Act.

The rules and regulations will be jointly developed by the regulators who work closely on a daily basis with financial institutions - banks, thrifts, credit unions and investment trusts - so they can be expected to be fair and reasonable to the institutions and yet meet the standards for disclosure and validation of this Act which the Attorney General will enforce.

In conclusion:

These are the major reasons why The Kansas Citizens Council on Aging, Inc., believes passage of HB 2380 to be in the public interest - benefiting not only the elderly and the financial institutions in which they entrust their savings, but also young savers, the newly marrieds, those with young children and those who are saving up for their retirement, stumbling through the wild array of IRA offerings.

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Richard L. D. Morse, Ph.D. is Chairman of The Legislative Committee of The Kansas Citizens Council on Aging, Inc., and has been a member since its founding in 1961. He has also been Professor of Family Economics at Kansas State University since 1955. He is author of Check Your Interest and Cents-ible Interest.

Supplement to Statement of Richard L. D. Morse

Rebuttal to some criticism  
previously asserted

1. The legislature should not endorse a private publication of Morse:

Morse Daily Rate Tables are in the public domain, published by a state agency, can be freely duplicated and have already been recognized by the State of New York and has stood the test of time for over six years. No comparable set of rate tables is available.

Reference to a standard set of rate tables will facilitate administration and eliminate the need for court determination.

2. Complex disclosure requirements "would effectively eliminate the use of radio and TV for advertising rates".

The allegation has not been supported by facts and it is doubtful that it ever could be shown that quoting "2.8991 Cents per \$100 per day" would be so time/space consuming as to render it impossible to quote.

It is conceivable that a financial institution could develop a savings plan so complex that it could not be fully explained in a TV or radio advertising spot. But partial truth is unfair to competitors as well as savers. Better nothing said, as a matter of fairness and public policy. The bank is free to develop a savings plan that can be explained.

3. "Are we going to pass a new law every time a college professor comes up with a new research project?" (KBA).

The need has been recognized and worked on since 1968 when the Kansas Citizens Council on Aging, Inc., first included it on its legislative agenda.

Other states have adopted Truth in Savings: Maryland (1977), New York (1978), California (1979), and this year Massachusetts (1985).

There is a bi-partisan support in the U.S. House of Representatives for Truth in Savings.

This is an opportunity for Kansas to act progressively on an idea that received favorable comments:

Comptroller of the Currency - C.T. Connover  
"Professor Morse's proposal is technically sound and readily understandable. Quoting interest earnings per day per \$100 of initial savings avoids the difficulties in comparing interest rate quotes."

Chairman of the Federal Reserve Board - Paul A. Volcker. "We believe Professor Morse's proposal could provide important information to many people who either have or are shopping for, the various savings instruments that are available today. His

proposal would provide a means for translating interest rate quotations into a universal standard which consumers could use to assist them in making savings decisions." (Letter of Dec. 14, 1982, to Virginia Knauer, the White House).

4. "The public understands the present system and would be confused by a change." (KBA).

This assertion has been proven unwarranted with test results from over 2000 persons in 20 states. Over 96% made correct choices between rates quoted in Cents per \$100 per day, and as low as 14% between rates as presently quoted.

There is much evidence that bank personnel do not understand the present system and cannot explain it to the saver.

5. Cost - The additional cost must be borne by the consumer "through fees, charges, higher loan rates or lower earnings on savings" (KCUL).
- a. "Costs" will run higher for credit unions forced by competition into paying on the full dollars and cents, and not only on \$5 shares. - of course the savers will benefit.
  - b. There will be no major cost for the majority of institutions currently compounding daily on daily balances.
  - c. Most computer services already have daily compounding and Day of Deposit to Day of Withdrawal already on the menu and can adopt HB2380 with little or no notice.
  - d. In general, operating costs will be reduced greatly as we shift away from 7.8 million different ways of figuring interest to one standard.
  - e. Changes are being made frequently in advertising, rate quotation formats, financial statements, so once the adjustment is made to the new standard, these change costs can be eliminated.
6. We believe in the principles of Truth in Savings, we don't need a law to mandate it or one with enforcement penalties which will make us liable to unwarranted harassment. (KBA & KCUL).

The provisions of HB2380 are those familiar to most businesses operating under the Consumer Protection Act or financial institutions under the Uniform Consumer Credit Code. In fact, the penalties are minimal and borderline the shoplifting disciplinary rule of "If caught, return the goods". The proposed bounty promises to be a self-correcting and efficient enforcement tool.

7. Lacks all-inclusive coverage and federal/state jurisdiction.

The questions raised are valid and important. They are being debated in the Congress and states, and "resolved" by the regulators and courts.

