

Approved February 18, 1988  
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./~~pm~~ on February 17, 1988 in room 529-S of the Capitol.

All members were present except:

Sen. Harder - Excused

Committee staff present:

Bill Wolff, Legislative Research  
Myrta Anderson, Legislative Research  
Bill Edds, Revisor of Statutes

Conferees appearing before the committee:

Pete McGill, Kansas Independent Bankers  
Bud Grant, Kansas Chamber of Commerce and industry  
Terry Humphrey, Kansas Manufactured Housing Association  
Stan Lind, Kansas Association of Financial Services  
Jim Maag, Kansas Bankers Association  
Joe Morris, Kansas League of Savings Institutions

The minutes of February 12 were approved.

Pete McGill, Kansas Independent Bankers, requested the introduction of a bill. (See Attachment I.) The bill concerns the bankers' bank which does not serve the public but rather other banks. The bill would permit bankers' banks to seek a state or a federal charter. At present, they are limited to a federal charter. The bill also allows state banks to invest in a bankers' bank.

Sen. Kerr made a motion to introduce the bill and refer it back to committee, Sen. Karr seconded, and the motion carried.

The hearing began on SB 507 which amends the uniform consumer credit code. Bud Grant, Kansas Chamber of Commerce and Industry, was first to testify. (See Attachment II.) With reference to Mr. Grant's testimony recalling that SB 415 was vetoed last year, Sen. Karr asked if he felt this situation will develop again. Mr. Grant answered that this is difficult to answer because although he feels the House would approve it, he had also felt that way last year.

Terry Humphrey, Kansas Manufactured Housing Association, testified next in support of SB 507. (See Attachment III.) Sen. Karr asked if there would be an alternative rate if no action is taken this year, and Ms. Humphrey said there would not be because of the sunset. Sen. Warren asked why she had requested an allowance for an alternate interest rate of 18%. Ms. Humphrey said it was requested not because it is especially needed but because they want a ceiling so that the sale of manufactured homes can continue in the future.

Next to testify in support of the bill was Stan Lind of the Kansas Association of Financial Services. (See Attachment IV.) With reference to Mr. Lind's testimony, the Chairman asked what is taken in consideration in determining the cost per account per month. Mr. Lind answered that it includes all expenses. The Chairman asked if the cost is less in an office with a high number of accounts as compared with one with a low number of accounts. Mr. Lind said it depends on how the accounts are handled and that his figures are an average of all licensed lenders. With reference to Mr. Lind's charts, Sen. Gannon asked if there would be an improvement shown if there had been figures available for 1987. Mr. Lind answered that there would have been. Mr. Lind then answered questions from Sen. Strick concerning the 3% origination fee. With reference to Mr. Lind's chart on loans under \$5000, Sen. Kerr asked if over the 11 year period the demand for loans under \$5000 was steady. Mr. Lind replied that inflation has played an important part in this as it has in everything else. Chart four reflects inflation and shows

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,  
room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on February 17, 1988

the sum total of all factors causing costs to go up. Sen. Reilly asked if the Governor had been contacted by Mr. Lind's group to see if he would approve. Mr. Lind said the Governor had not been contacted but he feels that, generally speaking, the Governor's attitude is that whatever the legislature deems to be the right thing on the basis of impartiality, he has no problem with it. The Governor vetoed it last year because the bill had not been submitted to the complete legislative process.

Jim Maag, Kansas Bankers Association, followed with testimony in support of SB 507 with the suggested amendments. (See Attachment V.)

Final testimony in support of the bill was given by Joe Morris of the Kansas League of Savings Institutions. (See Attachment VI.)

Judy Stringer, Consumer Credit Commissioner, stood to remind the committee that the 3% origination fee is moving from one section of the statutes to another and that she will be speaking on this during the hearing tomorrow on SB 552.

The Chairman said that, hopefully, the committee would be able to discuss both SB 507 and 552 on Friday as well as other bills. The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS  
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
2/17	M. Haaver	Topeka	Cap-Jury
"	BOB GRANT	"	KCC
	Jim Turner	Topeka	KLST
2/17	"Caj" Charles S. Meyer	Phillipsburg	KIBF
	<del>John Beckler</del>	<del>Windsor</del>	KBA
	Bob in Dallas	Phillipsburg	KIBA
	Julie Nelson	Topeka	KLST
	Amy Apity	Topeka	KMHA
	Terry Humphrey	"	KMHA
	Oris P. Lawton	Topeka	KBA
	Stan Lind	KCKs.	Ks. Assn. of Fin. Services
	Rod Taylor	Topeka	KMHA
	Ron Clarke	St Louis	Household cent'l
	Tom Robinson	Jeff City mo	Beneficial
	Mel Ball	Topeka	Consumer Credit
	Jul Wright	Topeka	Ks Credit Union League
	Bob Andersen	TOPEKA	CONSUMER CREDIT COUNCIL
	Judy Stunzger	"	CCC

## SENATE BILL NO. \_\_\_\_\_

By Committee on Financial Institutions and Insurance

AN ACT relating to banks and banking; concerning authority of banks with respect to the acquisition of stock in bankers' banks and certain bank holding companies; amending K.S.A. 1987 Supp. 9-1101 and repealing the existing section.

