

Approved D. Gross 3-4-91
Date

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS

The meeting was called to order by Representative Delbert L. Gross at
Chairperson

3:30 ~~am~~ p.m. on February 19, 1991 in room 527-S of the Capitol.

All members were present except: Representatives Joan Adam and George Teagarden, excused.

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

Conferees appearing before the committee: Michael D. Culbertson, President, Kansas
Credit Union League

The Chairperson called the meeting to order at 3:30 P.M. and opened the hearing on HB 2355.

HB 2355 is an Act relating to credit unions, concerning share insurance; amending K.S.A. 17-2246 and repealing the existing section.

The first conferee to testify in support of HB 2355 was Michael D. Culbertson, President, Kansas Credit Union League, stating the association enjoys voluntary membership of all but 3 of the 188 credit unions in Kansas. The credit unions of Kansas have long believed in the principles of both dual charters for credit unions and the practice of exercising the right to have an alternative share insurance provider in Kansas.

Of the 188 credit unions in Kansas, 147 are state charters. Of those 144 state-chartered credit unions, 66 are privately insured by Mutual Guarantee Corporation (MGC) in Tennessee. These credit unions represent \$231,900,000 in assets of the total \$1,631,000,000 credit union assets in Kansas. National Deposit Insurance Corporation (NDIC) is also authorized to offer share insurance to Kansas credit unions although no Kansas credit unions are currently covered by NDIC insurance.

The new provisions requires all state-chartered, privately insured credit unions to apply for insurance with the NCUSIF within 120 days. Credit unions shall send the application to the state credit union department to be forwarded to the NCUA. Any newly chartered credit union shall have NCUSIF insurance. The credit union administrator has the authority to merge or close any credit union which fails to comply with this section or loses coverage. A credit union shall qualify for NCUSIF insurance within 36 months. Allows administrator to extend qualification period up to 12 months. Administrator to close credit union which is unable to qualify. Credit unions shall maintain current insurance until converted to NCUSIF. Credit unions may continue to operate if current insurer discontinues business in this state. Credit unions shall mail a copy of their NCUSIF certificate of insurance to the department of credit unions. Credit unions shall maintain NCUSIF insurance and do nothing to cause termination of the insurance. Administrator to close credit unions which lose NCUSIF insurance. Credit unions not affected by non-federal insurer's bylaw amendments unless approved by administrator. (See Attachments 1, 1A & 1B)

Wayne Warfel, Credit Union Administrator, supports HB 2355 and stated it is important for the Act to become legislation.

It was questioned why it was necessary to have the 36 month time frame. This will give that time for examiners without undue stress on employees.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS,
room 527-S Statehouse, at 3:30 ~~xx~~m./p.m. on February 19, 1991

It was asked who will do the exam and Mr. Warfel stated the federal insurance office would do the examination, and that 36 months should be sufficient time. It was questioned why there is a 12-month extension? Mr. Warfel stated if the credit union is trying to get the job done they could have an extension.

It was asked how long would it take for an application to be acted upon? Mr. Warfel stated it would take no longer than 90-120 days.

It was asked if it would only take 90-120 days, then why the 3 years? Mr. Warfel stated that within the three year time frame possibly the credit union could qualify. It was stated that if some cannot qualify and give a greater time frame, it defeats the purpose. Do not believe this was the original purpose of this legislation.

Mr. Warfel stated that the shorter the conversion period, the more the risk.

The hearing was closed on HB 2355 and the Chairperson stated HB 2192 would have a hearing on February 20 and final action will be taken on HB 2355 on Monday, February 25. The meeting adjourned at 4:30 P.M.

Date: 2-19-91

GUEST REGISTER
HOUSE
COMMERCIAL & FINANCIAL INSTITUTIONS COMMITTEE

NAME	ORGANIZATION	ADDRESS
Jim Maag	KBA	Topeka
Janel Thught	KCUL	Topeka
Wayne Warfel	KS ST DEPT OF ^{COUNCIL} UNIONS	Topeka
Michael D. Culbertson	KCUL	8410 W. Hellogg Wichita Ks.
Greg Winkler	KCUL	Topeka
JEFF SONNKIT	KNLSI	TOPEKA
Luek Stou	KBA	"
D. Nightingale	Netherland C.U.	"
Derson Shelby	KKBCE	"
Stan Lead	Ks. Assn. of Financial Services	K.C.Ks.

TESTIMONY ON HB 2355

AN ACT concerning credit unions

Presented to the

HOUSE COMMERCIAL & FINANCIAL INSTITUTIONS COMMITTEE

FEBRUARY 19, 1991

by the

KANSAS CREDIT UNION LEAGUE

Mr. Chairman, members of the Committee:

I am Michael D. Culbertson, President of the Kansas Credit Union League. Our association enjoys the voluntary membership of all but 3 of the 188 credit unions in Kansas. The credit unions of Kansas have long believed in the principles of both dual charters for credit unions and the practice of exercising the right to have an alternative share insurance provider in Kansas.