The questions have absolutely no bearing on the basic purposes of this bill. Amendments to broaden the definitions of Sec. 3 (m) "Savings Institution" and (n) "consumer savings" would be most acceptable.



on

The Consumer's Savings (for amounts up to \$100,000)

Disclosure (of contract terms) and

Validation (of performance) Act

Sec. 2. Purposes:

- To reduce costs and confusion
- To establish a standard for comparing rates
- To simplify full disclosure of contract terms
- To encourage and facilitate validation of accounts

Sec. 3. Definitions:

Time: A day is 24 hours and annual is 365 days.

Rates: The Daily Percentage Rate is the daily rate of simple interest.

The Annual Percentage Rate is 365 times the daily percentage rate.

The Annual Percentage Yield is the earnings from 365 daily compoundings expressed as a percentage.

Daily Rate is 100 times the daily percentage rate expressed in:

Cents (which everyone can count)  
per \$100 (units easily identified)  
per Day (which is 24 hours).

Equivalent designates what the rate system used would be if converted to a Daily Rate standard.

Periodic Percentage Rate is the rate per compound period at the end of which earnings are computed and payable regardless of whether they are actually paid out, posted or credited to the account, or allowed to accrue.

Computations: "Cents per \$100" tables are cited as the standard of accuracy, following the precedent set by the New York State Banking Department and in recognition that no other standard table of values has such official standing.

Computation standards are established in (e) so that earnings reports should be accurate to the penny for each eleven transactions reported, with the error favoring the savings institution.

Sec. 4. Disclosures - Pertaining to those made orally in answering inquiries and in voice media advertising, and in printed brochures, contracts, financial statements and advertisements.

Since lenders of money and savers expect all the money to draw interest every day, the basic rate is the Daily Rate. Thus, only the Daily Rate need be disclosed if earnings are simply payable and compounded daily on daily balances and not subjected to fees, charges, discounts, etc.

Optionally, the daily rate can be annualized with the APR and APY less prominently disclosed.

Optionally, the financial institution may compound other than daily or pay on other than all the money on deposit each day (such as on even dollars or \$5 or \$25 units), or employ FIFO, LIFO, Low Balance or other methods than DIDO, in which case the responsibility for converting the earnings to their Daily Rate Equivalent for comparability is borne by the savings institution which employs these deviant methods. Furthermore, full details of the deviations must be disclosed.

The choice lies with the financial institution. The disclosure can be simple. The disclosure can be lengthy with responsibility shifted from the saver to the financial institution to calculate its standard equivalent.

Notification: Changes in contract terms should not be made unilaterally without notice to depositors in time for them to act.

Reports: Depositors should have periodic reports, at least annually, of account activity in sufficient detail about the contract terms and account activity to permit validation of the account.

#### Sec. 5. Administration

The precedent of KSA 16-207d is employed, giving the regulators of financial institutions responsibility for developing needed rules and regulations which may be both proscriptive and prescriptive, and assigning the Attorney General as the ultimate arbiter of whether the rules and regulations are enforceable.

#### Sec. 6. Enforcement

Since this is essentially a disclosure bill following under the purposes of 60-623 of The Kansas Consumer Protection Act, enforcement is assigned to the Attorney General.

Liability of financial institutions is limited in amount and to preponderance of evidence of intentional, non-corrected errors. Savers, however, who help the financial institutions find errors not caught by their internal and external auditors and by regulators, may expect a token reward for their efforts.

TESTIMONY ON H.B. 2380  
CONSUMER SAVINGS DISCLOSURE AND VALIDATION ACT

BY KANSAS DEPARTMENT ON AGING

MARCH 6, 1985

Bill Brief:

Requires disclosure of terms and conditions pertaining to the payment of earnings and the assessment of charges and penalties on individual savings deposits.

Bill Provisions:

1. Standardizes language used for computing and disclosing fully terms and conditions pertaining to payment of earnings, charges, and penalties.
2. Requires savings institutions to provide in clear and noticeable writing the daily rate (DR) for accounts where earnings are payable and compounded daily on daily balances and there are no charges, penalties, restrictions or other benefits.
3. If earnings are other than as provided above, savings institutions must provide in clear and noticeable writing:
  - a) the daily rate equivalent
  - b) method used
  - c) number of times earnings are compounded
  - d) date earnings are payable
  - e) holding period before crediting deposits for purposes of interest accrual
  - f) penalties for early withdrawal
  - g) other terms, conditions or charges which affect the rate or amount of earnings
4. Requires advertisements to follow similar guidelines.
5. Requires written notification to individual depositors at least 10 days prior to adoption of any change regarding disclosed information.
6. Includes enforcement and penalty provisions.

Testimony:

The Kansas Department on Aging supports this consumer savings disclosure bill as a practical way to sort out the confusion that exists in savings.

Older Kansans depend on their earnings, often to a greater degree than do younger people, for the necessities of daily living. Because they usually have fixed incomes interest is one of their main sources of income.

