

Approved *Clyde D. Graeber* 2/23/88
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 ~~am~~/p.m. on February 18, 1988 in room 527-S of the Capitol.

All members were present except: Clifford Campbell, Lee Hamm and Susan Roenbaugh,
Excused.

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

Conferees appearing before the committee: Jim Maag, Kansas Bankers Association
Charles M. Wiggins, Executive Vice President,
Bank IV, Wichita, Kansas
Jim Turner, President, Kansas League of
Savings Institutions

Chairman Graeber brought the meeting to order.

Jim Maag, Kansas Bankers Association, testified that H.B. 2800 was requested by the Kansas Bankers Association. H.B. 2800 is an act amending the uniform consumer credit code; concerning additional charges; amending K.S.A. 1987 Supp. 16a-2-501 and repealing the existing section.

The amendment would strike the words annual and payable in advance under section 1. (c).

Charles M. Wiggins, Executive Vice President, Bank IV, Wichita, testified this amendment is needed as this removes the specific charges. By eliminating a few words, issuers of credit cards located in the state of Kansas would be able to collect late charges, return check fees and other charges associated with delinquency that they are not allowed to collect today (See Attachment 1).

Jim Turner, Kansas League of Savings Institutions, testified for the bill.

After discussion, the Chairman closed the hearings and said there would not be any action taken today. Action will be taken on Tuesday, February 23.

The meeting adjourned at 4:45 P.M.

Date: Feb 18, 1988

GUEST REGISTER

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NAME	ORGANIZATION	ADDRESS
John Peterson		1206 W. 10th Topeka
James Hall	SECURITY BENEFIT GROUP INC.	700 HARRISON ST TOPEKA
Judy Stanger	C.C.C.	Topeka.
W. A. Morris	KLSI	"
Jim Turner	KLSI	Topeka
Tom Robinson	Beneficial	Jeff City Mo.
Stan Lind	Ks. Assn. of Fin. Services	KCKs.
Jimbleay	KFA	Topeka
Richard Shuck	Bank IV	Wichita
Charles Muggins	Bank IV, Wichita	Wichita, Ks
Nancy Steiner	Bank First Financial Corp.	Wichita, Ks.

TESTIMONY BY CHARLES M. WIGGINS
EXECUTIVE VICE PRESIDENT, BANK IV WICHITA, N.A.

ON

KANSAS HOUSE BILL NO. 2800
BEFORE THE KANSAS HOUSE COMMITTEE ON
COMMERCIAL AND FINANCIAL INSTITUTIONS

THURSDAY, FEBRUARY 18, 1988

First, thank you for allowing me to appear today to testify on behalf of House Bill No. 2800. I recognize that your job is to balance the public interest and the interest of individual organizations and industries like mine.

At first glance, the changes we are requesting on this bill seem like simple changes. We are eliminating a few words which would have the effect of allowing issuers of credit cards located in the state of Kansas to collect late charges, return check fees and other charges associated with delinquency that they are not allowed to collect today.

To summarize the status of the current law, we are allowed to charge interest on credit cards up to a maximum of 18% and in addition we are allowed an annual fee which is currently \$18.00. This bill would do no more than allow us to charge additional fees as described above. Although it is not required by law, all centers located in the state of Kansas allow a grace period of up to 25 days in which no interest is charged if the credit card bill is paid in full.

Atch #1

The credit card business began in the state of Kansas in the late 1960's, as it did in other parts of the country. We were the first organization to develop our own credit card issuing business and we were soon followed by other Kansas banks. The Kansas BankCard Center, which is owned by BANK IV Wichita, N.A., is one of five credit card issuing centers in the state of Kansas owned by banks. As of December 31, 1986, we had issued 152,361 accounts and had outstandings of over \$60MM. We had 134 employees working in our operation and had total operating expense of \$7.6MM. Our total payroll is over \$2MM and we purchased just under \$2MM in supplies and other services locally.

