Approved [signature] 3/2/87
Date

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS

The meeting was called to order by Clyde D. Graeber at
Chairperson

3:30 ~~xx~~m./p.m. on February 25, 1987 in room 527-S of the Capitol.

All members were present except: Dorothy Flottman, Excused

Committee staff present: Bill Wolff, Research Department
Bruce Kinzie, Revisor of Statutes
Myrta Anderson, Research Department
June Evans, committee secretary

Conferees appearing before the committee:
Jim Holt, Legislative Consultant, Kansas Credit Union League
Bud Grant, Vice President, Kansas Chamber of Commerce and Industry
Ray McAlister, Professor, North Texas State University
Jim Maag, Kansas Bankers Assocation
Jim Sullins, Kansas Motor Car Dealers
Lynn Van Aalst, Kansas League of Savings Institutions
Terry Humphrey, Kansas Manufactured Housing

Chairman Clyde Graeber opened the meeting.

Hearing on H.B. 2406. Dr. Bill Wolff, Legislative Research, gave a brief overview of this bill; an act amending the UCCC; relating to finance charges; amending K.S.A. 986 Supp. 16a-2-201, 16a-2-202, 16a-2-401 and 16a-3-204 and repealing the existing sections.

The interest rate currently outlined in above statutes will sunset July 1, 1987. Senate Bill 216 and Senate Bill 158 have different approaches to the same. This refers to: 1. Sellers - installment credit. 2. Credit cards; Penneys, Sears, etc. 3. Banks, savings and loans, credit unions, finance companies, master charge, Visa, discovery cards, etc. New rates must be established before H.B. 2406 sunsets. H.B. 2406 changes notices from 3 notices over a 6 month period to 1 written notice in 30 days.

Jim Holt, Legislative Consultant, Kansas Credit Union League, testified in support of H.B. 2406 with suggested amendment, acknowledging the typographical error. (Atch 1).

Bud Grant, Vice President, Kansas Chamber of Commerce and Industry, introduced Ray McAlister, Professor, North Texas State University testified to support H.B. 2406 stating merchant credit cards are still the best credit buy available. (Atch II).

Jim Maag, Kansas Bankers Association, testified in support of the amendment. (Attachment III).

Lynn Van Aalst, Kansas League of Savings Institutions, testified in support of the amendment.

Jim Sullins. Executive Vice President, Kansas Motor Car Dealers, testified in support of the amendment for H. B. 2406. (Atch IV).

Terry Humphrey, Kansas Manufactured Housing, also testified in support of the amendment for H. B. 2406. (Atch V)

Representative Sand moved we accept the Bill as amended with correcting the typographical error and Representative Wilbert seconded the motion.

After further discussion of the committee, Representative Sand moved that we have a substitute Bill. Representative Ott seconded the motion. The motion carried.

The hearing was closed on H.B. 2406 and final action will be taken next Wednesday, March 4, 1987.

Hearing on H. B. 2396. Jim Holt, Legislative Consultant, Kansas Credit Union League, testified in support of this Bill testifying that this is an attempt to let state chartered credit unions achieve parity with their federal counterparts in Kansas. (Atch VI).

After discussion by the committee, a subcommittee was appointed being: Lee Hamm, J. C. Long and Tim Shallenburger. The committee will look at this Bill further and bring it back to the committee with their recommendations.

The meeting was adjourned at 4:10 P. M.

The next meeting will be February 26, 1987.

Date: February 25, 1987

GUEST REGISTER

HOUSE

COMMERCIAL & FINANCIAL INSTITUTIONS COMMITTEE

NAME	ORGANIZATION	ADDRESS
Jim Holt	Ks. C.U. League	Topeka, Ks
Joel Wright	KCUL	Topeka
Bud Grant	KCCI	"
Tom Hester	Montgomery Wards	
Vern Daly	" "	
Ray McAlister	KCCI	
John Spurgeon	Div. of Budget	
Jim Turner	KLSI	Topeka
Craig L. Lemon	Commerce Bank & Trust	Topeka
Harry Shriner	Fourth Financial Corp.	Wichita
Dick Nichols	Home State Bank	McPherson
Jim Maag	KBA	Topeka
Alvie Price	KBA	Topeka
Jim Sullins	Ks Motor Car Dealers Assn	Topeka
Pat Barnes	Ks Motor Car Dealers Ass'n.	Topeka
Stan Lind	Ks. Assn. of Fin. Serv.	K.C.Ks.

Holt

TESTIMONY IN SUPPORT OF

HB 2406,

MAINTENANCE OF THE CURRENT CONSUMER LOAN RATE CAP

PRESENTED TO THE

HOUSE COMMITTEE ON

COMMERCIAL AND FINANCIAL INSTITUTIONS

by JIM HOLT, LEGISLATIVE CONSULTANT

KANSAS CREDIT UNION LEAGUE

February 25, 1987

Att. I

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

BACKGROUND: Earlier this month this committee graciously consented to introduce this bill on behalf of various lenders who wanted to address the pending sunset of the current interest rate alternative. While the lenders involved in supporting the introduction of the bill in its current form sincerely believed the suggested language represented a consensus of the individual lenders, subsequent evaluation and discussion indicates that we were mistaken.

Without going into the various flaws discovered or the individual groups who had problems with the language, those concerned have met and decided to ask your indulgence in allowing us to suggest that the current proposal would represent a consensus of the group if the amendments outlined in the attached document were adopted by the committee. These amendments have been circulated to representatives of the groups expressing an interest in this legislation and each have agreed that these changes are satisfactory.

Basically, the suggested amendments return most of the language which was deleted in the original request for introduction and simply eliminate all language sunsetting the 21% consumers interest rate alternative and the 30 day notice provision. The attached amendments do not disturb the elimination of the complicated alternative procedures for giving consumers notice of a change in terms for open end credit accounts. Thus this measure if adopted with the suggested amendments would provide 30 day notice as the only method for notifying holders of this type of account of pending changes.

Each conferee here today who expressed an interest originally in the introduction of this bill will be glad to speak individually to their support of these proposed amendments, so, with your permission I will move on to speak in support of the legislation as it would pass if these amendments are adopted.

BILL SUBSTANCE. It would be nice indeed if every time the legislature met, the current market interest rates were several points below the maximum rate allowed on consumer loans. Then it could lower the maximum and in fact tell constituents that the legislature had reduced the cap on consumer loan rates. While this scenario would help each individual legislator maintain a positive consumer protection image, it would be an irresponsible act and claim.

Every legislator is painfully conscious that he or she has very little control on the rate his or her constituents are charged on consumer loans. That rate is not even mostly under control of the lending institutions with whom your constituents deal. The truth is consumer loan rates are a function of the cost of funds to lenders. This rate in turn is set by a variety of factors which are beyond the control of any Kansas lenders. Included in these factors are the inflation rate, the cost of petroleum, the amount of surplus funds in the economy, and other factors to which lenders only respond.

THE CREDIT UNION EXPERIENCE. Attached to this testimony as Exhibit 1, is a chart that tracks the experience of several credit unions from the late 70's through last year. If you will look carefully at the figures you will see that the rate credit unions paid member-savers and the rate charged member-borrowers closely follows their own cost of funds.

We believe the inescapable conclusion of this type review is that credit unions are responsible extenders of credit to their members and charge no more than they must to pay the saver an equitable return and meet the expenses and reserve requirements consistent with good management. With this in mind we humbly suggest to you that any cap established by the legislature simply serves as a point at which state chartered credit unions are forced to stop lending to their members. Worse than this, is the fact that such a point may be reached at a time when the legislature would be willing to increase the ceiling to avoid cutting off credit, but is not in session and can't respond.

