

Approved March 18, 1987
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:00 a.m./~~p.m.~~ on March 17, 1987 in room 529-S of the Capitol.

All members were present except:

Sen. Reilly - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bill Edds, Revisor of Statutes

Conferees appearing before the committee:

Jim Holt, Kansas Credit Union League

The meeting began with a review by staff of House bills in committee which are as follows:

- HB 2090 - regarding medicare supplemental policies.
- HB 2093 - requested by the KBA and concerning debit cards issued by financial institutions.
- HB 2111 - concerning quality care examinations of health maintenance organizations.
- HB 2112 - requested by the Insurance Department, regarding unfair trade practices act.
- HB 2113 - dealing with group life insurance requirements.
- HB 2123 - dealing with deposits life insurance companies must make with the Insurance Commissioner.
- HB 2128 - similar to SB 133 which was passed out by the committee and dealing with group credit life insurance.
- HB 2129 - relates to risk retention groups and would reconcile state and federal statutes.
- HB 2147 - no fault changes for this year; changes the various monetary thresholds; the general benefit was taken out by the House; verbal threshold remains the same.
- HB 2157 - new law for savings and loan associations; allows state chartered to branch in another state and would be reciprocal for other states.
- HB 2164 - amends one section of the UCCC, 16a-2-401a; changes the reference base index year.
- HB 2167 - by the Joint Committee on Administrative Rules and Regulations; originally it was a clean-up bill.
- HB 2208 - relating to financial institutions' taxable year; recommended by the Department of Revenue a year or two ago.
- HB 2256 - amends one section of the UCC dealing with security interest statements.
- HB 2319 - creates a new law for money orders.
- HB 2355 - incorporates an existing Minnesota statute concerning disclosure of information relating to home loans.
- HB 2390 - new law for savings and loan associations; puts in statutes an order already issued by the Savings and Loan Commissioner; a state statute for what federally chartered are presently authorized.
- HB 2396 - credit union powers (to be heard at this meeting).
- HB 2403 - a school bill allowing purchase of insurance for drivers training.
- HB 2404 - creates a nonprofit corporation for pharmacies similar to Kansas Dental Plan.
- HB 2406 - concerns four sections of the UCCC; relates to finance charges and makes permanent the thirty day notice provision for change in interest rate.
- HB 2407 - gives the Credit Union Administrator regulatory powers; reconciles with existing authority other commissioners have had for years.
- HB 2408 - a clean-up bill recommended by the bankers; addresses the issues of capital requirements on sale of stock; combines in one section what previously had been in two sections; originally was to reconcile definitions with federal statutes which resulted in the stricken language.
- HB 2418 - health care providers insurance coverage for medical malpractice liability.
- HB 2455 - conversion of mutual insurance companies to stock companies; relates to value of stock for conversion purposes.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:00 ~~a.m.~~^{xxxx} ~~p.m.~~ on March 17, 19 87

- HB 2456 - amending the investment statutes regulating insurance companies; to change coverage requirements for the acquisition and holding of investments.
- HB 2460 - changes the way the insurance can be held for insurance companies owning stock in holding corporations.
- HB 2484 - Blue Cross-Blue Shield, relating to mandatory conversion and continuation provisions to group members.
- HB 2503 - creates a new statute for property and casualty companies; prohibits inclusion of defense and litigation costs in the insurance policy; requested by the Kansas Bar Association.

The minutes of March 5 were approved.

The hearing began on HB 2396 dealing with certain powers of credit unions with the testimony of Jim Holt, Kansas Credit Union League. (See Attachment I.)

Sen. Strick asked if by "investing" Mr. Holt meant purchases of savings and loans out of state. Mr. Holt answered that he had not meant the purchase of the whole organization, just the savings. Sen. Karr asked if the National Coop Bank is part of the Farm Credit System. Mr. Holt answered that it is not just for farmers and added that it helps bring in money from the National Coop Bank to credit unions--it puts a national organization in touch with local needs. This concluded the hearing on HB 2396.

Sen. Werts asked with regard to line 166 what is meant by "wholly owned government organizations". Mr. Holt said this has been defined by the federal government and includes such as SALLY MAE and others owned by the federal government. Sen. Werts asked if this would provide that credit unions could make unlimited investments in the corporations, and Mr. Holt agreed that it would.

