Approved 3/22/89
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE.

The meeting was called to order by SENATOR RICHARD L. BOND at
Chairperson

9:00 a.m./~~p.m.~~ on MONDAY, MARCH 20, 1989 in room 529-S of the Capitol.

All members ~~were~~ present ~~except~~: Senators Bond, Salisbury, Strick, McClure, Karr, Kerr, Reilly, Yost and Moran.

Committee staff present:

Bill Wolff, Legislative Research
Bill Edds, Revisors Office
Myrta Anderson, Legislative Research
Louise Bobo, Committee Secretary

Conferees appearing before the committee:

Jim Maag, Kansas Bankers Association
Jerold Wright, Kansas Credit Union League

Chairman Bond called the meeting to order at 9:28 a.m.

HB 2522 - Jim Maag, Kansas Bankers Association appeared in support of this legislative proposal. This bill would amend K.S.A. 58-2309a and correct a problem which now exists relating to equity lines of credit. Mr. Maag explained that the present law apparently requires the creditor to release the mortgage each time the borrower reaches a zero credit balance and refile at the time of the next advance. HB 2522 would allow the creditor to leave the mortgage on file during a zero balance period. Mr. Maag advised the committee that the present law is beneficial to neither the borrower nor the creditor. (attachment 1)

There were no other conferees on HB 2522.

HB 2147 - Jerold Wright, Kansas Credit Union League, appeared before the committee in support of this bill which concerns the duties of the supervisory committee of the credit union and a member's expulsion from a credit union. Mr. Wright explained that section 1 of the bill would allow either a 100% certification at least once every two years or a controlled random statistical sampling certification at least once each year. Section 2 of this bill would give the Board of Directors the ability to expel a member if the Board has established a policy with respect to expulsion and if the member has violated the policy. Current law allows expulsion of a member only by the membership. Credit unions feel the Board of Directors needs the ability to expel a member. (attachment 2)

Discussion followed. A committee member inquired how often a member was expulsed. Mr. Wright admitted that did not happen very often but said this bill would give the Board additional leverage which it felt was needed. Mr. Wright explained that the House amendments were included because the House wanted to make sure that an employee's appeal could be brought before the membership at a called meeting.

Since there were no additional conferees, Chairman Bond announced the hearings closed.

Senator Salisbury made a motion that the committee pass out favorably HB 2147. Senator Reilly seconded the motion. The motion carried.

Senator Moran made a motion to pass HB 2522 out of committee favorably. This motion was seconded by Senator Salisbury and the motion carried.

Senator Reilly made a motion to pass HB 2382 out of committee favorably. Senator Karr seconded the motion. The motion carried.

Chairman Bond requested volunteers to carry the afore-mentioned bills. Senator Salisbury agreed to carry HB 2147. Senator Strick said that he would carry HB 2522 and Senator Reilly will carry HB 2382.

Chairman Bond adjourned the meeting at 9:45 a.m.

GUEST LIST

COMMITTEE: FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE DATE: Mon Mar 20

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Jerel Wright	KCUL Topeka	
Jim Maag	KBA "	
Joel J Lubin	Topeka	Ks Coop Council
Jeff Sonrah	TOPEKA	KLSI
Chuck Stones	"	KBA

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 20, 1989

TO: Senate Committee on Financial Institutions and Insurance
FROM: James S. Maag, Kansas Bankers Association
RE: HB 2522 - Mortgages on real estate

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear in support of HB 2522. This bill would amend K.S.A. 58-2309a to resolve a problem which currently exists relating to equity lines of credit.

This statute now requires that a bank or other creditor must immediately release a mortgage when the balance of the underlying note reaches a zero balance. Such an action would evidently apply to both closed-end mortgages and open-end mortgages (equity lines of credit). For a closed-end mortgage this is not a problem, but for an open-end mortgage the law apparently requires the creditor to release the mortgage each time the borrower reaches a zero credit balance and to file a new mortgage at the time of the next advance. While there is no stated penalty if the creditor fails to release the mortgage, the debtor could argue that the mortgage (left on file during a zero balance period) is invalid as to any future advances the creditor might make.

The law as it now stands is beneficial to neither the borrower nor the creditor since the creditor stands to lose his security if he fails to release and refile a mortgage and the debtor will have to repay mortgage registration fees if the creditor does release the mortgage and then refiles. Therefore, we are asking the Committee to recommend favorably the proposed amendment to K.S.A. 58-2309a which is contained in HB 2522.