Added to this problem is the fact that federally chartered credit unions are not subject to the interest rate maximums of the Kansas statute but to those of the federal credit union act. Currently that rate is set at 15% the National Credit Union Board, however, has the authority to authorize a higher rate if it determines higher rates are necessary for the safety and soundness of individual credit unions (12 USC 1757(5)(A)(vi)(I)).

This higher rate may be permitted for 18 months at a time and is currently set at 21%. Additionally, the Board can allow any federally insured credit union (even state chartered) to charge the rate allowed any other lender in the state if it exceeds that authorized by the federal act without pre-empting other limitations imposed by the state. This authority, known as the most favored lender doctrine, as I understand it means that since licensed lenders in the state are allowed to loan up to 36% on the first $600, federally insured credit unions could charge up to that rate without the attendant limitation of "up to $600".

CONCLUSION. In the end, the inescapable truth, while it may be frustrating, is that our political leaders have very little control over the rates consumers pay for loans. They can control the point at which lenders must cut off loan availability. Credit unions have their member's best interest at heart and carefully avoid charging any but the lowest possible rates for loans. Passage of this bill with the suggested amendments would help set the interest rate maximum at a level that would allow credit to continue being extended to a time tested, reasonably acceptable level.

I will be glad to attempt to answer any questions.

Exhibit I

*Average Kansas Credit Union Loan Rate/Cost of Money Experience

	(2) Cost of Funds		Fed. Funds Rate	(1) Auto Loan Rates	
	External	Internal		New	Used
79	12.86	6.21	11.19	12.88	13.89
80	15.50	7.50	13.36	14.38	14.82
81	17.20	9.20	16.38	16.95	17.70
82	14.25	8.70	12.26	14.46	16.63
83	10.33	7.60	9.07	12.57	14.12
84	11.32	8.10	10.23	13.10	14.73
85	9.50	7.60	8.10	12.53	14.29
86	7.75	6.60	7.92	10.56	12.20

1 = Year end rates

2 = Average for year

* = Data from 5 Sample Credit Unions

SUGGESTED AMENDMENTS TO HB 2406

Session of 1987

HOUSE BILL No. 2406

By Committee on Commercial and Financial Institutions

2-17

AN ACT amending the uniform consumer credit code; relating to finance charges; amending K.S.A. 1986 Supp. 16a-2-201, 16a-2-202, 16a-2-401 and 16a-3-204 and repealing the existing sections.

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

Section 1. K.S.A. 1986 Supp. 16a-2-201 is hereby amended to read as follows: 16a-2-201. (1) With respect to a consumer credit sale, other than a sale pursuant to open end credit, a seller may contract for and receive a finance charge not exceeding that permitted by this section.

(2) The finance charge, calculated according to the actuarial method, may not exceed the equivalent of the ~~following:~~

~~The total of:~~

~~(a) Twenty-one percent per year on that part of the unpaid balance of the amount financed which is $300 or less;~~

~~(b) eighteen percent per year on that part of the unpaid balance of the amount financed which is more than $300 but does not exceed $1,000; and~~

~~(c) fourteen and forty-five hundredths percent per year on that part of the unpaid balance of the amount financed which is more than $1,000~~ ~~*total of the rates provided for by subsection (2) of K.S.A. 16a-2-401, and amendments thereto, and as adjusted by the provisions of K.S.A. 16a-2-401a, and amendments thereto.*~~

(3) This section does not limit or restrict the manner of calculating the finance charge whether by way of add-on, discount, or otherwise, so long as the rate of the finance charge does not exceed that permitted by this section. If the sale is precomputed:

(a) The finance charge may be calculated on the assumption

following:

the total of:

(a) Twenty-one percent per year on that part of the unpaid balance of the amount financed which is $300 or less;

(b) eighteen percent per year on that part of the unpaid balance of the amount financed which is more than $300 but does not exceed $1,000; and

(c) fourteen and forty-five hundredths percent per year on that part of the unpaid balance of the amount financed which is more than $1,000.

that all scheduled payments will be made when due; and

(b) the effect of prepayment is governed by the provisions on rebate upon prepayment (16a-2-510).

(4) For the purposes of this section, the term of a sale agreement commences with the date the credit is granted or, if goods are delivered or services performed 10 days or more after that date, with the date of commencement of delivery or performance. Differences in the lengths of months are disregarded and a day may be counted as 1/30th of a month. Subject to classifications and differentiations the seller may reasonably establish, a part of a month in excess of 15 days may be treated as a full month if periods of 15 days or less are disregarded and that procedure is not consistently used to obtain a greater yield than would otherwise be permitted.

(5) Subject to classifications and differentiations the seller may reasonably establish, the seller may make the same finance charge on all amounts financed within a specified range. A finance charge so made does not violate subsection (2) if:

(a) When applied to the median amount within each range, it does not exceed the maximum permitted by subsection (2); and

(b) when applied to the lowest amount within each range, it does not produce a rate of finance charge exceeding the rate calculated according to paragraph (a) by more than 8% of the rate calculated according to paragraph (a).

(6) Notwithstanding subsection (2), the seller may contract for and receive a minimum finance charge of not more than $5 when the amount financed does not exceed $75, or not more than $7.50 when the amount financed exceeds $75.

✓ ~~(7) As an alternative to the rates set forth in subsection (2), during the period beginning on the effective date of this act and ending July 1, 1987, the seller may contract for and receive a finance charge not exceeding 21% per year on the unpaid balances of the amount financed.~~

(7) As an alternative to the rates set forth in subsection (2), the seller may contract for and receive a finance charge not exceeding 21% per year on the unpaid balances of the amount financed.

Sec. 2. K.S.A. 1986 Supp. 16a-2-202 is hereby amended to read as follows: 16a-2-202. (1) With respect to a consumer credit sale made pursuant to open end credit, the parties to the sale may contract for the payment by the buyer of a finance charge not exceeding that permitted in this section.

(2) A charge may be made in each billing cycle which is a percentage of an amount no greater than:

(a) The average daily balance of the account, which is the sum of the actual amounts outstanding each day during the billing cycle divided by the number of days in the cycle;

(b) the unpaid balance of the account on the last day of the billing cycle; or

(c) the median amount within a specified range within which the average daily balance of the account or the unpaid balance of the account on the last day of the billing cycle is included. A charge may be made pursuant to this paragraph only if the seller, subject to classifications and differentiations the seller may reasonably establish, makes the same charge on all balances within the specified range and if the percentage when applied to the median amount within the range does not produce a charge exceeding the charge resulting from applying that percentage to the lowest amount within the range by more than 8% of the charge on the median amount.

(3) If the billing cycle is monthly, the charge may not exceed ~~1.75% of that part of the amount pursuant to subsection (2) which is $300 or less and 1.5% on that part of this amount which is more than $300 but not more than $1,000 and 1.2% on that part of this amount which is more than $1,000~~ ~~*1/12 of the maximum annual rates permitted by subsection (2) of K.S.A. 16a-2-401, and amendments thereto, and as adjusted by the provisions of K.S.A. 16a-2-401a, and amendments thereto.*~~ If the billing cycle is not monthly, the maximum charge is that percentage which bears the same relation to the applicable monthly percentage as the number of days in the billing cycle bears to 30. For the purposes of this section, a variation of not more than four days from month to month is "the last day of the billing cycle."

(4) Notwithstanding subsection (3), if there is an unpaid balance on the date as of which the credit service charge is applied, the seller may contract for and receive a charge not exceeding $.50 if the billing cycle is monthly or longer, or the pro rata part of $.50 which bears the same relation to $.50 as the

1.75% of that part of the amount pursuant to subsection (2) which is $300 or less and 1.5% on that part of this amount which is more than $300 but not not more than $1,000 and 1.2% on that part of this amount which is more than $1,000.

number of days in the billing cycle bears to 30 if the billing cycle is shorter than monthly.