The First National Bank in Wichita and the Union National Bank in Wichita own operations of comparable size and scope to ours. Additionally, Commerce Bank and Trust in Topeka and Commercial National Bank in Kansas City own smaller operations. While exact data is difficult to obtain, we estimate that Kansas bank card centers employ about 400 people and are responsible for merchant sales of general goods and services exceeding \$1 billion.

For a few years in the early 1970's, the odds were very good that a resident of the state of Kansas would hold a credit card issued by one of the five credit card issuing banks in the state of Kansas. That is no longer true as we have seen our market position steadily erode to a point where the chances are two out of three that a card held by a Kansas resident is issued by an out of state bank. Why? Simply stated, the large centers owned by large money center banks have

utilized more liberal laws and intensive automation to extract a competitive advantage over centers like ours. I am sure that many of you do not have a week go by that you do not receive a solicitation from some out of state company offering you a credit card under what appears to be very favorable terms. Some are actually more favorable and some are not and all require careful examination before you sign on the dotted line.

Today about 33 states have very liberal credit card laws that allow the charging of interest with no limit; the collection of annual fees with no limit; and assessment of delinquency fees for which we are asking. This ability to operate under more liberal laws is very attractive to large credit card issuers and has resulted in a steady migration of credit card issuing centers from states with restrictive laws to states with more liberal laws. Earlier I mentioned that there were 33 states that had more liberal laws but the laws are particularly attractive in the states of Delaware, South Dakota and Georgia. Rather than operate under the restrictive laws of a given state, many banks have transferred their operations to one of these three states. For example, at first glance, you might think that the state of Missouri has a good credit card law (from the bank's point of view) because they are allowed to charge 22% interest. But upon closer examination, you will find that at the \$1,000 outstandings level the interest rate drops to 10%; and in addition, they are allowed no fees of any kind, including an annual fee. Consider the marketing challenge that a Missouri bank faces when trying to market a

22% card, even though there are no fees, against an 18% card with fees. It is a difficult marketing challenge. It might not surprise you to know that the card issuing centers of Missouri have migrated to other states and now issue cards to citizens of the state of Missouri from other states.

A word about interest rates. We have seen a lot of publicity recently about banks and other issuers of credit cards being greedy by not lowering credit card rates as their cost of funds came down. Seems like a reasonable question for one to ask. However, upon further examination, you will find that there are three primary ingredients to bank card income ... interest, merchant discount and annual fees. In our case, more than half of our customers take advantage of our free 25-day grace period to pay their balances in full each month; therefore, we do not earn the 18% you think we do on our average outstanding and in fact only earn about 12% on our average outstanding balances. Saying it another way, enough of our customers pay in full each month to take advantage of the 25-day grace period thereby paying no interest and that drives our average yield down to about 12%.

Further, to fully understand the credit card business, you must understand that operating costs, as opposed to a normal lending operation, are quite high. In addition to the heavy expense of credit losses on unsecured credit, it is very expensive to maintain a credit card operation. We maintain personnel (134 at the end of 1986) to issue cards, service merchants, collect payments and the like. If I

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could compare this to the normal consumer loan business and take average outstandings of let's say \$10MM, it would cost \$200M in operating expense to run the consumer loan business and \$800M, or four times as much, to run the credit card business.

A brief word about what is going on in the state of Iowa. It has been clear for many years that credit transactions conducted by mail can be governed by the laws of a state other than where the individual to whom the credit is extended lives. For example, loans have been made by mail for over 30 years in this country and the law has always held that if the transaction was not accepted by the extender of credit until the contract reached their office then it could be governed by the laws of that state. In the state of Iowa, the state has challenged the ability of an out of state credit card issuing center to export their credit card law to citizens of the state of Iowa. Think for a moment what will happen if that legal position prevails. If the extenders of credit card credit are not allowed to export their law into the state of Iowa, they will probably cease issuing credit cards to the citizens of the state of Iowa. Further, if the Iowa law remains bad or gets worse, then no bank in the state of Iowa will issue credit cards. Big deal! Who cares! The economy cares! I don't know any facts and figures about the state of Iowa, but I do know facts and figures about the state of Kansas which is similar in composition and population. If such a law prevailed in the state of Kansas, the result on the economy would be devastating. In 1986, credit card purchases accounted for the purchase of over \$1 billion in goods and services from businesses in the state of Kansas ranging from

restaurants to clothing stores, to department stores, to hundreds of other business. I believe that if the state of Iowa would seriously consider the consequences of such a restrictive approach to the extension of credit cards they would decide to adopt a different position.