Sen. Strick made a motion to report HB 2396 favorably, Sen. Kerr seconded, and the motion carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3-12	Jim Miller	Topeka	KBA
	Dick Brock	"	Ins Dept
"	LARRY MAGILL	"	I.I.A.K.
"	Joel Wight	Topeka	KCUK
"	Jim Holt	"	KeUL
"	Frances Kestner	"	KFDA
"	Sydney Van Calst	"	KLSI
"	Tom Todd	"	Ins. Dept.
	Richard Mason	"	KTCA
	Bob Archibald	✓	KTCA

TESTIMONY IN SUPPORT OF
HB 2396, CREDIT UNION INVESTMENT AUTHORITY

BY

THE KANSAS CREDIT UNION LEAGUE

TO

THE SENATE COMMITTEE ON
FINANCIAL INSTITUTIONS AND INSURANCE

March 17, 1987

Attachment I
Senate F I & I - 3/17/87

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.

The essence of the of HB 2396 is to allow credit unions, when member savings cannot be loaned, to have the same authority which federal credit unions have. As most of you know, K.S.A. 17-2204(3) requires credit unions to use any funds first for "loans to members" and that "preference shall be given to smaller loans in the event the available funds do not permit all loans . . . to be made". Obviously then, the provisions requested here can be used only when credit unions find themselves with a surplus of money to loan.

Also the only substantive additional authority which credit unions are requesting is the authority to invest in insured out of state savings and loan associations, in other credit unions which are not central credit unions, in investment securities approved by the administrator, in participation loans with the National Cooperative Bank and in loans to individuals originated by another financial institution (see Exhibit II). This last category is generally made up of loans made available at a discount from the insurer of an insolvent financial institution. Normally these loans have not had collection work for some time and can produce good income when considering that they can be purchased for as little as \$.10 on the dollar. While most of these changes could be available to credit unions under the conformity provisions of the credit union act, we believe this approach is much more straight forward and appropriate.

Attachment I
Senate F I & I - 3/17/87

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.

Lines 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 savings and loan associations consistent with good investment policies rather than basing its 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. For these reasons, I request that the committee vote HB 2396 out with the recommendation that it be passed. I will be glad to try to answer any questions the committee has.

Federal Credit Union Law

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

(7) To invest its funds ~~(A) in loans exclusively~~
~~insurance 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 corpora-
tion; or in obligations, participations, or other in-
struments 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 Mort-
gage Corporation pursuant to Section 305 or Sec-
tion 306 of the Federal Home Loan Mortgage Cor-
poration Act; or in obligations or other in-
struments or securities of the Student Loan
Marketing Association; or in obligations, partici-
pations, 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 sec-
tion 306(g) of the National Housing Act; (F) in par-
ticipation certificates evidencing beneficial in-
terest in obligations, or in the right to receive in-
terest 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 instrumen-
tality 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;

EXHIBIT I

Kansas Law & Proposed Changes

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

0162 (c) Subject to written guidelines issued by the administrator,
0163 a credit union may invest its funds; through its board of direc-
0164 tors and under written investment policies established by the
0165 board, in investment securities defined by the administrator.
0166 Except for obligations of wholly owned government corpora-
0167 tions, or obligations which provide a return of principal and
0168 interest which is guaranteed by an agency of the federal gov-
0169 ernment, the total amount of such investment securities of any
0170 one obligor or maker held by the credit union shall at no time
0171 exceed 15% of the shares, undivided earnings and reserves of the
0172 credit union.

Attachment I
Senate F I & I - 3/17/87

CREDIT UNION INVESTMENT AUTHORITIES

KSA 17-2204

KSA 17-2204(3).....Powers of credit unions

Unless the administrator authorizes otherwise, the funds of the credit union shall be used first for loans to members and preference shall be given to smaller loans in the event the available funds do not permit all loans which have been approved by a loan officer or have passed the credit committee to be made.

AUTHORIZED INVESTMENTS

KSA 17-2204(3) It may invest...

in a Central Credit Union (in Kansas),

in any Savings and Loan Association (with its principal office in Kansas),

in the Bonds of the United States, of any State or of any Municipality,

in Savings Banks,

in State Banks,

in Trust Companies,

in National Banks

KSA 17-2204(13)....may invest its funds...

in the Capital Stock of the National Credit Union Central Liquidity Facility.

KSA 17-2204a..... credit unions may invest....

in the Bonds, Debentures, or other similar obligations issued under the authority of and pursuant to the act of congress known as the Farm Credit Act of 1971.

in Capital Stock of a credit union services corporation

Changes proposed in HB 2396

ADDITIONAL INVESTMENT AUTHORITIES... credit unions may invest

KSA 17-2204(3)(b)...in any insured Savings and Loan or Mutual Savings Bank

KSA 17-2204(6).....in other Credit Unions

KSA 172204(14).....in loan packages from other financial institutions

KSA 17-2204a(a)....in Investment Securities defined by the administrator