~~(5) As an alternative to the rates set forth in subsection (3), during the period beginning on the effective date of this act and ending July 1, 1987, the parties to the sale may contract for and the seller may receive a finance charge not exceeding 21% per year on the amount determined pursuant to subsection (2).~~

(5) As an alternative to the rates set forth in subsection (3), the parties to the asle may contract for and the seller may receive a finance charge not exceeding 21% per year on the amount determined pursuant to subsection (2).

Sec. 3. K.S.A. 1986 Supp. 16a-2-401 is hereby amended to read as follows: 16a-2-401. (1) With respect to a consumer loan, including a loan pursuant to open end credit, a lender may contract for and receive a finance charge, calculated according to the actuarial method, not exceeding 18% per year on the unpaid balance of the amount financed not exceeding $1,000 and 14.45% per year on that portion of the unpaid balance in excess of $1,000.

(2) As an alternative to the rates set forth in subsection (1), with respect to a supervised loan made under a license issued by the administrator, including a loan pursuant to open end credit, a supervised lender may contract for and receive a finance charge, calculated according to the actuarial method, not exceeding the equivalent of the greater of either of the following:

The total of: (a) Thirty-six percent per year on that part of the unpaid balance of the amount financed which is $300 or less; and

(b) twenty-one percent per year on that part of the unpaid balance of the amount financed which is more than $300, but does not exceed $1,000; and

(c) fourteen and forty-five hundredths percent per year on that portion of the unpaid balance of the amount financed which is more than $1,000; or

(d) ~~eighteen~~ ~~*twenty-one*~~ percent per year on the unpaid balance of the amount financed.

eighteen

(3) This section does not limit or restrict the manner of calculating the finance charge, whether by way of add-on, discount, or otherwise, so long as the rate of the finance charge does not exceed that permitted by this section. The finance charge may be contracted for and earned at the single annual percentage rate that would earn the same finance charge as the graduated rates when the debt is paid according to the agreed terms and the

calculations are made according to the actuarial method. If the loan is precomputed:

(a) The finance charge may be calculated on the assumption that all scheduled payments will be made when due; and

(b) the effect of prepayment is governed by the provisions on rebate upon prepayment (section 16a-2-510).

(4) The term of a loan for the purposes of this section commences on the date the loan is made. Differences in the lengths of months are disregarded and a day may be counted as 1/30th of a month. Subject to classifications and differentiations the lender may reasonably establish, a part of a month in excess of 15 days may be treated as a full month if periods of 15 days or less are disregarded and that procedure is not consistently used to obtain a greater yield than would otherwise be permitted.

(5) Subject to classifications and differentiations the lender may reasonably establish, the lender may make the same finance charge on all amounts financed within a specified range. A finance charge so made does not violate subsections (1) and (2) if:

(a) When applied to the median amount within each range, it does not exceed the maximum amount permitted in subsections (1) and (2); and

(b) when applied to the lowest amount within each range, it does not produce a rate of finance charge exceeding the rate calculated according to paragraph (a) by more than 8% of the rate calculated according to paragraph (a).

(6) Notwithstanding subsections (1) and (2), a lender may contract for and receive a minimum finance charge of not more than $5 when the amount financed does not exceed $75, or not more than $7.50 when the amount financed exceeds $75.

(7) This section shall not apply to a loan secured by an interest in land the interest rate of which is governed by subsection (b) of K.S.A. 16-207, and amendments thereto, unless made subject hereto by agreement.

(8) Except for subsection (10) ~~(10) (9)~~, this section shall not apply to a loan secured by an interest in land subordinate to a prior mortgage and held by a lender other than the lender of the first mortgage, the interest rate of which is governed by subsection

(b) or (h) of K.S.A. 16-207, and amendments thereto, unless made subject hereto by agreement.

~~(9) As an alternative to the rates set forth in subsection (1) and subsection (2)(d), during the period beginning on the effective date of this act and ending July 1, 1987, a supervised lender may contract for and receive a finance charge not exceeding 21% per year on the unpaid balance of the amount financed.~~

(9) As an alternative to the rates set forth in subsectic (2), a supervised lender may contract for and receive a financ charge not exceeding 21% per year on the unpaid balance of the amount financed.

(10)

~~(10)~~ ~~(9)~~ Notwithstanding subsections (1), (2) and (3), a lender may contract for and receive a nonrefundable origination fee not to exceed 3% of the amount financed on any loan secured by a real estate mortgage.

Sec. 4. K.S.A. 1986 Supp. 16a-3-204 is hereby amended to read as follows: 16a-3-204. (1) If a creditor makes a change in the terms of an open end credit account without complying with this section any additional cost or charge to the consumer resulting from the change is an excess charge and subject to the remedies available to consumers (section 16a-5-201) and to the administrator (section 16a-6-113).

(2) A creditor may change the terms of an open end credit account whether or not the change is authorized by prior agreement~~. Except as provided in subsection (3), the lender shall give to the consumer written notice of any change at least three times, with the first notice at least six months before the effective date of the change.~~

~~(3) The notice specified in subsection (2) is not required if:~~

~~(a) The consumer after receiving notice of the change agrees in writing to the change;~~

~~(b) the consumer elects to pay an amount designated on a billing statement as including a new charge for a benefit offered to the consumer when the benefit and charge constitute the change in terms and when the billing statement also states the amount payable if the new charge is excluded;~~

~~(c) the change involves no significant cost to the consumer;~~

~~(d) the consumer has previously consented in writing to the kind of change made and notice of the change is given to the consumer in two billing cycles prior to the effective date of the change; or~~

~~(c) the change applies only to debts incurred after a date specified in a notice of the change given in two billing cycles prior to the effective date of the change~~ *after 30 days' written notice is given to the consumer.*

~~(4)~~ *(3)* The notice provided for in this section is given to the consumer when mailed to the consumer at the address used by the creditor for sending periodic billing statements.

~~(5) Notwithstanding subsection (2), from and after the effective date of this act and until July 1, 1987, a creditor may change the finance charge in an open end credit account after 30 days' written notice is given to the consumer.~~

Sec. 5. K.S.A. 1986 Supp. 16a-2-201, 16a-2-202, 16a-2-401 and 16a-3-204 are hereby repealed.

Sec. 6. This act shall take effect and be in force from and after its publication in the statute book.

Bud Grant
Ray McAllister

LEGISLATIVE TESTIMONY

Kansas Chamber of 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 2406

February 25, 1987

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on Commercial
and Financial Institutions

by

Bud Grant
Vice President

Mr. Chairman, members of the committee. My name is Bud Grant and I am Executive Director of the Kansas Retail Council a major division of the Kansas Chamber of Commerce and Industry. I appreciate the opportunity of appearing before the committee today to discuss with you SB 216.

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 which includes 200 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. KCCI receives no government funding.

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.

ATCH II

Over the past several months we have all heard and read much about the fact that credit card rates perceived by many to be "to high" and that legislative and/or congressional action should be taken to lower them. We disagree. There are a number of important points about the cost of retail credit which is extended by retailers, as well as about revenue generated by retailer's credit plans, that is not understood.

Those who suggest that retailer's rates should be lowered do not do so in order to punish the retailer, but in the hopes that it would benefit the consumer. However, such a move would in fact have the opposite effect. As a matter of basic economics, experience has shown that price controls stifle competition, hurt small business, and, when they result in requiring a service to be offered at a loss, they ultimately hurt the consumer. In the area of credit in particular, numerous studies (including one completed in 1986 by the federal reserve board) have shown that when a legislature puts a lid on finance charge rates consumers can adversely be effected.

An obvious reaction would be to tighten credit standards for new card applications. Retailers extend more credit to lower income families, i.e., retail credit cards are 2.5 times as prevalent as a bank card in the lower income segments of the U.S. population, and much more prevalent in other segments as well. Therefore, reduced availability most affects families who may be forced to seek more expensive types of credit.