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

Section 1. K.S.A. 1987 Supp. 9-1101 is hereby amended to read as follows: 9-1101. Any bank hereby is authorized to exercise by its board of directors or duly authorized officers or agents, subject to law, all such powers, including incidental powers, as shall be necessary to carry on the business of banking, and:

(1) To receive deposits and to pay interest thereon at rates which need not be uniform. The state bank commissioner, with approval of the state banking board, may by regulations of general application fix maximum rates of interest to be paid on deposit accounts other than accounts for public moneys;

(2) to buy and sell exchange, gold, silver, foreign coin, bullion, commercial paper, bills of exchange, notes and bonds;

(3) to buy and sell bonds, securities, or other evidences of indebtedness of the United States of America or those fully guaranteed, directly or indirectly, by it, and general obligation bonds of the state of Kansas or any municipality or quasi-municipality thereof, and of other states, and of municipalities or quasi-municipalities in other states of the United States of America. No bank shall invest an amount in excess of 15% of its capital stock paid in and unimpaired and the unimpaired surplus fund of such bank in bonds, securities or other evidences of indebtedness of any municipality or quasi-municipality of any other state or states of the United

Attachment I

States of America: (a) If and when the direct and overlapping indebtedness of such municipality or quasi-municipality is in excess of 10% of its assessed valuation, excluding therefrom all valuations on intangibles and homestead exemption valuation; (b) or if any bond, security, or evidence of indebtedness of any such municipality or quasi-municipality has been in default in the payment of principal or interest within 10 years prior to the time that any bank acquires any such bonds, security or evidence of indebtedness;

(4) to make all types of loans, including loans on real estate, subject to the loan limitations contained in this act. Every real estate loan shall be secured by a mortgage or other instrument constituting a lien, or the full equivalent thereof, upon the real estate securing the loan, according to any lawful or well recognized practice, which is best suited to the transaction. The mortgage may secure future advances. The lien of such mortgage shall attach upon its execution and have priority from time of recording as to all advances made thereunder until such mortgage is released of record. The lien of such mortgage shall not exceed at any one time the maximum amount stated in the mortgage;

(5) to discount and negotiate bills of exchange, negotiable notes and notes not negotiable;

(6) to buy and sell investment securities which are evidences of indebtedness. The buying and selling of investment securities shall be limited to buying and selling without recourse marketable obligations evidencing indebtedness of any person, copartnership, association, corporation, or state or federal agency, including revenue bonds issued pursuant to K.S.A. 76-6a15, and amendments thereto, or the state armory board in the form of bonds, notes or debentures or both, commonly known as investment securities, under such further definition of the term "investment securities" as prescribed by the board, but the total amount of such investment securities of any one obligor or maker held by such bank shall at no time exceed 15% of the capital

stock paid in and unimpaired and the unimpaired surplus fund of such bank except that this limit shall not apply to obligations of the United States government or any agency thereof. If the obligor is a state agency including any agency issuing revenue bonds pursuant to K.S.A. 76-6a15, and amendments thereto, or the state armory board, the total amount of such investment securities shall at no time exceed 25% of the capital stock paid in and unimpaired and the unimpaired surplus fund of such bank;

(7) to subscribe to, buy and own such stock of the federal national mortgage association as required by title 3, section 303 of the federal act known as the national housing act as amended by section 201 of public law No. 560, of the United States (68 Stat. 613-615), known as the housing act of 1954, or amendments thereto;

(8) to subscribe to, buy and own stock in one or more small business investment companies in Kansas as otherwise authorized by federal law, except that in no event shall any bank acquire shares in any small business investment company if, upon the making of that acquisition the aggregate amount of shares in small business investment companies then held by the bank would exceed 5% of its capital and surplus. Nothing in this act contained shall prohibit any bank from holding and disposing of such real estate and other property as it may acquire in the collection of its assets;

(9) to subscribe to, buy and own stock in any agricultural credit corporation or livestock loan company, or its affiliate, organized pursuant to the provisions of the laws of the United States providing for the information and operation of agricultural credit corporations and livestock loan companies, in an amount not exceeding either the undivided profits or 10% of the capital stock and surplus and undivided profits from such bank, whichever is greater;

(10) to become the owner or lessor of personal property acquired upon the specific request and for the use of a customer, and may incur such additional obligations as may be incident to

becoming an owner or lessor of such property. Any bank which claims a credit against its privilege tax of any amount of ad valorem taxes on property acquired pursuant to this subsection shall not be designated as a depository for any state funds by the pooled money investment board. Lease transactions shall not result in obligations for the purpose of determining limitations or restrictions on the amount of loans. Lease payments on such transactions shall be considered rents and not interest;

(11) to subscribe to, buy and own stock in minbanc capital corporation, a company formed for the purpose of providing capital to minority-owned banks. No bank's investment in such stock shall exceed 2% of its capital and surplus;

(12) to buy, hold, and sell any type of investment securities not enumerated in this section with approval of the commissioner and upon such conditions and under such regulations as are prescribed by the state banking board;

(13) to act as escrow agent;

(14) to subscribe to, acquire, hold and dispose of stock of a corporation having as its purpose the acquisition, holding and disposition of loans secured by real estate mortgages, and to acquire, hold and dispose of the debentures and capital notes of such corporation. No bank's investment in such stock, debentures and capital notes shall exceed 2% of its capital stock, surplus and undivided profits and such investment shall be carried on the books of the bank as directed by the commissioner;

(15) to purchase and sell securities and stock without recourse solely upon the order, and for the account, of customers;

(16) to subscribe to, acquire, hold and dispose of any class of stock, debentures and capital notes of MABSCO agricultural services, inc. or any similar corporation having as its purpose the acquisition, holding and disposition of agricultural loans originated by Kansas banks. No bank's investment in such stock, debentures and capital notes shall exceed 2% of its capital stock, surplus and undivided profits.