In the past, when savings were less complex, this type of bill may have been less necessary. However with the myriad of interest rates, savings instruments, and methods of compounding, investment has become far more confusing.

The Consumer Savings Disclosure and Validation Act is a practical solution to assist people in sorting out a complex issue. H.B. 2380 helps in several major areas:

- 1) Simplifies information so that consumers may make informed decisions.
- 2) Provides for simplified information so consumers can verify rates paid.
- 3) Insures that an inherent principle of contracting is followed --- both parties understand the full nature of the contract.

Truth-in-lending has been enormously helpful to consumers because it provides them with the full cost of the loan. Truth-in-savings will be equally as helpful by providing full information on earnings.

KDOA believes that H.B. 2380 makes sense to both consumer and financial institutions. We respectfully ask for favorable action on it.

JH  
3/5/85

# SHARE EXPERIENCES of CONSUMER

IV

## Five PROBLEMS

1. CONSUMER MUST KNOW QUESTIONS TO ASK
2. RESPONSES - TOO FAST TO WRITE - CALCULATE
3. NO PRINTED INFO - UNTIL TOLD REASON of SURVEY
4. BANK EMPLOYEES DID NOT KNOW ANSWERS  
i.e. Penalties & LIMITATIONS  
[WHY] INTEREST FIGURED [SIMPLE DAILY COMPOUND] [MO.]
5. SAVINGS PROGRAMS CHANGE OFTEN

KICKER

**KL** Kansas  
League of  
Savings  
Institutions

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

March 6, 1985

TO: HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS  
FROM: JIM TURNER, KANSAS LEAGUE OF SAVINGS INSTITUTIONS  
RE: H.B. 2380 (CONSUMER SAVINGS DISCLOSURE ACT)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the House Committee on Commercial and Financial Institutions in opposition to H.B. 2380.

Regardless of the name attached to this proposal it remains that this is an issue that must be resolved uniformly by Congress if Kansas financial institutions are to avoid being placed at a competitive disadvantage in the acquisition of savings deposits. The Congress continues to examine the issue of appropriate disclosures and we anticipate that working with the federal insuring agencies that progress will be made in this area.

The advent of money market certificates several years ago resulted in a rate sensitive citizenry that is now solicited for savings on a nationwide basis. The various media solicitations from financial institutions are received in Kansas each day. To require Kansas financial institutions to play by a different set of rules, utilizing confusing and parochial terminology, as well as ads with a rate that "apparently" is considerable less than national markets, would be disastrous.

There are several specific sections of H.B. 2380 that concern us. We are concerned that the reference to "standardize" language and rates (line 36) will result in the reregulation of rates to the detriment of what the consumer receives. Standardization has a way of evolving into uniformity and we fear that rather than competitive rates we will see a return to the primary use of premiums to solicit deposits.

We have grave concerns regarding the introduction and use of terminology as spelled out in the definition section 2, pages 1-2, that would be unique to Kansas. While APR is readily recognized, the use of DR, APY, DRe, APRe, and APYe would result in considerable confusion for customers and an absolute nightmare for advertising and marketing personnel at financial institutions.



House CFI Committee  
Page 2  
March 6, 1985

The concept of "Cents per Hundred" is totally unworkable unless enacted on a nationwide basis. We have enclosed an ad which would depict this type of disclosure. Not only would this type of advertisement require the purchase of additional space to explain definitions, when placed side by side with ads from financial institutions outside the State, it would undoubtedly result in a loss of deposits.

Further, we have concerns regarding confusion as to the administration of this program since savings activities of federally-insured institutions are governed by the rules and regulations of the FSLIC and the state savings and loan commissioner had jurisdiction over the operational procedures only for state-chartered institutions.

We have serious objections to the enforcement provisions found on page 7 of H.B. 2380, particularly Section 6(c). The requirement that the savings institution shows "by a preponderance of evidence" that the violation was not intentional would imply that financial institutions are attempting to defraud or mislead their customers as a normal course of business. We resent this implication. The inclusion of \$100 reward language for bringing an error to the savings institutions would apparently aid in the funding of college students researching financial institutions and should be stricken.

In conclusion, we would again point out that Congress is continuing their deliberations in the area of disclosures by financial institutions and that any statutory enactment standardizing rates, terms or conditions must be made at the national level. To do otherwise would not only confuse depositors but place Kansas financial institutions at a serious competitive disadvantage.

Accordingly, we would request that H.B. 2380 be reported adversely.