Another obvious result would be the increase in the cost of goods. Merchants must recoup loses incured in extending credit by passing these costs to all consumers. This misallocation of costs is unfair to cash buyers, who are forced to subsidize those who use credit. The fairest system of pricing for all consumers is to allow retailers to charge credit customers the full cost of the credit services, thereby keeping the cash price of goods as "pure" as possible.

Still another side effect has been shown to be the imposition of other charges and/or lost benefits. When retailers are forced to lower rates to unprofitable levels they may at the same time be forced to increase their income by eliminating or shortening the grace period which is the free period consumers are given to pay their bills in full and avoid all finance charges. This is a benefit that many consumers have come to take for granted, but some retail card issuers may decide that they cannot afford to continue to offer credit without charging for it. Also, retailers may be forced to increase the required minimum payment or impose late charges, per transaction charges, over-the-limit charges, application processing charges, and so on, to replace lost finance charge revenue.

Finally, rate ceilings have in many cases forced some small retailers to abandon their credit card plans entirely. This tends to concentrate the credit card marketplace in the hands of fewer companies, reducing consumers choices and, in the long run, hurting consumers.

When examining the issue of credit rates it is quickly noted that the prime rate is much lower than it was a few years ago, with many asking why haven't retailers lowered their rates accordingly?

Fluctuations in the prime rate, or other measures of the cost of funds, are not an accurate barometer of retailers credit costs. While the cost of funds has decreased, other costs, representing almost 40% of the expense of offering retail credit, have not. Lets briefly review whats taken place in some of these cost areas since passage of the uniform consumer credit code in 1973.

	1973	1987	% Increase
Postage	$.10	$.22	120%
Social Security	13,200	43,800	231%
	772	3,131	
CPI (1967)	148	385	153%
Prime Rate	10.8		
Minimum Wage	$2.00	$3.35	67%

A law that ties credit card rates to a single cost component, i.e. the cost of funds, is like the legislature tying housing costs to the price of lumber. It looks to only one component of the many costs involved in delivering this service.

Over the past few months we have seen a movement on the part of several banks to lower their credit card rates and are presumably still making a profit. I have been asked why retailers have not done the same. However, the finance charge is the retailers sole source of revenue from credit. Bank cards have sources of income that distinguish them from retail cards. Revenue from several sources can offset losses resulting from lower finance charges. For instance, most banks charge an annual card fee that averages about $20 nationally. This annual fee alone generates as much revenue for the bank as the total finance charge generates in one year for a typical retailers average credit card account.

In addition to annual fees and finance charges, banks collect a fee of two - three percent of the sale from most merchants each time the bank card is used. Moreover, this fee tends to be higher in states where banks have lowered their finance charge rates.

Bank cards also generate more finance charges because the average monthly account balance is about $355 versus an average account balance of about $286 for retail cards. Also, more income is generated, even at a lower rate, because the minimum payment on bank cards is generally smaller than it is on retail cards. And finally there is no grace period on cash advances, which are loan transactions that retailers cannot make and in some cases there is no grace period on purchases charged to bank cards.

Many also feel that the income generated from a 21% rate on retail credit cards results in a substantial amount of income to the retailer. The income is much less than most people think. For about one-third of all accounts, there is no finance charge revenue at all because these are convenience users who pay their bills in full each month. As the the other accounts, since there is no finance charge in the first or last month, a $100 purchase financed at the nominal rate of 21% typically yields revenue equal to about 18% and for one year costs the consumer only about $10. The total finance charge using this example in a state which authorizes a $.50 minimum monthly charge amounts to $9.99. If you took the same example and reduced the rate to 18% the saving for each consumer would be $.11 per month, a total annual difference of $1.35.

I would like to quote very briefly from an editorial which appeared in the November 3 issue of the Indianapolis Business Journal. The editorial was entitled Credit Card Interest Ceiling Shot Down. "Something that always makes us nervous is when the government wants to do something for us. Whenever the government gets involved, however well intentioned, the results are unsatisfactory because the decision based on what is good for the population as a whole is seldom really right for anybody in particular."

"And so it goes with credit card interest rates. In the so-called free market society we have laws that dictate the top interest rates that banks and other institutions can charge to their credit card customers. Even now, there are legislators in our state's general assembly that are working on bills to lower the ceiling 'to protect the consumer.'"

"What we are dealing with here is a form of price fixing. It is exactly the same as if legislators dictated the ceiling price on other necessary items, such as a car or a house."

"But, what would that net the consumer? Naturally, it would eliminate special models and custom features that cost extra, but that some are willing to pay for. Such a law would cut competition and innovation, and, in the end, the consumer would lose as he loses in any price fixing scheme."

The editorial finished by saying, "Legislation is still needed, however, there are those who feel as we do, those who are committed to the free market system and the benefits it provides for all. Those legislators will be sponsoring a bill to remove the ceiling all together a move that will get the legislature out of the price fixing business and back into the business of promoting free trade in all aspects of American life."

Mr. Chairman and members of the committee merchants credit cards are still the best credit buy available. The card is free, it offers a grace period and actually gives consumers a free loan if bills are paid in full each month. The card has complete flexibility, provides convenience and security and shopping without cash and is an excellent value which operates best for consumers when its not subjected to artificial governmental restraint. I realize that lowering rate ceilings sounds attractive and represents a politically appealing issue to some legislators but it is unsound policy. Credit is a service, like any other, and the merchants should be permitted to price that service so it will be available to those who want it and so that it will be paid for only by those who use it.

Thank you Mr. Chairman I would be pleased to attempt to answer any questions.

1

assumptions

payment size =	10.00
original purchase balance =	100.00
day on which payments are due =	16
annual percentage rate =	18.00
number of periods =	12
minimum finance charge =	.50
break point amount =	.00
break rate =	.00
second break point =	.00
second break rate =	.00

month	unpaid balance	payment	avg. daily bal.	f/c
1/ 1	100.00	.00		
1/31	100.00		100.00	.00
2/16	90.00	10.00		
2/28	91.43		95.36	1.43
3/16	81.43	10.00		
3/31	82.71		85.58	1.28
4/16	72.71	10.00		
4/30	73.87		77.07	1.16
5/16	63.87	10.00		
5/31	64.89		68.15	1.02
6/16	54.89	10.00		
6/30	55.78		59.38	.89
7/16	45.78	10.00		
7/31	46.54		50.19	.75
8/16	36.54	10.00		
8/31	37.15		41.01	.62
9/16	27.15	10.00		
9/30	27.65		31.84	.50
10/16	17.65	10.00		
10/31	18.15		22.25	.50
11/16	8.15	10.00		
11/30	8.65		12.90	.50
12/16	.00	8.65		
12/31	.00		3.94	.00
total		108.65	647.67	8.65

average daily balance = 53.97

gross finance charge yield = 16.03

assumptions

payment size =	10.00
original purchase balance =	100.00
day on which payments are due =	16
annual percentage rate =	21.00
number of periods =	12
minimum finance charge =	.50
break point amount =	.00
break rate =	.00
second break point =	.00
second break rate =	.00

month	unpaid balance	payment	avg. daily bal.	f/c
1/ 1	100.00	.00		
1/31	100.00		100.00	.00
2/16	90.00	10.00		
2/28	91.67		95.36	1.67
3/16	81.67	10.00		
3/31	83.17		85.70	1.50
4/16	73.17	10.00		
4/30	74.52		77.42	1.35
5/16	64.52	10.00		
5/31	65.73		68.71	1.20
6/16	55.73	10.00		
6/30	56.78		60.12	1.05
7/16	46.78	10.00		
7/31	47.67		51.11	.89
8/16	37.67	10.00		
8/31	38.41		42.08	.74
9/16	28.41	10.00		
9/30	28.99		33.04	.58
10/16	18.99	10.00		
10/31	19.49		23.55	.50
11/16	9.49	10.00		
11/30	9.99		14.24	.50
12/16	.00	9.99		
12/31	.00		4.59	.00
total		109.99	655.91	9.99