Such investment shall be carried on the books of the bank as directed by the commissioner;

(17) to buy, hold and sell mortgages, stock, obligations and other securities which are issued or guaranteed by the federal home loan mortgage corporation under sections 305 and 306 of the federal act known as the federal home loan mortgage corporation act (P.L. 91-351);

(18) to buy, hold and sell obligations or other instruments or securities, including stock, issued or guaranteed by the student loan marketing association created by (P.L. 92-318) of the United States;

(19) to engage in financial future contracts on United States government and agency securities subject to such rules and regulations as the state bank commissioner may prescribe pursuant to K.S.A. 9-1713, and amendments thereto, to promote safe and sound banking practices;

(20) to subscribe to, buy and own stock in a state or federally chartered bankers' bank chartered---pursuant---to subsection--(b)--of--12--U.S.C.--27 or a one bank holding company which owns or controls such a bankers' bank, except no bank's investment in such stock shall exceed 10% of its capital stock, surplus and undivided profits;

(21) subject to such rules and regulations as the state bank commissioner may adopt pursuant to K.S.A. 9-1713, and amendments thereto, to promote safe and sound banking practices, upon recorded prior approval by the board of directors of the initial investment in a specific company and pursuant to an investment policy approved by the board of directors which specifically provides for such investments to buy, hold and sell shares of an open-end investment company registered with the federal securities and exchange commission under the federal investment company act of 1940 and the federal securities act of 1933 and of a privately offered company sponsored by an affiliated commercial bank, the shares of which are purchased and sold at par and the assets of which consist solely of securities



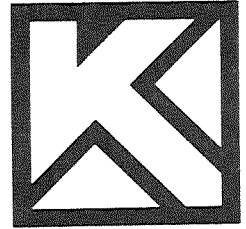
which may be purchased by the bank for its own account. Such shares may be purchased without limit if the assets of the company consist solely of and are limited to obligations that are eligible for purchase by the bank without limit. If the assets of the company include securities which may be purchased by the bank subject to limitation, such shares may be purchased subject to the limitation applicable to purchase by the bank of such securities.

Sec. 2. K.S.A. 1987 Supp. 9-1101 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

# 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

SB 507

February 17, 1988

### KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Financial Institutions and Insurance

by

Bud Grant  
Vice President

Mr. Chairman and members of the committee. My name is Bud Grant, vice president of the Kansas Chamber of Commerce and Industry and I appreciate the opportunity of appearing before the committee today in support of SB 507.

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.

The committee has before it today several expert witnesses to visit with you about various portions of SB 507, and with that in mind, I will limit my comments to that

*Attachment II*

section dealing with closed-end credit sales and the proposed changes to finance charges which are allowed.

You will recall that during the 1987 session of the Kansas Legislature, I appeared before you in support of SB 415, which would have extended for an additional three years the alternative 21% finance charge rate available to retailers for open and closed-end credit sales. As I am sure you also remember the governor vetoed SB 415.

We now find ourselves discussing SB 507 which speaks to those same areas of concern which were addressed by SB 415. As a matter of basic economics, experience has shown that price controls stifle competition, hurts 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 and one in 1987 by the federal trade commission, have shown that when the legislature put a lid on finance charge rates consumers can be affected adversely.

These reactions can include tightening credit standards for new card applications, increasing the cost of goods, shortening the grace period, acquiring minimum payments, imposing late charges, per transaction charges, over the limit charges, application processing charges, and so on to replace the loss of finance charge revenue. Finally, rate ceiling 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.

The rates which are shown in SB 507 are obviously less than those which you supported last year in SB 415. The retail community would still favor those rates. However, we are hopeful that the rates which are being suggested in this bill represent a compromise position which may allow the legislature to set this issue aside once and for all. I do request Mr. Chairman, that the bill be amended

to extend the interest rates under consideration to open-end credit as well as closed-end. Rates have traditionally been the same for these two areas of retail credit since the adoption of the UCCC, and we request that the legislature continue with this policy.

I urge your support SB 507 and would be pleased to attempt to answer any questions.

Request the SB 507 be amended by adding a new Section 2, as follows, and renumbering the remaining sections:

Section 2, K.S.A. 1987 Supp. 16a-2-202 is hereby amended to read as follows:

(1) No change

(2) No change

(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 \$1,000 or less and ~~1.50% on that part of this amount which is more than \$300 but not more than \$1,000~~ 1.20% on that part of this amount which is more than \$1,000. 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) No change

(5) As an alternative to the rates set forth in subsection (3), ~~during the period beginning on the effective date of this set and end July 1, 1987,~~ the parties to the sale may contract for and the seller may receive a finance charge not exceeding ~~21%~~ 18% per year on the amount determined pursuant to subsection (2).

KANSAS MANUFACTURED HOUSING ASSOCIATION

TESTIMONY BEFORE THE

SENATE

FINANCIAL INSTITUTIONS AND INSURANCE

COMMITTEE

TO: Senator Neil Arasmith, Chairman  
and Members of the Committee

FROM: Terry Humphrey, Executive Director  
Kansas Manufactured Housing Association

DATE: February 17, 1988

Mr. Chairman and members of the committee, I am Terry Humphrey, representing the Kansas Manufactured Housing Association and we are appearing today in support of Senate Bill 507.

We support the provisions of Senate Bill 507 that allow for an alternate interest rate of 18% in retail lending. Since interest rates are set by market conditions, as well as competition within the market place, we feel that this interest rate ceiling allows enough flexibility for home lending to be available in times of inflation.

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 rate declined, manufactured home loans were available at 15 and 16% a.p.r.. In subsequent years, interest rates continued to drop even lower. Today, manufactured home loans are available at 13% conventional fixed rate. However, in the past 12 months there have been major fluctuations in loan rates, with a high of 15.50% in May.

This past July, manufactured home lending became more complex when the alternate rate of 21% sunset, and the interest ceiling dropped to 14.45%. In October, a volatile economy forced interest rates to the ceiling and manufactured home loans were available at 14.45% plus two points. In this situation, the manufactured home dealers paid the points in order to have financing for their customers.