James R. Turner  
President

JRT:bw

# BEFORE


**18 MONTH FIXED RATE CERTIFICATE**  
**10.250%\***  
 effective annual yield  
**10.792%**

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**30 MONTH FIXED RATE CERTIFICATE**  
**10.750%\***  
 effective annual yield  
**11.347%**


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**48 MONTH FIXED RATE CERTIFICATE**  
**11.000%\***  
 effective annual yield  
**11.625%**



**Shawnee Federal Savings**

• 906 Kansas Ave.  
 • 2200 E. 29th St.  
 • 5011 S.W. 29th St.  
 • 2000 N. Central  
 • 2101 W. 21st St.  
 913 357-6141



Offices in Topeka, Atchison and Overland Park

# AFTER


**18 MONTH FIXED RATE CERTIFICATE**  
 DR **2.80**  
 Cents per \$100 per day  
 Daily Compounded

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**30 MONTH FIXED RATE CERTIFICATE**  
 DR **2.94**  
 Cents per \$100 per day  
 Daily Compounded


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**48 MONTH FIXED RATE CERTIFICATE**  
 DR **3.01**  
 Cents per \$100 per day  
 Daily Compounded



**Shawnee Federal Savings**

• 906 Kansas Ave.  
 • 2200 E. 29th St.  
 • 5011 S.W. 29th St.  
 • 2000 N. Central  
 • 2101 W. 21st St.  
 913 357-6141

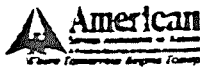


Offices in Topeka, Atchison and Overland Park

## AMERICAN'S CURRENT SAVINGS RATES

	Current Rate	Annual Yield
<b>IMMA Savings Account</b>	<b>8.750%</b>	<b>9.241%</b>
<b>Fixed Rate, Fixed Term Certificates:</b>		
90-179 Days	9.700%	10.058%
180-364 Days	10.000%	10.381%
12-24 Months	10.500%	10.921%
24-36 Months	11.000%	11.462%
36-48 Months	11.300%	11.788%
<b>IRA/KEOGH 18-Month Term</b>	<b>10.500%</b>	<b>11.231%</b>

All rates subject to change without notice.



**TOPEKA**  
 601 West 27th Street  
 Topeka, KS 66601  
 (913) 267-4121

**WICHITA**  
 173 West 4th Street  
 Wichita, KS 67202  
 (316) 269-2228

**TOPEKA**  
 1228 Kansas Avenue  
 Topeka, KS 66601  
 (913) 233-4186

**SHAWNEE**  
 128 Pioneer Street  
 Shawnee, KS 66201  
 (913) 249-4221

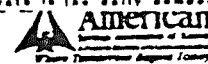
**TOPEKA**  
 1328 Pioneer Street  
 Topeka, KS 66601  
 (913) 273-4221

## AMERICAN'S CURRENT SAVINGS RATES

	DAILY RATE	Interest available
	Cents per \$100 per Day	
<b>IMMA Savings Account</b>	DR. <b>2.42c</b>	Monthly
<b>Fixed Rate, Fixed Term Certificates:</b>		
90-179 Days	DR. 2.62c	Quarterly
180-364 Days	DR. 2.70c	Quarterly
12-24 Months	DR. 2.84c	Quarterly
24-36 Months	DR. 2.97c	Quarterly
36-48 Months	DR. 3.05c	Quarterly
<b>IRA/KEOGH 18-Month Term</b>	DR. 2.91c	

All rates are in the daily compounded rate equivalent.

All rates subject to change without notice.



**TOPEKA**  
 601 West 27th Street  
 Topeka, KS 66601  
 (913) 267-4121

**WICHITA**  
 173 West 4th Street  
 Wichita, KS 67202  
 (316) 269-2228

**TOPEKA**  
 1228 Kansas Avenue  
 Topeka, KS 66601  
 (913) 233-4186

**SHAWNEE**  
 128 Pioneer Street  
 Shawnee, KS 66201  
 (913) 249-4221

**TOPEKA**  
 1328 Pioneer Street  
 Topeka, KS 66601  
 (913) 273-4221

Illustrations of the effect of the resolution on advertised rates.

[ Turn over please ]



TESTIMONY ON H.B. 2380  
AN ACT enacting the consumer savings  
disclosure and validation act.

Presented to the  
HOUSE COMMITTEE ON  
COMMERCIAL & FINANCIAL INSTITUTIONS

March 6, 1985  
by the

KANSAS CREDIT UNION LEAGUE

Mr. Chairman, members of the Committee:

I am Marvin Umholtz, Vice President of Credit Union Development 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 in opposition to HB 2380, the consumer savings disclosure and validation act.

Credit Unions in Kansas are on record in support of a "simple and sensible" truth-in-savings law (1979 KCUL Governmental Forum). Restated, credit unions support the concept of savings disclosures. However, in light of substantial difficulty encountered in administering the complex Truth-in-Lending laws, disclosure standards should only include disclosure of information crucial to consumer comparison shopping. The cost of disclosure should not outweigh consumer benefits.