average daily balance = 54.66

gross finance charge yield = 18.27

COMPARISON OF SELECTED FACTORS AFFECTING THE COST OF CREDIT

Year	Avg. Prime Rate[1]	6-Mo. T-Bill[1]	Postage[2]	Minimum Wage[2]	Employer's Soc. Sec. Tax[2]	Energy Cost Index[1,3]	Consumer Price Index[1]
1965	4.54%	4.055%	.05	$1.25	$ 174	95.5	94.5
1966	5.63	5.082	.05	1.25	277	97.8	97.2
1967	5.61	4.630	.05	1.40	290	100.0	100.0
1968	6.30	5.470	.06	1.60	343	98.9	104.2
1969	7.96	6.853	.06	1.60	374	100.9	109.8
1970	7.91	6.562	.06	1.60	374	106.2	116.3
1971	5.72	4.511	.08	1.60	406	115.2	121.3
1972	5.25	4.466	.08	1.60	468	118.6	125.3
1973	8.03	7.178	.08	1.60	632	134.3	133.1
1974	10.81	7.926	.10	2.00	772	208.3	147.7
1975	7.86	6.122	.10	2.10	825	245.1	161.2
1976	6.84	5.266	.13	2.30	895	265.6	170.5
1977	6.83	5.510	.13	2.30	965	302.2	181.5
1978	9.06	7.572	.15	2.65	1,071	322.5	195.4
1979	12.67	10.017	.15	2.90	1,404	408.1	217.4
1980	15.27	11.374	.15	3.10	1,588	574.0	246.8
1981	18.87	13.811	.18/.20	3.35	1,975	694.5	272.4
1982	14.86	11.084	.20	3.35	2,171	693.2	289.1
1983	10.79	8.75	.20	3.35	2,392	664.7	298.4
1984	10.16	9.80	.22	3.35	2,646	657.0	311.1
1985	10.50	8.23	.22	3.35	2,792	633.6	320.1
1986	8.33		.22	3.35	3,003		330.8 (Nov.)

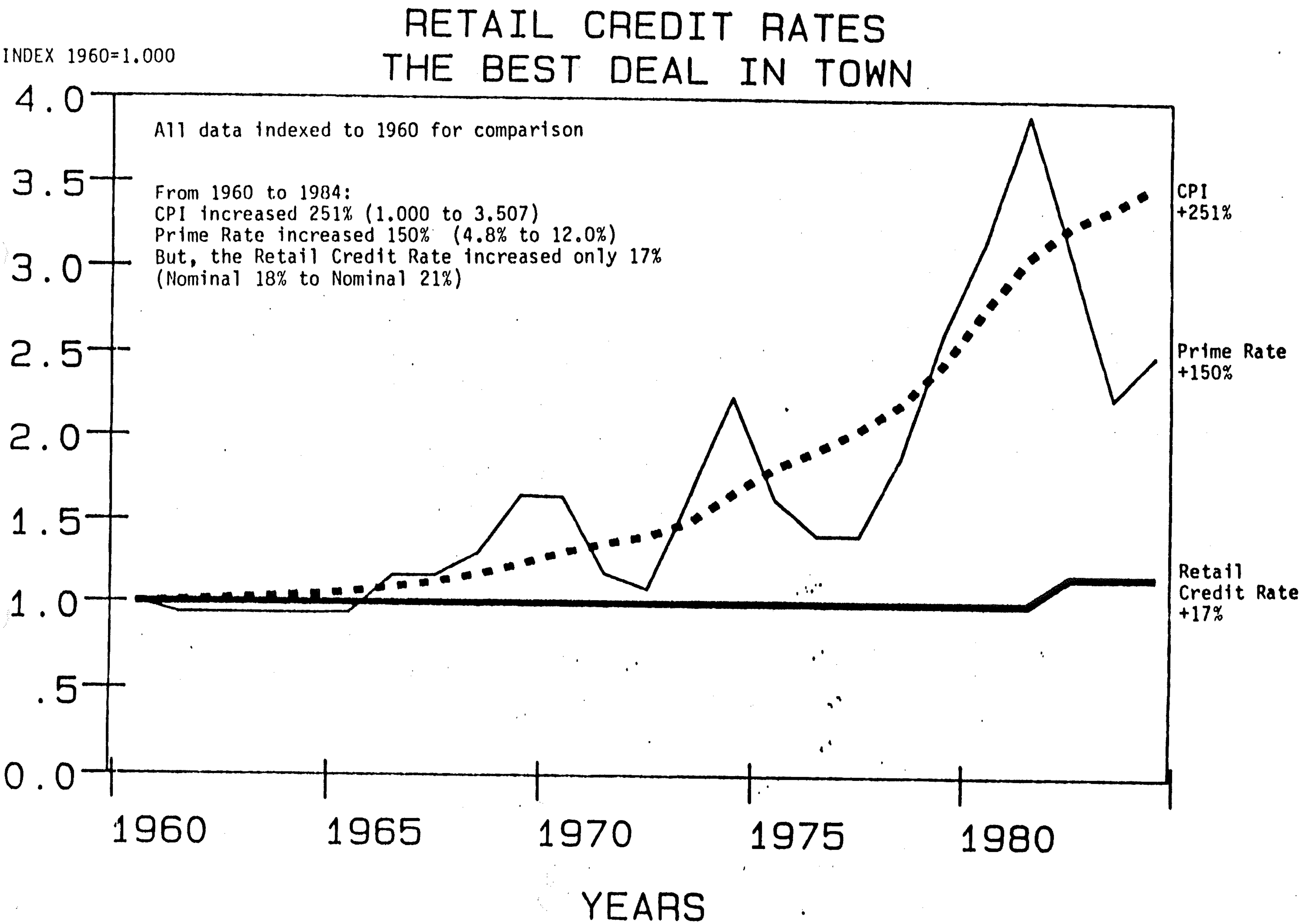
Sources and Notes:

1/ ECONOMIC REPORT OF THE PRESIDENT, February, 1985, pp. 300, 310 (data for 1985 comes from SURVEY OF CURRENT BUSINESS, May,, 1985 and FEDERAL RESERVE BULLETIN, May, 1985

2/ STATISTICAL ABSTRACT OF THE UNITED STATES, 1985, pp. 422, 541

3/ Producer Price Index for Fuels and Related Products and Power.

Prepared by Ray McAlister, Ph.D., Professor of Business Administration, North Texas STate University, Denton, TX 76203, September 25, 1985


RETAIL CREDIT RATES
THE BEST DEAL IN TOWN
INDEX 1960=1.000
4.0
3.5
3.0
2.5
2.0
1.5
1.0
.5
0.0
All data indexed to 1960 for comparison
From 1960 to 1984:
CPI increased 251% (1.000 to 3.507)
Prime Rate increased 150% (4.8% to 12.0%)
But, the Retail Credit Rate increased only 17%
(Nominal 18% to Nominal 21%)
CPI +251%
Prime Rate +150%
Retail Credit Rate +17%
1960
1965
1970
1975
1980
YEARS

KBA
The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 25, 1987

TO: House Committee on Commercial and Financial Institutions

FROM: Jim Maag, Director of Research
Kansas Bankers Association

RE: HB 2406

Mr. Chairman and members of the Committee:

We appreciate this opportunity to appear before the Committee and discuss the provisions of HB 2406 which amends several sections of the Kansas Uniform Consumer Credit Code. The 1982 Legislature established under the Code an alternative rate ceiling of 21% for installment and revolving credit sales as well as consumer loans. HB 2406 would make permanent the existing alternative rate ceiling.