In closing, it is our belief that the prime rate controls loan rates and that the usury ceiling must be set so lending can continue during times of inflation. Additional rationale for adopting the 18% alternate rate for retail lending, is that this is the same lending rate permitted for supervised and licensed lenders now.

KMHA respectfully requests your support of Senate Bill 507. Thank you.

REMARKS PERTAINING TO S.B. 507 BEFORE  
THE SENATE COMMERCIAL AND FINANCIAL INSTITUTIONS  
COMMITTEE ON FEBRUARY 17, 1988

By Stanley L. Lind, Counsel & Secretary  
Kansas Assn. of Financial Services

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Mr. Chairman and Members of the Committee:

The Kansas Assn. of Financial Services, the state trade association of consumer finance companies in Kansas, endorses S.B. 507 and urges the committee to recommend it for passage.

Before addressing the specifics of S.B. 507, I would like to briefly review with the committee the general position of consumer finance companies operating in Kansas to give the committee an idea as to where we are coming from. I will do this by showing you the Net Profit consumer finance companies in Kansas have made when expressed as a percentage of the total Average Net Receivables. This is the generally accepted measuring stick used by the banking and finance industry.

Then I want to compare the Kansas figures with the national averages compiled by the First National Bank of Chicago - which is generally considered as the national standard.

Looking at Exhibit No. I, you will note a graph with the years 1975 thru 1986 listed at the bottom. Along the left side is seen a range of interest percentages between 1.00% to 4.00%. The black line shows this expression of interest of the Annual Net Profit of licensed lenders in Kansas as a percentage of the total Average Net Receivables of all licensed lenders.

Attachment IV



The black line goes from a high of 2.25% in 1976 to a low of minus .31 of 1% in 1981 -and- minus .22 of 1% in 1982. Since 1982, there has been a gradual climb to .99 of 1% in 1986.

Compare this to the blue line which shows the First National of Chicago averages to be:

°	98	basis	points	above	Kansas	in	1980
°	143	"	"	"	"	"	1981
°	227	"	"	"	"	"	1982
°	310	"	"	"	"	"	1983
°	301	"	"	"	"	"	1984
°	282	"	"	"	"	"	1985
°	275	"	"	"	"	"	1986

From this graph alone, it is apparent that consumer finance companies in Kansas are not doing well. Since almost 98% of the consumer finance assets in Kansas are furnished by out-of-state companies - it is obvious that these assets will flow to the state where they can expect the best return.

S.B. 507 contains provisions - that if enacted - would help improve the financial return to consumer finance companies -and- at the same time go a long way to induce lenders to service an area of consumer credit which is increasingly being over-looked. The specific provision I make reference to is the S.B. 507 amendment to permit a 3% origination fee on all consumer loans as found on page 5, subsection no. 2.

Presently, a 3% origination fee is authorized for loans secured by real estate. This proposal would make the 3% applicable to all loans regardless of collateral.

How can the Legislature justify such a charge? This is what I would like to discuss with the committee.

Please turn with me to Exhibit No. II. This graph shows the loans made by licensed lenders in an amount over \$5,000 as a percentage of the total dollar amount of loans made in the years 1975 thru 1986.

This graph shows a generally increasing percentage rise of loans over \$5,000 from a low of 25% in 1976 to a high of almost 60% in 1983. The 1986 figure is at 47%.

A look at Exhibit No. III shows the opposite of Exhibit No. II -that is- the percentage of the total loans made in dollars by licensed lenders for less than \$5,000. This goes from a high of 74% in 1976 to a low of 41% in 1983 to approximately 52% in 1986.

Obviously - the consumer finance companies are getting out of the "small loan" business - the consequence of which is that the borrowing public is increasingly having a difficult time to find loan credit under \$5,000.

While there are several reasons for this - one of these is the rate of return on loans below \$5,000 in Kansas. If you will turn to Exhibit No. IV, you will note a graph with the years 1975-1986 at the bottom and dollar amounts from \$10 thru \$60 on

the left side. This graph charts the rising cost per account per month for licensed lenders from 1975 thru 1986. This figure is obtained by totaling all expenses of licensed lenders and dividing that sum by the average number of loans held by these lenders. This graph shows a low of \$19.47 in 1975 to a high of \$52.40 in 1985 -and- \$50.64 in 1986.

Multiplying the cost per account per month of 1986 of \$50.64 by 12, we find that the break-even point for loans in Kansas is \$607.68.

Looking at a rate chart for present Kansas licensed lender loans, we find that a \$5,000 loan for 12 months will generate a finance charge of \$600.76 - just slightly less than the break-even point of \$607.68. This is the main reason that there is a decline of credit availability for loans of less than \$5,000.

A comparison that should be made between Exhibit No. II and IV -is - the overall similarity of the graph lines. As the cost per account per month went up - so did the total dollar amount of loans made over the sum of \$5,000. This is a graphic picture of the concept that capital will flow to the profitable loan and away from the unprofitable loan.

While I have spent all of my time thus far discussing loans under \$5,000 and the need for a greater inducement to lenders for loans under \$5,000, the question that can be asked -is- what is the justification for an origination fee on loans over \$5,000?

The answer to that question is found in one of the fundamental concepts of consumer lending -namely- that the borrower of the larger sums of credit helps to pay for the smaller loans which are unprofitable to the lender because of the insufficient rate. That has been an accepted principle and public policy from the very first small loan act in 1913.

The rates provided by Kansas law for loans over \$5,000 plus the competitive factor will not permit a higher compensating rate to be charged. It is submitted that the concept of the origination fee will be an answer to this. Interest rates -as such- would not be raised. The origination fee would be disclosed to the public thru the Annual Percentage Rate required by Truth-in-Lending. The increased profitability to the lender on loans over \$5,000 will permit greater liberality on loans under \$5,000.