KCUL supports disclosure of:

- (1) rate of return on savings measured by a uniform method;
- (2) the minimum term, if any, required to earn that rate; and
- (3) the minimum balance, if any, required to earn that rate.

Credit unions are proud of our record in consumer protection and are willing to work with the Congress and the Kansas Legislature on legislation. But if there are new rules, we are anxious that they contribute to an improvement of services, not make things more difficult. Most CUs are small institutions with limited staff. Any new reporting requirement has a big impact on us.

#### LEGISLATIVE ACTIVITY

Measures to provide for uniform and full disclosure of information with respect to computation and payment of interest on savings accounts have been introduced in successive Congress since 1971 and in Kansas since at least 1979.

The 99th Congress has already seen the introduction of the "Depository Institution Act of 1985," H.R. 15, by the ranking minority member of the U.S. House Banking Committee, Representative Chalmers Wylie (R-OH). This comprehensive measure, which would close the non-bank bank loophole while addressing additional measures to deregulate financial institutions, also includes a provision enacting new rules for the standardization of the advertisement of savings accounts.

CREDIT UNIONS FAIR TO MEMBERS

Fairness is a built-in characteristic of CUs. Credit unions are governed by their member-owners, who elect directors on the basis of one-member-one-vote, with no proxy voting permitted. There are no outside shareholders and no profits. Earnings are returned to members in the form of better service, lower rates on loans or higher returns on savings. At credit unions, the highest priority is put on people.

According to a recent nationwide survey conducted for the trade newspaper, American Banker, credit union members are the most satisfied consumers of financial services. Compared to customers of banks and thrifts, more than twice as many credit union members reported that they get an excellent deal from their credit unions. Examples of what people like most about their credit unions: higher savings rates, more readily available loans, expanded services, and personal, courteous treatment. (Copy of article is attached.)

PROBLEMS WITH H.B. 2380

KCUL cannot support HB 2380 for the following reasons:

1. HB 2380 is not a simple and sensible approach toward providing consumers with "unit pricing" shopping information. It creates an entirely new terminology unfamiliar to savers (APR, APY, DR, APRe, APYe, DRe, PPR), and exceeds the practical need for information by the consumer. (Page 2-4, Section 3 and Page 4-6, Section 4.)
2. HB 2380 requires frequent, excessive and repetitive delivery of potentially complex information and documents to every consumer even though experience shows that most savers will not use them. Many consumers do not even reconcile their checkbooks. The costs of these documents will be passed along to consumers. Currently, consumers who want to know detailed information ask for it. (Page 4-6, Section 4 (a), (c) and (d)).
3. HB 2380 would place extremely impractical requirements on print and other media advertising; A 15 second radio or television advertisement of rates payable could become unthinkable. Consumers might have less information readily available to them, not more. (Page 5, Section 4(b)).

4. HB 2380 is unclear as to whether only Kansas chartered banks, savings and loans, and credit unions will be covered by the legislation. What about those consumer investment and savings instruments offered by money market, mutual funds, brokerage houses, insurance companies, finance companies, out-of-state financial organizations and the new "department store non-banks"? (Page 3, Section 3 (m)).
5. HB 2380 has an effective date of July 1, 1985. This does not allow sufficient time to convert computer programs, adjust record keeping, design new advertisements and disclosure documents, obtain legal counsel opinions, train staff and otherwise develop the necessary expertise to implement the complex provisions of the bill. (Page 8, Section 7.) The costs of compliance will be borne by consumers through fees, charges, higher loan rates or lower earnings on savings. This is especially true for CU members -- they own their financial institution.
6. HB 2380 paves the way for new civil lawsuits, whether sound or frivolous, with penalties ranging from \$100 to \$1000 plus the costs of the action and attorney's fees (Page 7, Section 6 (b)). The bill also authorizes "bounty hunting." (Page 7, Section 6 (c)). Would not a simple correction of the error be more appropriate?
7. HB 2380 mandates that rules and regulations shall be adopted by the Kansas state financial institutions regulators. Disregarding the philosophical question of mandating regulation in a deregulatory environment, and disregarding the technical question of whether state regulations would apply to the federally chartered institutions and "department store non-banks," the question remains as to whether the legislation itself should not be sufficient direction for implementation of its purposes. (Page 6-7, Section 5.)

#### SUMMARY

Mr. Chairman, KCUL opposes the passage of HB 2380 because it establishes an overly complex disclosure system instead of a simple and sensible one. I would be pleased to expand further on any of the points made in our testimony at your direction.