Section 3 of HB 2406 amends that part of the Code relating to consumer loans (K.S.A. 16a-2-401) and is the section to which I would like to direct my comments. As veteran members of the Committee who have worked with the Code are aware, this section allows lenders to contract for a finance charge using the "blended rate" method (36% for amounts from $0 to $600; 21% for amounts from $601 to $2,000, and 14.45% for amounts in excess of $2,000) or 21% on the unpaid balance of the amount financed. The alternative rate allowed in 16a-2-401(9) is used in practically all consumer loan transactions in excess of $4,000 and those loans, of course, constitute the great bulk of consumer lending done by banks.

The 21% alternative rate ceiling has now been in effect for five years and the history of consumer lending in that period shows what we have contended for some time---that consumer loan rates are set by competition and not by rate ceilings. Consumer loan rates in practically all instances have been well below the 21% ceiling in Kansas banks during this three-year period. Enclosed are rate charts from newspapers showing what consumer loan rates are in the Wichita, Topeka and Kansas City areas.

The question logically follows that if market rates have been the case why is a 21% ceiling rather than some lower percentage necessary? Recent legislative history in this area would indicate that setting a ceiling too low in a volatile national economy can have detrimental results.

In 1981 we appeared before this committee requesting a 21% alternative rate to replace the existing 18% rate, but at the time (March, 1981) the prime rate had dropped slightly below 18% and it was decided that an 18% ceiling for consumer loans was adequate although, as everyone is aware, prime rates constitute the lowest possible rates for the best commercial customers and are always several

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ATCH III

points below consumer lending rates. However, soon after the Legislature adjourned in 1981, as the accompanying charts show, interest rates on a national and international basis increased dramatically and for most of the remaining months of that year even the prime rate remained above 18%.

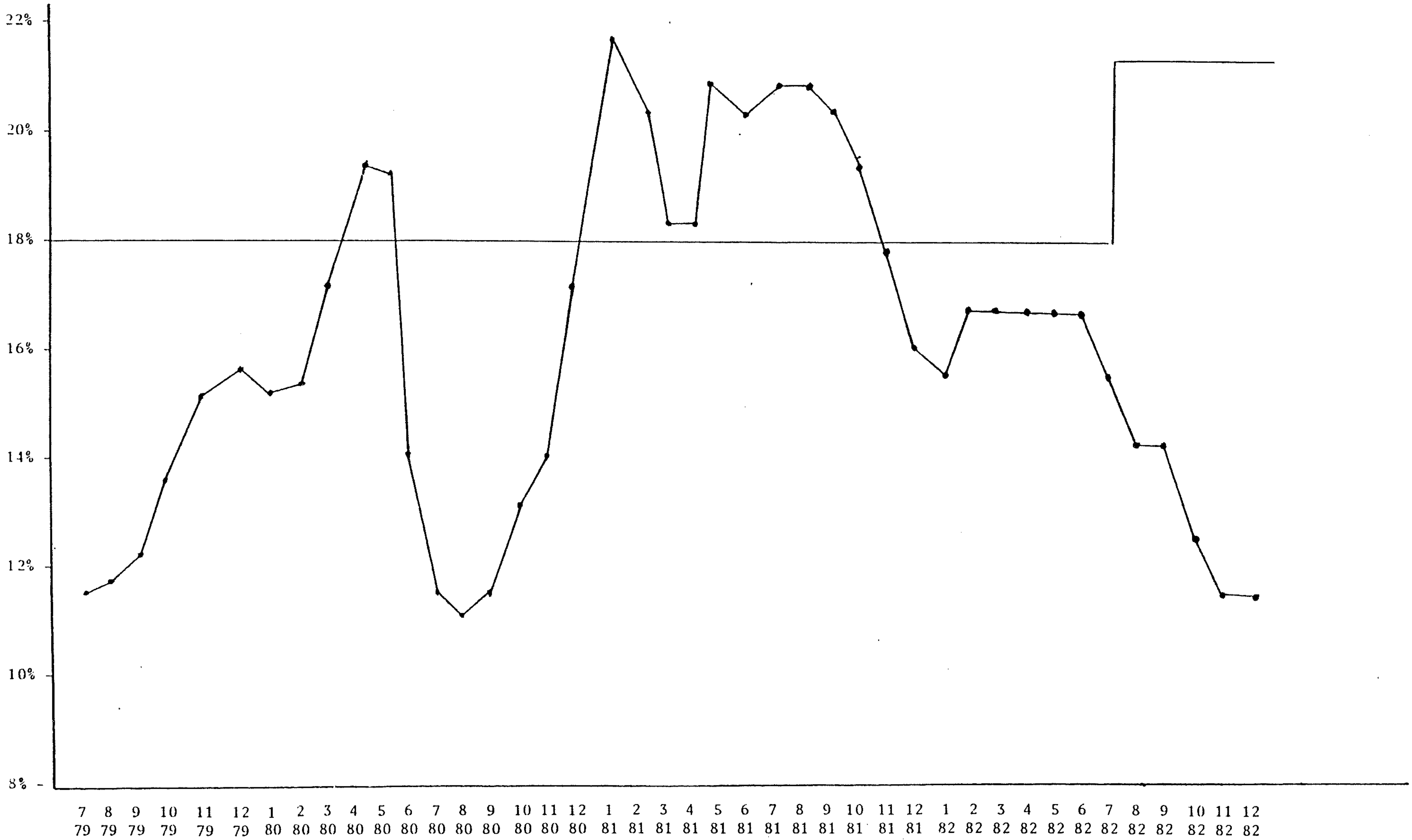
The practical effect of keeping the 18% ceiling on consumer loans throughout 1981 was to sharply restrict the availability of consumer credit. Statistics from the office of the Consumer Credit Commissioner show a drop in the number of consumer loans of $5,000 or less of nearly 50% from 1979 through 1981. This simply meant that thousands of Kansans were not able to obtain consumer credit through traditional sources and were either forced to forego consumer purchases or turn to other less regulated sources of credit where they most assuredly paid extremely high interest rates.

Currently interest rates are well below the 21% ceiling and, hopefully, they will remain at these low levels. However, the threat of inflation is ever-present and even the chairman of the Senate Banking Committee, William Proxmire (D-Wisconsin) recently expressed fears of a sharp raise in inflation. This obviously would directly impact consumer credit interest rates. To say such rapid inflation cannot occur is to totally ignore the history of the 1970's and early 1980's. Is it not in the best interests of the Kansas consumer to have an adequate rate ceiling should there be a repeat of the 1980-81 inflationary cycle?

Perhaps the question which needs to be answered is: At what ceiling rate does the Legislature believe there will be no restriction on the availability of needed consumer credit? If the Kansas Legislature could control the cost of money within the state's border or if there were assurances that action by our federal government and governments throughout the world would not create an inflationary environment, then a lower alternative rate ceiling might be justified. However, we cannot expect any such assurances and, therefore, we believe it is in the best interests of the Kansas consumer and the Kansas economy for the Legislature to set an alternative rate which allows sufficient flexibility to insure that legitimate consumer credit needs will be met.

We also strongly support the amendments to K.S.A. 16a-3-204 which would provide for 30-day notices on any change in the terms of an open-end credit account. The present requirements are cumbersome and expensive and do not serve either the creditor or the consumer well.

Thank you, Mr. Chairman and members of the Committee, for the opportunity to discuss this important issue with you and we strongly urge that you recommend the passage of HB 2406.