What I have attempted to do - is to graphically present a problem area to the committee for its consideration. If the committee concludes that it is important to the state that the borrowing public have a source of consumer credit below \$5,000 - then it is obvious that the state will have to take such steps as will attract capital into this area of lending.

One of those steps is found in S.B. 507 - which would permit an origination fee of 3% on all loans regardless of collateral.

Percent Net Profit of Finance Charges to Total Average  
 Net Receivables of Kansas License Lenders for the Years 1975 to 1986

Black Line = Kansas Licensed Lenders

Blue Line = First National Bank of Chicago National Survey (1980-1986)

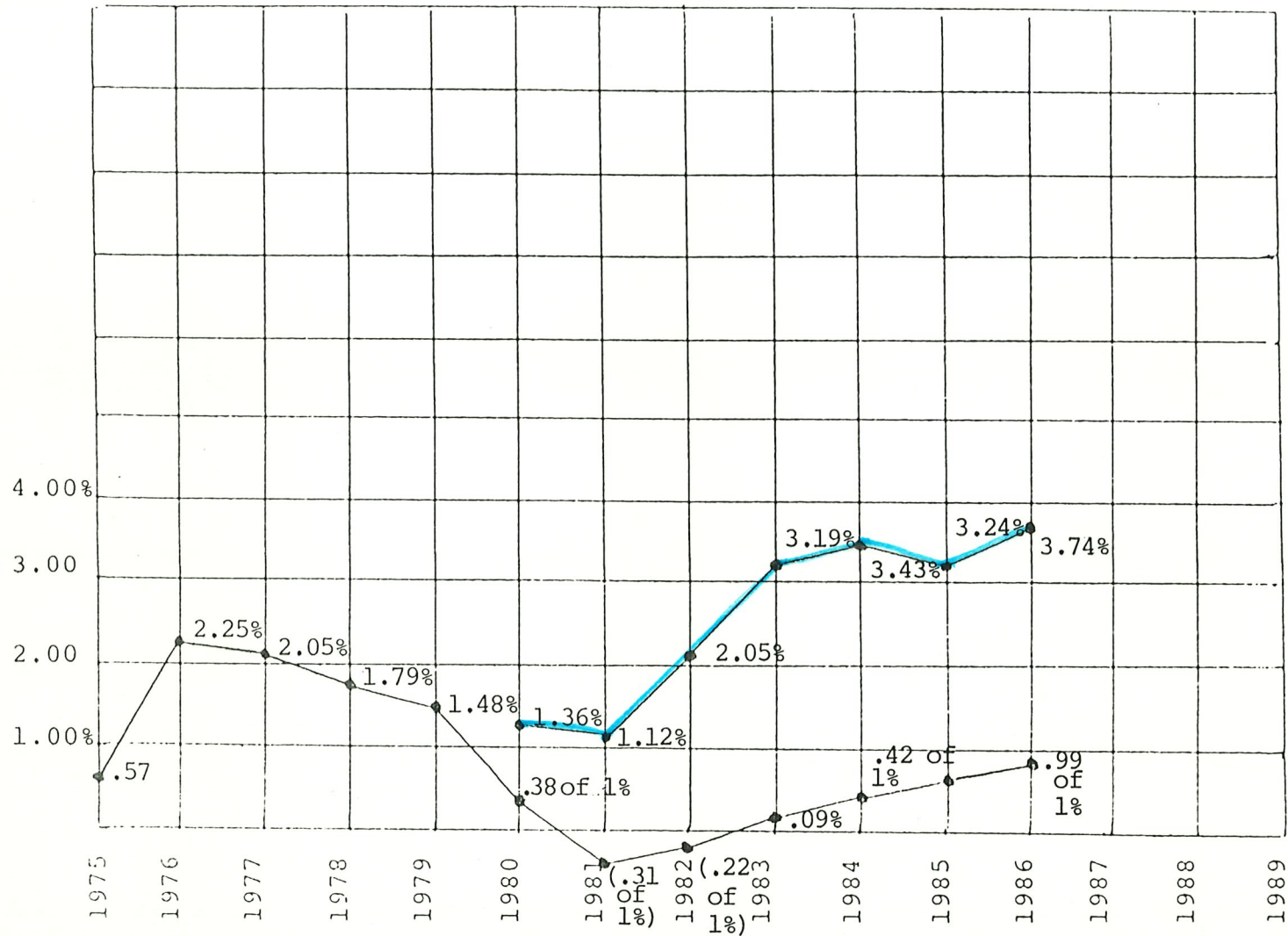


EXHIBIT NO. I

Loans Over \$5000 Made By Licensed Lenders As a Percentage  
of the Total Dollar Amount of Loans Made in 1975 thru 1986.