# Financial Firms Get High Marks in Survey

## Credit Unions Top List But Satisfaction with Banks Is Lower Now

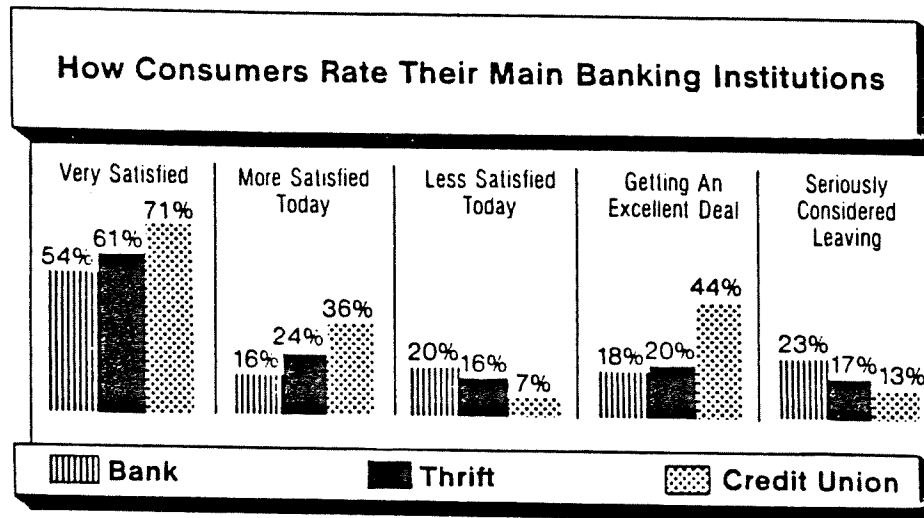
By LAURA GROSS

An overwhelming majority of Americans are satisfied with their financial institutions — and credit unions are their favorite ones.

A new *American Banker* consumer opinion poll finds that nine out of 10 people are very or somewhat satisfied with their principal financial institution. Just over one in 20 of the respondents say they are somewhat or very dissatisfied.

Also, most people think that their primary financial institution gives them either a pretty good or excellent deal, with only one in 10 saying they get a not so good or poor deal.

These findings are from a nationwide telephone survey of how consumers view the changing financial services industry. The survey was commissioned by the *American*



American Banker 1984

*Banker* and conducted among 1,000 households this summer by Reichman Research, a New York-based opinion research firm.

Credit union members, the survey finds, are the nation's most satisfied consumers of financial services. Compared to customers of banks and thrifts (savings banks and savings and loan associations), more than twice as many credit union members say they get an excellent deal from their financial institution.

As examples of what they like most about their credit unions, members most often volunteer "expanded services," and "easier to get a loan," although "higher interest rates" and "more courteous, personal service" also rank high.

Robert Von der Ohe, chief economist for the Credit Union National Association, said that the fact that credit union members cite "expanded services" demonstrates "that the program of expanded services as a strategy is working.

"People have always felt good about their credit unions," he noted in a recent interview, "because there's a cooperative philosophy, a commonality of purpose that says, 'We're all in here together, and no one's trying to take advantage of anyone else.'"

Now, 15% to 20% of the nation's 19,000 credit unions have begun offering more services, such as first mortgage loans, credit cards, and access to automated teller machines. This makes their members happier, Mr. Von der Ohe maintained.

Carl A. Modecki, president of the Consumer Bankers Association, said, "You don't have to tell me what the survey found. I'm a bank customer. For the credit unions, there's a cohesiveness there to begin with. It's likely they know their members. The bank tellers down here change once a week."

His comments underscore other survey findings: Customers of commercial banks are practically as dissatisfied as those people identifying some institution other than a bank, (over)

# Financial Firms Get High Marks ; Credit Unions Top List

Continued from Page 1

credit union, or thrift as their main financial institution. (Consumers also could choose brokerage firms, mutual or money market funds, insurance or finance companies as their "most important financial institution.")

More alarming, commercial bank customers are the only category in which a larger percentage say they are less satisfied than say they are more satisfied with their main provider of financial services than they were a few years ago.

One banker, who chose to remain anonymous, expressed the feeling of a number of others: "Of course people are going to say they are less satisfied. Banks are in the middle of deregulation, changing strategies, unbundling prices, charging new fees. There's a whole lot of disruption going on."

Commented David Reichman, president of the research firm that conducted the survey, "If I were a banker, I'd want to know what I have to do to bring the level of satisfaction in my company up to my competition's so I'm not losing customers in the future, but gaining them."

What clues does the survey offer bankers in this regard?

Bank customers say that high fees and minimum balance requirements bother them most.

Another thing that they dislike about their banks is that, as one consumer says: "There is no personalized service as there was before."

Someone else complains: "The bank's getting too big. You always get the runaround."

Another says: "That personal

touch is gone since they were bought out by another bank."

It would be easy for bankers to be complacent about the fact that more than nine out of 10 of their customers are satisfied. But industry observers suggest that this would be extremely foolish, given the fact that a sizable percentage of bank customers say they are less satisfied today with the services they get than they were a few years ago.