NEW YORK PRIME RATE

Borrowing rates

Banks	Prime	Auto terms:[1]	Personal terms:[2]	Home equity terms:[3]
Bank IV Wichita	8.00	10.25	13.00	11.38
Boulevard State Bank	8.75	10.50	16.00	N/A
First Nat'l Bank in Wichita	8.00	8.80	18.00	11.25
Kansas State Bank & Trust	8.00	9.00	15.00	N/A
Union National Bank	8.00	9.50	13.00	11.00

[1] $10,000 loan, 48-month 20% down fixed rate

[2] $5,000 loan, 36-month unsecured fixed rate

[3] $25,000 15-yr. secured variable Int. rate

N/A - Not Available

Rates effective as of Jan. 13

Local Borrowing Rates

INSTITUTION	PRIME	AUTO TERMS $10,000 Loan 48/Mo 20% down fixed rate	PERSONAL LOANS $5,000 loan 36 month unsecured fixed rate	HOME EQUITY $25,000 loan 15 year secured variable rate
Fidelity State Bank & Trust	8.5%	10.5%	NA	9.9%[1]
Southwest Bank and Trust	7.5%	10.5%	NA	9.5%
Peoples Heritage Federal S&L	NA	10.4%[2] 10.9%[3]	NA	10.4%[2] 10.9%[3]
Shawnee Federal Savings	NA	NA4	NA	10.25-11.25%[5]

All rates subject to change without notice.

1. Fixed; 2. 4-Year; 3. 5-Year; 4. Operations temporarily suspended; 5. Depending on loan value

Consumer loans

A SURVEY OF S&Ls AND BANKS AS OF FEB. 18

Institution	48-Month Auto loans		Home Improvement Rate	Type	Loans Notes
American Savings	10.50	F	10.50	F	2nd, 2.5pt., 15yr.
Bank IV	9.50	F	None		
Blue Valley	10.75	F	12.50	F	H, 5yr.
Capitol Federal	10.50	F	12.00	F	2nd, 10yr.
	9.00	V			
Colonial	10.50	F	12.00	F	2nd,$2.5K. 10yr.
Commerce Bank	10.50	F	12.50	F	H, 2pt.
	9.32	V	10.82	V	H, 2pt.
Farm & Home	None		10.00	F	2nd, C
			9.00	V	2nd
Household Bank	10.50	F	12.25	F	2nd, 10yr.
			10.75	F	2nd, 36mo.
UNITED STATES	10.69		12.71		
KANSAS CITY	10.30		12.89		
NEW YORK	10.48		12.21		
CHICAGO	10.61		13.05		
CALIFORNIA	10.73		11.19		
BOSTON	10.97		14.25		
DETROIT	10.44		14.08		
CINCINNATI	10.65		13.48		

All rates are subject to change without notice. If you wish to have your institution listed, please call (312) 670-2440. F—Fixed interest rate. V—Variable interest rate. N—New car loan. E—Equity lines of credit. H—Home improvement loan. C—Customer. NC—Non-customer. P—Preferred customer. NP—Non-preferred customer.

Statutory Rates in the States Which Have Adopted the UCCC as Adjusted by the Cost of Living Index Provision

State	Instalment Loans (Closed-end)	Alternate Instal. Loan Rate	Revolving Loan Rate	Instalment Sales Rates (Closed-end)	Alternate Instal. Sales Rate	Revolving Sales Rate (Open-end)
Colorado	36% to $630 21% to $2100 15% to $25000	21%	21%	36% to $630 21% to $2100 15% to $25000	21%	21%
Idaho	No Limit	No Limit	No Limit	No Limit	No Limit	No Limit
Indiana	36% to $780 21% to $2600 15% to $60000	21%	Same as loan rates	36% to $780 21% to $2100 15% to $60000	21%	21%
Kansas	36% to $600 21% to $2000 14.45% to $25000	Permanent: 18% Temporary: 21%	Same as loan rates	21% to $300 18% to $1000 14.45% to $25000	Permanent: None Temporary: 21%	Same as Instal. Sales Rates
Oklahoma	30% to $690 21% to $2300 15% to $45000 plus points Special rate to $460	21%	Same as instal. loan rates	30% to $690 21% to $2300 15% to $45000	21%	21%
S. C.	No Limit	No Limit	No Limit	No Limit	No Limit	No Limit
Utah	No Limit	No Limit	No Limit	No Limit	No Limit	No Limit
Wyoming*	36% to $1000 21% to $25000 no limit over $25000	N/A**	Same as loan rates	36% to $1000 21% to $25000 No limit over $25000	N/A**	Same as sales rates

*Wyoming does not provide for a Cost of Living Index Adjustment.
** Not Applicable

Adjoining States of Missouri & Nebraska (Colorado & Oklahoma Shown Above)

Missouri	26.6% to $1200 20.04% over $1200 with no cap	N/A**	22% to $1000 10% over 1000	$15 per $100 to $750 $12 per $100 to $1000 $10 per $100 to $1000 No limit over $7500	N/A**	20.04%
Nebraska	24% to $1000 21% over $1000 with no cap	N/A**	same as loan rates	18%	N/A**	21% to $50[illegible] 18% over $500

Statement Before The

HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS

by the

KANSAS MOTOR CAR DEALERS ASSOCIATION

Wednesday, February 25, 1987

RE: House Bill 2406

Mr. Chairman and Members of the Committee. I am Jim Sullins, Executive Vice President of the Kansas Motor Car Dealers Association, the state trade association representing the 370 franchised new car and new truck dealers association.

I come before you today in support of the general concept embodied in HB 2406, which is one of available credit in the time of high inflation and high interest. Not to say that we do not support the 21% rate addressed in this bill. However, we do believe the issues of rates, etc., are more appropriately addressed by the lending institutions from which you have already heard.

Kansas Motor Car Dealers Association has been involved for many years with the lending institutions in efforts to secure realistic ceilings on lending rates. Due to the fact that we sell probably the highest priced consumer product in the state, the availability of credit to our customers is vital to the survival of our industry.

To give you just a little different look at this issue, consider that the franchised dealers of Kansas employ over 6,600 people in this state. Consider also the fact that over 15% of the total retail sales in this state are made by franchised new car and truck dealers, which

ATCH IV

is approximately $2 billion worth of sales annually. Sales tax generated by the sale of vehicles, parts and service by franchised dealers amounts to about $40 million annually into the state coffers.

If we see a return of the high rates of the early 1980's, a rate ceiling at an unrealistic or prohibitive level will completely shut off the sale of motor vehicles just as it did in the early 80's. Not only will dealerships be forced to close their doors, the lack of purchases by consumers will have a tremendously detrimental effect on the sales tax collections by the state.

I remember all too well the efforts in the early 80's by the groups in front of you today to raise the interest rate ceilings to levels which would allow business to be conducted in Kansas. While we are currently enjoying fairly stable rates today, and the level of the rates are well below what any of us could have dreamed of in 1980, 1981 and 1982, we must not be complacent. I do not believe that we can afford to wait until the rates go high again before we address this issue. By the time it becomes critical again, it will probably be much too late for some.

I would suggest that the time for action, positive action, is now, when we are not under tremendous economic pressures. If you and this Legislature will act positively today, the retailers and lending institutions will be in a much better position to serve the consumers of Kansas when the next round of high interest rates occurs.

Thank you for your time, and I would be happy to answer any questions you might have.

KANSAS MANUFACTURED HOUSING INSTITUTE
112 SW 6th • Suite 204 • Topeka, Kansas 66603 • (913) 357-5256

TESTIMONY BEFORE THE HOUSE

COMMERCIAL AND FINANCIAL INSTITUTIONS

COMMITTEE

TO: Chairman Clyde Graeber and Members of the Committee

FROM: Terry Humphrey, Executive Director
Kansas Manufactured Housing Institute

DATE: February 25, 1987

Mr. Chairman and members of the Committee, I am Terry Humphrey, Executive Director of the Kansas Manufactured Housing Institute and I appreciate the opportunity to appear before you in support of House Bill 2406.

The Kansas Manufactured Housing Institute is a trade association representing all facets of the manufactured housing industry, i.e. manufacturers, retailers, park owners, suppliers, financial institutions, insurance companies, service companies and transport companies.