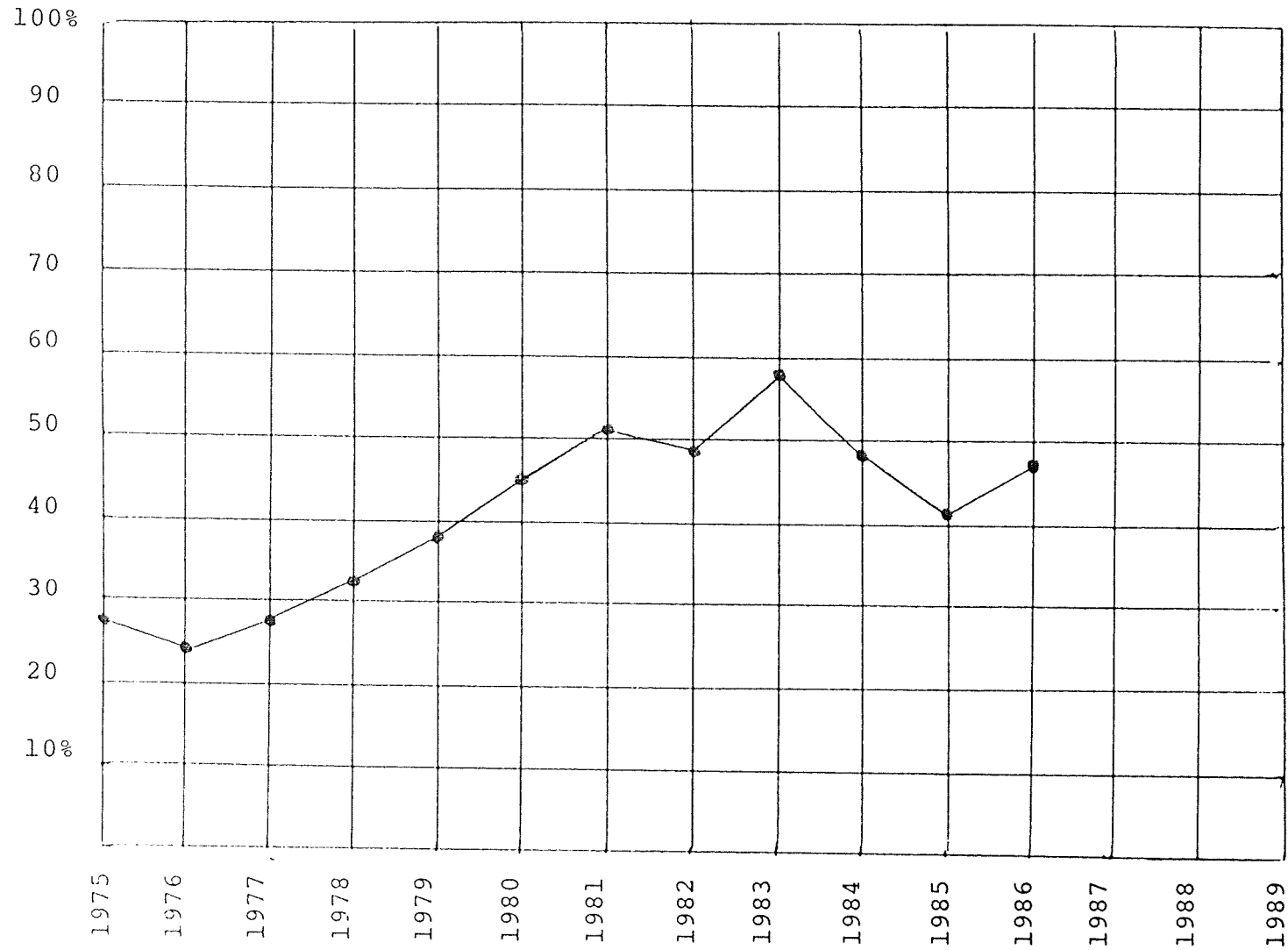


EXHIBIT NO. II

Loans Under \$5000 Made By Licensed Lenders As a Percentage  
of the Total Dollar Amount of Loans Made in 1975 thru 1986.