As further support for their concern, these analysts point out that it is the wealthier commercial bank customers who are least likely to be very satisfied and the most likely to have become less satisfied than they were a few years ago.

Among the people who identify commercial banks as their principal institution and who earn under \$30,000, 58% are very satisfied. This compares with 44% who are very satisfied in the group earning \$30,000 and over.

For thrift institutions, the results are reversed. Fifty-nine percent of those earning under \$30,000 are very satisfied, compared to 67% who are very satisfied in the group earning over \$30,000. And for credit unions, the trend is also toward more satisfaction at higher incomes.

Additionally, a higher percentage of commercial bank customers earning over \$30,000 annually are less satisfied than those who are more satisfied. The reverse is true for thrifts and credit unions. Both show that a higher number of people in the upper income ranges are more satisfied than less satisfied.

"Of all three of the depository

institutions, commercial banks do the least well in serving their own affluent," remarked Marilyn Barnewall, president of the MacGruder Agency, a marketing consultancy whose principal business is advising on banking programs for the affluent.

"Of course credit union members are happier. If they couldn't serve the needs of the market with car loans, education loans, and mortgages, they'd be in trouble. Nobody goes to a credit union to ask for \$200,000 to invest in thoroughbreds or oil and gas ventures. People ask less of them and then are satisfied when they get it," Ms. Barnewall said.

Least satisfied of all consumers in the American Banker's survey, however, are those identifying either a stockbroker, an insurance company, a finance company, a mutual or a money market fund as their principal institution. (The number of people identifying an institution other than one of the three insured depositories as principal was too small for detailed analysis.)

Nonetheless, it is clear from the data that people who choose one of these nonbanks as their principal institution are less likely than those choosing commercial banks to have seriously considered moving to another principal institution over the past few years. Those calling credit unions their principal are least likely to have considered moving.

A quarter of the consumers calling commercial banks their principal institution say they've seriously considered leaving the bank for another institution. As reasons for

this, most cite higher service fees and minimum balance requirements as well as less personal service.

Several retail bankers were asked whether they thought that a quarter was a lot of customers to have seriously considered moving elsewhere. Most said the figure sounded a bit high to them. They normally expect customer turnover rates of anywhere between 8% and 20%, depending on the area of the country.

While commercial bank customers most often cite higher service charges and less personal service as reasons for having seriously considered leaving, credit union members cite incompetent personnel and the desire for an institution which is more convenient.

"That's interesting to note," said Edward Furash, the Washington, D.C., banker-turned-consultant.

"Credit unions may get such high marks not because they give better service but because they give a better sense of identity.

"The smaller size, scale, and intimacy of the credit union provides a sense of group belonging that someone doesn't get at larger financial institutions," Mr. Furash said. "This implies that larger commercial banks and huge thrifts are going to have an identity crisis with their customers as regional interstate banking explodes.

"This is already happening in state after state when mergers and acquisitions occur, opening tremendous opportunities for local institutions, new banks, and others who are truly responsive to customer needs." Mr. Furash said. ■



818 Merchants Nat'l Bank Bldg., Topeka, Kansas 66612 913/235-1307

March 6, 1985

TO: House Commercial and Financial Institutions Committee

RE: HB 2380: Consumer Savings Disclosure and Validation Act  
Testimony to be presented by Hank Booth, KLWN/KLZR, Lawrence

Mr. Chairman and members of the Committee, I am Hank Booth of KLWN/KLZR, Lawrence. I am here today to represent the Kansas Association of Broadcasters. We appreciate this opportunity to appear before you on House Bill 2380.

The radio and television broadcasters of Kansas do not wish to argue the merits of HB 2380. We are here to bring to your attention the provisions in the bill that address advertising and the requirement that every ad relating to rates of return contain additional disclosures above what is already required by federal regulation.

As you know, most radio and television commercials are limited to 30 seconds in length or 60 seconds. If we have correctly interpreted this bill and its advertising provisions, it will be difficult if not impossible, to produce 30 or 60 second commercials which would make any sense.

Financial institutions are important clients of many of our member stations and we feel that this bill, if passed in its present form would effectively eliminate radio and television advertising of a specific rate of return by these clients.

Thank you for your kind attention, I would be happy to answer any questions the Committee might have.