Now let's turn back to House Bill No. 2800. The change that we are requesting would allow us to transfer certain costs of doing business with delinquent customers to those directly responsible and would allow us to be more competitive with out of state issuers of credit cards. Saying it another way, all 152,000 customers that hold our credit cards pay in a general way for those who are late. Please allow us to transfer that cost to those negligent few. In a given month, 5% to 10% of our customers become overdue ranging from a few days late to seriously overdue and we eventually charge off 2% to 3% of our outstandings each year. Most of our customers are hard working, honest working people who believe in paying their bills on time. Don't continue to make them pay for the indiscretions of a few delinquent customers. One might consider that granting us the ability to charge late charges and similar charges related to the delinquency would be subject to abuse. I would remind you that when we were allowed by law to charge 21% we did not charge 21% and kept our rate at 18%. The law has allowed us for many years to charge an annual fee in Kansas with no limit. We did not take advantage of that law and our fee is currently \$18.00 even though it could be much higher. The law we have in Kansas today does not require a grace period but we do have a 25-day, interest free, grace period. Why have we as an

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industry not charged higher interest when we could; higher annual fees; and not eliminated the grace period. The answer is easy and simple. Competition. We have three highly competitive bank card issuing centers in Kansas of equal size and scope that are very competitive. We do not see any reason why that healthy competition cannot continue and benefit the consumers of the state of Kansas.

We will make no promises at this committee meeting to lower rates and/or annual fees as after all that is subject to conditions at a given point in time and is a management decision. However, the favorable treatment of House Bill No. 2800 would transfer certain costs to those who deserve to pay those costs and would allow issuers located in the state of Kansas to be more creative and competitive, and I will predict the result will be more favorable terms for the consumers of the state of Kansas if this bill is enacted.

We have covered a lot ground in just a few minutes and I would be glad to answer any questions. Thank you for your time and any consideration you would give this bill.

BANK IV WICHITA, N.A.

December 31, 1986

	Consumer Loan Group	Kansas BankCard Center
Outstandings	\$137,218,517	\$ 60,332,533
Average Outstanding	120,937,374	55,313,033
# of Accounts	26,839	152,361
# of Employees	40	134
\$ Charge Off	135,129	1,905,520
% Charge Off of Average Outstandings	.11%	3.44%
Operating Expense	2,530,596	7,577,906
Cost of Funds	8,590,000	3,915,369

ECONOMIC IMPACT ON WICHITA WITH
KANSAS BANKCARD'S RELOCATION

Salaries to KBC Employees	\$2,000,000+
Supplies	
Hardware/Software	
Equipment	
Maintenance	
Mail/Postage	
Advertising	<u>1,800,000+</u>
Total Impact	\$3,800,000

BANK IV WICHITA, N.A.

KANSAS BANKCARD CENTER
CREDIT CARD STATISTICS
12/31/86

Outstandings	\$ 60,332,533
Number of Accounts	152,361
Number of Active Accounts	112,235
Number of Merchants	7,829
Number of Financial Institutions	289
Cardholder Sales	\$162,527,354
Number of Cardholder Sales	3,810,362
Number of Cardholder Authorizations	392,850
Average Sale	\$ 42.65
Cardholders Paying Balance in Full (Pay-in-Full Cardholders generate 70-80% of all Sales)	48-55%
Merchant Sales	\$158,309,936
Number of Merchant Sales	4,120,911
Average Sale	\$ 38.42
Number of Merchant Authorizations (Voice)	537,750
Number of Merchant Authorizations (P.O.S.)	1,101,100
Number of Employees	134
Total Charge Off Expense 1986	\$ 1,905,520
Average Outstandings 1986	\$ 55,313,033
Charge Off as Percentage of Average Outstandings	3.44%