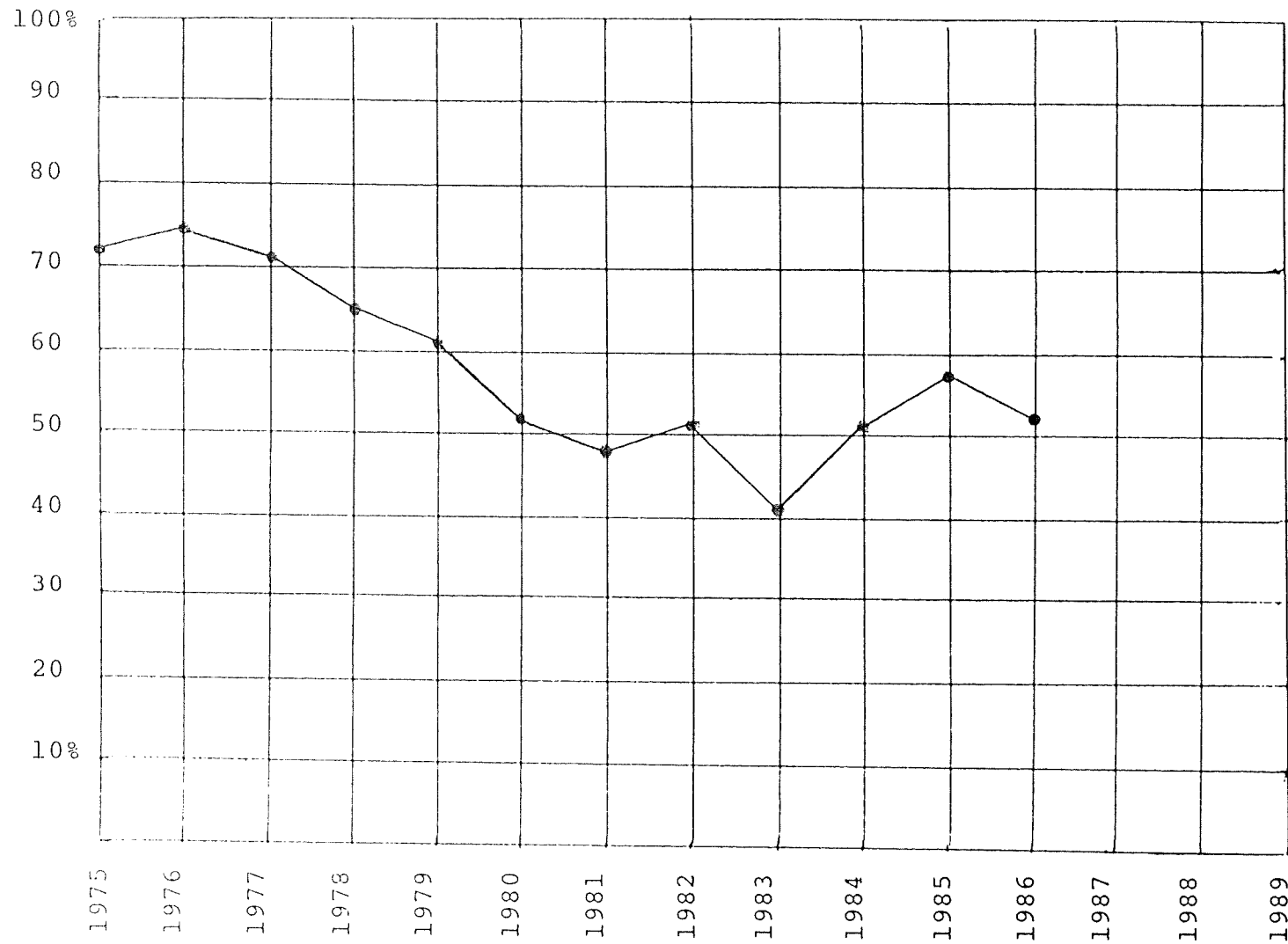


EXHIBIT NO. III

Cost Per Account Per Month to Handle Loans by Loan Licensees  
(1975 - 1986)

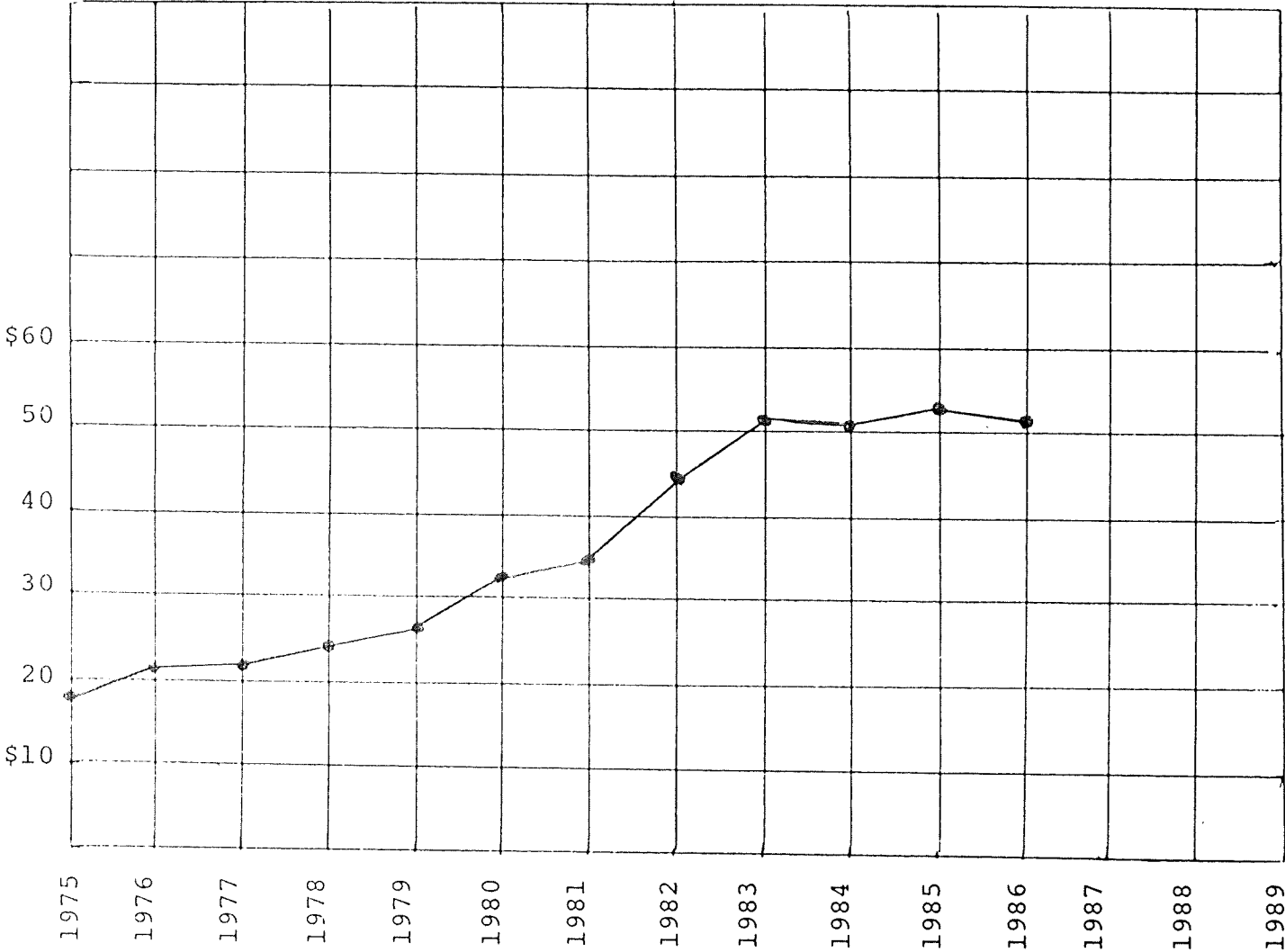
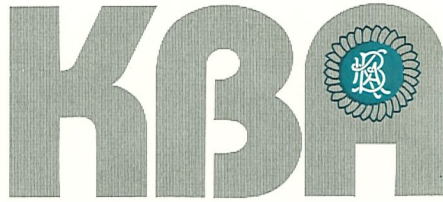


EXHIBIT NO. IV





The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

February 17, 1988

TO: Senate Committee on Financial Institutions and Insurance  
FROM: James S. Maag, Director of Research  
Kansas Bankers Association  
RE: SB 507 - Amendments to the Uniform Consumer Credit Code

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the committee in support of SB 507. This bill makes several significant amendments to the Uniform Consumer Credit Code and we would like to share with you the reasons why we believe these changes are necessary.