ATTACHMENT 7

3/6/85

**PRESIDENT**  
Russell Gibson  
KINA AM, Salina

**PRESIDENT-ELECT**  
Sam Elliott  
KULY/KHUQ  
Ulysses/Hugoton  
KU, Lawrence

**SECRETARY-TREASURER**  
John Mileham  
KWCH TV, Wichita

**PAST PRESIDENT**  
George Logan  
WIBW TV, Topeka

**EXECUTIVE DIRECTOR**  
Harriet Lange  
KAB, Topeka

**DIRECTORS**  
Tony Jewell  
KIUL/KWKR  
Garden City/Leoti

Cliff Shank  
KSKU/KLEO  
Hutchinson/Wichita

Steven Roesler  
KJCK AM/FM, Junction City

Hank Booth  
KLWN/KLZR, Lawrence

Lance Armer  
KLFQ FM, Lyons

Lowell Jack  
KMAN/KMKF, Manhattan

Lynn Higbee  
KTPK FM, Topeka

Ed Hundley  
KLEY/KZED, Wellington



VIII  
The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

March 6, 1985

TO: House Committee on Commercial and Financial Institutions

FROM: James S. Maag, Director of Research  
Kansas Bankers Association

RE: HB 2380

Mr. Chairman and members of the committee:

Thank you for the opportunity to appear on the provisions of HB 2380. While section 2 of this Bill contends that its passage would "reduce costs and improve communications" we strongly believe that the opposite would be the case. Implementation of the provisions of this bill would, in fact, significantly increase cost for financial institutions and, in turn, could have an impact on their service fee charges and/or interest rates paid to savers. We further believe that the bill will not improve communications, but will only confuse the general public which is very acclimated to the present disclosure requirements by federal regulation.

While the intent of the legislation may be admirable, we question whether the complicated formula set forth in the bill would be more easily understood by the general public than the existing method of disclosing savings rates. We would draw particular attention to section 4 (b) of the bill concerning advertising and would raise the question as to how the requirements of that section would apply to radio and television advertisements. We would also have grave concerns about the enforcement actions set forth in section 6 of the bill and particularly subsection (c) of that section which requires the savings institution pay to for a reward discovery of an error no matter how inadvertent that error might be.

How the provisions of HB 2380 would interface with existing federal regulations or financial institutions on advertising and rate disclosure is a major policy issue which, I believe, the committee should consider as well as the application of the provisions of this act to federally-chartered financial institutions. We would again emphasize that passage of HB 2380 would only result in consumer confusion and significant cost increases to the financial institutions involved. Therefore, Mr. Chairman, we respectfully request that HB 2380 be reported adversely.

ATTACHMENT 8

3/6/85



(3) A member bank may permit depositors to maintain deposits subject to negotiable orders of withdrawal where authorized by federal law.

(4) Where a savings deposit is evidenced by a passbook, every withdrawal made upon presentation of the passbook shall be entered in the passbook at the time of withdrawal, and every other withdrawal for such a deposit shall be entered in the passbook as soon as practicable after withdrawal is made.

percentage yield achieved by compounding during a period in excess of a year.

(d) *Time or amount requirements.* If an advertised rate is payable only on deposits that meet time or amount requirements, such requirements shall be clearly and conspicuously stated. Where the time requirement for an advertised rate is in excess of a year, the required number of years for the rate to apply shall be stated with equal prominence, together with an indication of any lower rate or rates that will apply if the deposit is withdrawn at an earlier maturity.

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### SECTION 217.6—Advertising of Interest on Deposits

Every advertisement, announcement, or solicitation relating to the interest paid on deposits in member banks shall be governed by the following rules:

(a) *Annual rate of simple interest.* Interest rates shall be stated in terms of the annual rate of simple interest. In no case shall a rate be advertised that is in excess of the applicable maximum rate for the particular deposit.

(b) *Percentage yields based on one year.* Where a percentage yield achieved by compounding interest during one year is advertised, the annual rate of simple interest shall be stated with equal prominence, together with a reference to the basis of compounding. No member bank shall advertise a percentage yield based on the effect of grace periods permitted in section 217.3(d).

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(c) *Percentage yields based on periods in excess of one year.* No advertisement shall include any indication of a total percentage yield, compounded or simple, based on a period in excess of a year, or an average annual

2-391

(e) *Penalty for early withdrawals.* Any advertisement, announcement, or solicitation relating to interest paid by a member bank on time deposits shall include clear and conspicuous notice that the bank is prohibited from allowing payment of a time deposit before maturity unless substantial interest is forfeited. Such notice may state that,

“Substantial interest penalty is required for early withdrawal.”

(f) *Profit.* The term “profit” shall not be used in referring to interest paid on deposits.

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(g) *Accuracy of advertising.* No member bank shall make any advertisement, announcement, or solicitation relating to the interest paid on deposits that is inaccurate or misleading or that misrepresents its deposit contracts.

(h) *Solicitation of deposits for banks.* Any person or organization that solicits deposits for a member bank shall be bound by the rules contained in this section with respect to any advertisement, announcement, or solicitation relating to such deposits. No such person or organization shall advertise a percentage yield on any deposit it solicits for a member bank that is not authorized to be paid and advertised by such bank.