Currently, of the 188 credit unions in Kansas, 147 are state charters. Of those 144 state-chartered credit unions, 66 are privately insured by Mutual Guarantee Corporation (MGC) in Tennessee. These credit unions represent \$231,900,000 in assets of the total \$1,631,000,000 credit union assets in Kansas. National Deposit Insurance Corporation (NDIC) is also authorized to offer share insurance to Kansas credit unions although no Kansas credit unions are currently covered by NDIC insurance.

The history of private insurance in Kansas includes a major change in 1982. Before that time, the alternative to Federal deposit insurance was provided by a private insurance fund that limited its coverage to Kansas credit unions. In an effort to address the issue of risk diversification, the Kansas credit unions decided to pursue the merger of its fund into a fund that enjoyed a broader market and therefore a broader risk base that would not be vulnerable to the economic conditions of one geographical or industrial area. At that time MGC was approached and after successful negotiations, the Kansas fund was merged into this much stronger fund.

The Kansas credit unions have experienced the benefits of this arrangement since that time and the Kansas Credit Union League has continued to endorse both dual chartering and dual insurance. The

developments in recent months have caused the League to reassess the practicality of this position and today's testimony indicates a major change in our position. This decision was not an easy decision or one that was made lightly. It is our assessment that the issue of the future of private insurance no longer relies on the relative strength or weakness of any private insurance fund. It is our conclusion that the issue is now a matter of public perception that any financial institution is safe only if they are federally insured. This perception is gaining momentum throughout the states that have the alternative insurance option available.

Of the nineteen states that still allow private insurance with over \$20 billion of assets, 7 states representing nearly 50 % of those assets have already moved toward conversion to federal insurance or are putting a legislative or voluntary plan to convert into effect. This group includes Rhode Island that experienced a collapse of their fund in January of this year.

It is our conclusion that the most positive steps that can be taken in Kansas to avoid the negative effects of a forced conversion over a short period is the approach that is being outlined in the proposed legislation. We feel that the orderly transition that is assured by this bill will result in the maximum number of Kansas credit unions being able to qualify for federal insurance. As stated earlier, this policy decision was not an easy one to make.

The cost to Kansas credit unions will be substantial. Current estimates of direct costs to Kansas credit unions total about \$ 4 million. This cost is due to the fact that as credit unions convert to federal insurance, their current deposits with MGC may be forfeited. Although this is a substantial cost for conversion, we feel that this cost will not go down.

The credit unions of Kansas have a strong history of addressing adversity and overcoming hardships. This situation will certainly pose an economic challenge to Kansas credit unions that currently have private insurance. It is our feeling that this issue must be addressed with aggressive and positive action. The profile of Kansas credit unions after this process is complete will be one of strength and responsiveness to its members. The need for a strong State Department of Credit Unions will be even more important to assure the ongoing dual chartering system that continues to be very successful. Based on this information, we respectfully ask the committee to support HB 2355.

I have a short summary which outlines the provisions of HB 2355.

Mr. Chairman, I would stand for any questions of the committee.

PROPOSED AMENDMENTS

to

HB 2355

On line 31, after (b)(1), but before the word Every, insert
Notwithstanding the provisions in section a,

On lines 35 & 36 strike the words:

and in which all credit union in the state of Kansas are eligible
for membership

2-19-91
CFJ
Atch #17

(c)(1)

CU shall qualify for NCUSIF insurance within 36 months.

(2)

Allows administrator to extend qualification period up to 12 months.

(3)

Administrator to close CU which is unable to qualify.

(4)

CU shall maintain current insurance until converted to NCUSIF. CU may continue to operate if current insurer discontinues business in this state.

(d)

CU shall mail a copy of their NCUSIF certificate of insurance to the department of credit unions.

(e)(1)

CU shall maintain NCUSIF insurance and do nothing to cause termination of the insurance.

(2)

Administrator to close CU which loses NCUSIF insurance.

(f)

CU not affected by non-federal insurer's bylaw amendments unless approved by administrator.

Section 2

Repealer

Section 3

Effective date...Kansas Register

2-19-91
CF#1
Atch #1B

House Commercial & Financial Institutions Committee

SUMMARY

HOUSE BILL 2355

Section 1

EXISTING LAW

(a)(1)

Requires all state-chartered credit unions in Kansas to have share deposit insurance with the national credit union share insurance fund (NCUSIF) or with an insurer approved by the insurance commissioner or the credit union administrator, on and after June 30, 1980.

Allowed administrator to give extension of time to comply.

(2)

Required CU to give notice if shares were uninsured.

NEW PROVISIONS

(b)(1)

Requires all state-chartered, privately-insured CUs to apply for insurance with the NCUSIF within 120 days.

(2)

CU shall send the application to the state credit union department to be forwarded to the NCUA.

(3)

Any newly chartered CU shall have NCUSIF insurance.

(4)

CU administrator has the authority to merge or close any CU which fails to comply with this section or loses coverage.