KMHI supports House Bill 2406 which allows for the continuance of the present 21% maximum interest rate under the Uniform Consumer Credit Code. Since interest rates are set by market conditions, as well as competition within the marketplace we feel that the 21% interest rate cap allows enough flexibility for manufactured home retail lending to be available.

In 1981 when the prime rate was very high loans on manufactured housing reached highs of 18% a.p.r. In 1983, as the national prime began to come down manufactured home loans were available at 15 and 16% a.p.r. By December of 1984 due to decreasing prime rates manufactured home loans were available to customers at 13.50% a.p.r. Today manufactured home loans are available at 12% a.p.r.

As you can see the prime rate basically controls the retail loan rate to customers therefore, we suggest the continuance of the 21% interest rate maximum to cover those times when interest rates might move up again. KMHI respectfully requests the passage of House Bill 2406. Thank you.

ATCH V

TESTIMONY IN SUPPORT OF

HB 2396, CREDIT UNION INVESTMENT AUTHORITY

BY

THE KANSAS CREDIT UNION LEAGUE

TO

THE HOUSE COMMITTEE ON

COMMERCIAL AND FINANCIAL INSTITUTIONS

February 25, 1987

ATC. I

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE,

BACKGROUND. My name is Jim Holt. I am the retained consultant for the Kansas Credit Union League and Affiliates. The League represents approximately 200 member credit unions. This request is a result of a joint forum where members of all credit unions are invited to participate. At this meeting a consensus of needs in the governmental area is achieved. The resulting proposed changes, if any, are submitted to the appropriate governmental agency or the legislature for action. Copies of these proposals have been reviewed by our legal counsel for technical correctness and by the state credit union administrator for any potential conflicts in policy positions.

The changes proposed in HB 2396 may be correctly characterized as an attempt to let state chartered credit unions achieve parity with their federal counter parts in Kansas. Seven years ago, Congress and this legislature were besieged with requests to implement law that would encourage people to save. There was little the Kansas Legislature, could do. But Congress responded with the "All Savers Account." These accounts and IRA reforms that followed helped channel much needed dollars into liquidity short financial institutions. Today the credit unions in Kansas have the opposite problem. They have so much of their members money and so few requests to borrow that money, they are consistently searching for safe, liquid investments which will help them give the best return possible for the saver's dollar.

SECTION BY SECTION ANALYSIS. Section 1. Lines 30-32 Make it clear that the credit committee of a credit union may make loans to its members through loan officers they authorize.

Lines 33-34 make it clear that a credit union must maintain a comprehensive set of investments policies, set by the board of the credit union.

Liens 37-41 are deleted in favor of the language in lines 42-45. These changes simply allow a credit union to invest in shares of insured savings and loan institutions both inside and outside the state of Kansas. This provision would allow a credit union to seek the highest possible return upon its investment from insured S & Ls consistent with good investment policies rather than basing it limitation on artificial geographical boundaries. There is currently no such limitation on banks in which credit unions may invest funds. Federal credit unions have no such restriction.

Lines 46-48 expand investment opportunity to include any U.S. government security which is fully guaranteed as to principal and interest. This gives Kansas credit unions parity with federals.

Lines 49-54 are partially a reordering of the old language of 39-41, but more significantly the achievement of parity with the powers of federal credit unions in Kansas.

Lines 56-58 add a requirement of insurance for banks in which credit unions may invest.

Lines 75-79 allow state chartered credit unions the authority, consistent with that possessed by Federally chartered credit unions, to invest in other credit unions with limitations on the amount of the investment and an insurance requirement.

Lines 129-138 allow state chartered credit unions to buy loan packages which are currently being offered as a result of the insolvency of other financial institutions, usually by the insurer (FDIC, FSLIC, NCUSIF), at a substantial discount. The procedure here is to review the package offered, evaluate the potential loss potential of the package, figure in a profit margin and bid on their purchase at a large discount. Sometimes this discount may be as large as 90%. This change will help the insuring agencies to expedite their liquidation or merger of insolvent institutions and allow credit unions to collect normally a substantial profit from accounts that often simply have not had effective collection efforts applied. Currently federally chartered Kansas credit unions have authority to buy such loan from liquidating credit unions. Limitations are built in to assure that no credit union can enter into this activity without compliance with guidelines established by the administrator and to limit a credit union's participation in such activities to a relatively small portion of its total investments.

Lines 143-144 and 149-150 simply add restrictions on the procedure and standardize the language for limitations on the percentage any one credit union have invested in instruments of the farm credit system.

Lines 152-157 adds the requirement of written investment guidelines and standardizes the basis for limitation of such investments.

Lines 162-172 allow credit unions to invest in those investments which have the blessing of the administrator. The intent of this language is allow state chartered credit unions to have the same investment authority currently possessed by federal charters in Kansas without adding a lot of clumsy, technical language to the statute. Trying to understand the current authority granted by the federal act (attached as Exhibit I) is virtually impossible. Calls to NCUA, the federal credit union regulator, result in a reference to either their investment specialists or the legal department. Generally, answers from experts in these areas almost invariably are as difficult to understand as the law itself. They are quick to point out, however, which investments are prohibited. Generally, Kansas credit unions do not have investment specialists nor staff attorneys. The alternative sought here is to allow the administrator to define additional investments for state chartered credit unions based on his standards and consistent with the authority granted federal charters in the state. This is the current procedure for investments of central credit unions and has worked very well.

Lines 173-181 add the limitations currently imposed on federally chartered Kansas credit unions for investments. Basically it prohibits investment in securities which are speculative or are part of a fund which invest in such speculative securities. They also prohibit a credit union official or employee from benefiting personally from any investment they may make.

Lines 189-196 change the limitations on participation loans to be consistent with those placed on federally chartered credit unions. The 10% requirement is currently a part of the form approved by the administrator.

Lines 197-204 specifically authorized credit unions to join with the National Cooperative Bank in making loans to cooperatives. This is consistent with the cooperative nature of credit unions and would allow them to bring the expertise and funds of this National resource to Kansas.

SUMMARY. Mr. Chairman, this bill will allow state chartered credit unions to achieve parity with federally chartered credit unions in this state in the area of investments. I will be glad to try to answer any questions the committee has.

EXHIBIT I

Federal Credit Union Law

12 USC 1757(7)(E - F) & (15)

(7) To invest its funds ~~(A) in loans exclusively~~

~~surance Corporation~~; (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit banks, Federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 846 of Title 31 as a wholly owned Government corporation; or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association or the Government National Mortgage Association; or in mortgages, obligations, or other securities which are or ever have been sold by the Federal Home Loan Mortgage Corporation pursuant to Section 305 or Section 306 of the Federal Home Loan Mortgage Corporation Act; or in obligations or other instruments or securities of the Student Loan Marketing Association; or in obligations, participations, securities, or other instruments of, or issued by, or fully guaranteed as to principal and interest by any other agency of the United States and a Federal credit union may issue and sell securities which are guaranteed pursuant to section 306(g) of the National Housing Act; (F) in participation certificates evidencing beneficial interest in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee; ~~(G) in shares or~~

(15) to invest in securities that—(A) are offered and sold pursuant to section 4(5) of the Securities Act of 1933 (15 U.S.C. 77d(5)); or (B) are mortgage related securities (as that term is defined in section 3(a)(41) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(41))), subject to such regulations as the Board may prescribe, including regulations prescribing the minimum size of the issue (at the time of initial distribution) or minimum aggregate sales prices, or both;

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H.B. 2396, Sec 2., Lines 162 -172

(c) Subject to written guidelines issued by the administrator, a credit union may invest its funds, through its board of directors and under written investment policies established by the board, in investment securities defined by the administrator. Except for obligations of wholly owned government corporations, or obligations which provide a return of principal and interest which is guaranteed by an agency of the federal government, the total amount of such investment securities of any one obligor or maker held by the credit union shall at no time exceed 15% of the shares, undivided earnings and reserves of the credit union.