The proposed amendments in Section 1 to K.S.A. 16a-2-201 do not directly impact our industry, but we do believe these amendments create a more equitable finance charge structure for those involved in closed-end credit sales. Without these changes, any significant increase in inflation will make the extension of credit under the provisions of this section much more difficult.

We strongly endorse the proposed amendments to the Code in Sections 2 and 3 of the bill. First, since the origination fee currently allowed by the Code is in addition to the finance charge we believe it makes the Code easier to understand by removing the origination fee reference from K.S.A. 16a-2-401 and placing it in K.S.A. 16a-2-501 since that is the section dealing with other exceptions to the finance charge. Secondly, we believe the extension of the origination fee to all consumer loans - not just those secured by real estate - is a positive move toward greater credit availability. Currently many banks do not or are reluctant to make small loans because the finance charge alone is simply insufficient to cover the

costs of processing the loan. A functional cost analysis done by the Federal Reserve System in 1983 on the instalment loans made by 608 banks throughout the country showed that the cost to a bank for putting a loan on the books ranged from \$69 to \$92. Obviously that cost would be even higher today given the amount of inflation which as occurred in the past six years. The greater availability of a nonrefundable fee would be a strong incentive for creditors to seriously consider making smaller loans to a wider range of customers.

The amendment to K.S.A. 16a-2-502 contained in Section 4 of the bill is of particular interest to our industry. The maximum amount which a creditor may collect for a delinquency charge when a loan installment has not been paid within 10 days of the due date is \$2.50. This maximum charge has been part of the Code since its inception in 1974 and due to the sizeable amount of inflation which has occurred in the past 14 years it no longer constitutes a significant charge. In fact, given the average size of an installment loan today it gives the delinquent customer a better effective rate on the loan than customers making prompt payment.

Since creditors have no way of forcing the delinquent customer to bear a higher per cent of the burden for servicing the delinquency, it means those costs impact the other end of the loan process in the form of higher finance charges or fees which affect all customers - good and delinquent alike. We strongly believe it is time to update this section of the Code to more accurately reflect the inflation which has occurred.

Some committee members will recall the extensive interim study on the UCCC which was conducted in the summer of 1983. During the interim committee's deliberations one of the Commissioners for the Uniform Code, Professor Fred Miller of the University of Oklahoma, made the following comments to the committee about the delinquency charge section of the Kansas UCCC:

"Not only is the \$2.50 figure in 2-502 below the \$5 of the U3C but this figure is tied to the dollar adjustment section [of the U3C] and in Oklahoma, for example, it is now \$10.50. Given larger credit amounts, the limitation should be modernized.[emphasis added]"

The interim committee ultimately decided to increase the maximum delinquency charge from \$2.50 to \$10.00 and made that recommendation in SB 472 which was introduced during the 1983 legislative session.

While the current \$2.50 maximum charge applies only to precomputed consumer transactions we also believe the delinquency charge should be extended to all consumer transactions. The ability to apply the delinquency charge to a simple interest transaction would definitely place the burden of cost for servicing delinquent loans on the delinquent customer and could have a positive impact on the finance charge available to all customers. Again I would like to quote from Professor Miller's comments to the 1983 interim committee:

"Also the U3C provision was drawn looking only at yield. That is, a payment out longer in a precomputed transaction would lower yield unless an extra charge was allowed. To-day the most serious impact may be the extra cost involved with delinquency. Thus some thought might be given to allowing delinquency charges across the board."[emphasis added]

Therefore, we would request that the committee consider seriously extending the delinquency charge to all consumer credit transactions.

We appreciate your consideration of these important amendments to the Code and we strongly urge you to give favorable consideration to SB 507.

# KLSI Kansas League of Savings Institutions

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January 17, 1988

TO: SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE  
FROM: JOE A. MORRIS, KANSAS LEAGUE OF SAVINGS INSTITUTIONS  
RE: S.B. 507 (U.C.C.C. - CHARGES AND FEES)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the Senate Committee on Financial Institutions and Insurance in support of S.B. 507 which would alter charges and fees presently allowed on consumer credit transactions.

In particular, the Kansas League of Savings Institutions supports the changes in sections 3 and 4 of the proposal. The first change would allow a non-refundable origination fee of 3% of the amount financed on both real estate secured and unsecured loans by striking lines 151-154 and inserting the language found in lines 176-180. We feel this change will give lenders more flexibility in making unsecured loans -- flexibility that would compensate lenders for giving greater consideration to high risk loans, thereby expanding the opportunities available to consumers.

The second change eliminates the alternative \$2.50 delinquency charge and establishes a uniform delinquency charge of a maximum of 5% of the unpaid installment. This is accomplished by striking the language "or two dollars and fifty cents (\$2.50), whichever is less" in lines 208 and 209. This change is necessary to cover the added expenses of servicing a loan that is delinquent. The present \$2.50 penalty does not cover the added costs of phone calls, delinquency notices, postage, and lost personnel time used in dealing with delinquent accounts.

We would appreciate the committee's consideration of the need for these changes and would request that S.B. 507 be reported favorably for passage.

Joe A. Morris  
Legislative Assistant

JAM:bw

Attachments VI