We appreciate your consideration of this important issue.

Attachment 1
Sen. F I + I
3/20/89

Office of Executive Vice President • 1500 Merchants National Building
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-3444

TESTIMONY ON H.B. 2147

AN ACT relating to credit unions

Presented to the

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

March 20, 1989
by the
KANSAS CREDIT UNION LEAGUE

Mr. Chairman, members of the Committee:

I am Jerel Wright, Governmental Affairs Director for the Kansas Credit Union League (KCUL). Our association represents 98% of the 155 state-chartered and 42 federally-chartered credit unions located in Kansas. KCUL member credit unions serve the personal financial needs of over 500,000 individual credit union members and have over $1.5 billion in combined assets. Kansas credit unions range in asset size from $29,000 to $113 million and range in membership size from 59 to 41,000 members.

I appreciate having this opportunity to appear before the Committee to ask for approval of House Bill 2147 which amends K.S.A. 17-2211 concerning the duties of the supervisory committee and amends K.S.A. 17-2219 which concerns a member's expulsion from a credit union.

Attachment 2
Sen. Fin Inst & Ins
3/20/89

SECTION 1. Supervisory Committee Audit

Every credit union has a supervisory committee which consists of individual credit union members elected by the membership to serve on the committee. Each supervisory committee member serves as a volunteer to the committee as do the members of the credit union board of directors and credit committee. The supervisory committee supervises the acts of the board of directors, credit committee and credit union officers.

Among the many duties, the supervisory committee is directed by state law to make, or cause to be made, a certification of all members' accounts at least once each two years. This certification of member accounts is independent of and in addition to the examination completed by the Kansas State Department of Credit Unions.

Section 1 of H.B. 2147 proposes to amend the method of certification of member accounts by the supervisory committee. The proposed change in the law would give the supervisory committee an option regarding the method for completing the certification and how often to perform the certification. The change would allow either a 100% certification at least once every two years or a controlled random statistical sampling certification at least once each year.

The change is requested to assist credit unions which use or may want to use an independent audit firm to complete the supervisory committee certification of member accounts. Many audit firms are currently completing a certification of member accounts for credit unions. The change is similar to the method of certification of accounts for federally-chartered credit unions.

SECTION 2. Member Expulsion

The purchase of a share in a credit union establishes a member account for any individual who wishes to join a particular credit union. Whether a person may join a credit union depends on whether the person qualifies under the credit union's field of membership which defines who is eligible to join. With the purchase of a share comes the privilege of using the member accounts and services of the credit union.

The privilege of membership carries with it access to loans and share accounts (savings) and in some credit unions checking accounts and credit cards. Many credit unions offer accounts and services such as IRA's, money orders, travelers checks, financial planning, financial counseling, or bill paying at little or no additional cost to the member. Because these accounts and services are considered privileges for the member, credit unions wish to establish a law which would allow a credit union to adopt a policy to allow the credit union board of directors to expel a member because of the member's abuse of account privileges or the member's causing a financial loss to the credit union.

Current law allows for a member to be expelled by a vote of the membership only. The proposal in section 2 of H.B. 2147, would also give the board of directors the ability to expel a member but only if the board of directors has established a policy with respect to expulsion and only if the member has violated the policy.

Credit unions feel the board of directors needs the ability to expel a member. Although credit unions find most of their members to be very honest and trustworthy, they find that some members are not. At times, members abuse their account privileges by overdrafting checking accounts, going over the limit on overdraft protection, going over the limit on a credit card account or kiting checks on the checking account. Other members cause the credit union financial loss by failing to file a security interest on collateral, failing to insure collateral or filing bankruptcy. The change in the law would give the credit union board of directors authority to stop the member from using the privileges of membership almost immediately and without waiting until the next members' meeting.

The new law would require the board of directors to provide the member with 30 days notice prior to expulsion and provides the member the ability to appeal the board of director's decision to the membership. The member may also wish to request the Kansas State Department of Credit Unions to review the decision of the credit union board of directors to determine whether the board is abiding by established policy.

The changes in Section 2 give a credit union the option to establish a policy regarding expulsion and once the policy is established then the board of directors may expel a member based on the policy.

Mr. Chairman, thank you for the opportunity to appear before the Committee. I will respond to questions at your direction.