

Approved April 26, 1991
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Representative Diane Gjerstad at
Chairperson

12:35 ~~am~~ p.m. on Tuesday, April 9, 1991 in room 423-S of the Capitol.

All members were present except:

Representatives Baker, Bishop, Dean, Wagnon and Wisdom. Excused.

Committee staff present:

Lynne Holt, Research
Betty Manning, Secretary

Conferees appearing before the committee:

Willie Martin, Intergovernmental Coordinator
Greg Musil, Attorney, Mobil Oil Credit Corporation
Mike Heitman, Deputy Commissioner, KS Banking Department
Bill Thompson, Department of Commerce
Jim Maag, Kansas Bankers Association

Chairperson Gjerstad called the meeting to order at 12:35 p.m.

The Chair opened hearings on S.B. 432 which amends the local residential housing finance law. The Chair recognized Willie Martin, Intergovernmental Coordinator for Sedgwick County, who explained this legislation would amend the Kansas Local Residential Housing Finance Law which authorizes cities and counties to issue revenue bonds to finance housing programs which make mortgage loans available for low and moderate income families. The proposed amendment would clarify the county's legal authority to refund an issue more than one time. The authority to reissue could provide an extra \$14.8 million in Sedgwick and Shawnee counties. Attachment 1.

Ms. Martin urged support for favorable passage of this legislation, and responded to questions from the committee.

Chairperson Gjerstad closed the hearings on S.B. 432.

Representative Chronister made a motion S.B. 432 be passed favorably. Seconded by Representative Sluiter. Motion carried.

Chairperson Gjerstad opened hearings on S.B. 411, legislation pertaining to credit card banks. The Chair recognized Greg Musil, attorney representing Mobil Oil Credit Corporation. Mr. Musil introduced Linda Pruitt, Executive Director of Lenexa Chamber of Commerce, Mark Zuschek, General Counsel, Mobil Oil Credit Corporation and Tom Durst, Business Planning Manager, Mobil Oil Corporation.

Mr. Musil explained the purpose of S.B. 411 which would permit Mobil Oil Credit Corporation to charter a limited purpose national bank, headquartered in Lenexa, KS. The bank would be solely authorized to issue credit cards but would not authorize traditional banking transactions. Any retail credit card issuer could utilize the amendment to charter national banks in Kansas. Federal law would permit a credit card bank to accept deposits over \$100,000 from any source but would limit acceptance of deposits to those from corporate parents of the credit card bank. The Kansas law would be more restrictive than the federal law. This legislation is supported by the Department of Commerce and the Kansas Bank Commission. The Kansas laws regarding consumer credit would be transported from Kansas to the state a cardholder resides. Mr. Musil urged the committee to pass this bill favorably. Attachment 2.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 423-S Statehouse, at 12:35 ~~am~~ p.m. on Tuesday, April 9, 19 91

Mike Heitman, Deputy Commissioner, Kansas Banking Department testified the Commission of Banking had no problem with the proposed legislation and urged the committee to support this bill.

Bill Thompson, Department of Commerce, testified the Department had worked with Mobil Oil Credit Corporation during the company's site location search to relocate to Kansas bringing +400 jobs to the state. The Department of Commerce strongly supports this legislation. Attachment 3.

The final proponent to testify in support of the bill was Jim Maag, Kansas Bankers Association. He stated this legislation posed no threat to Kansas banking. Attachment 4.

Mr. Durst, Mr. Musil and Mr. Zuschek responded to questions from from the committee members.

The Chair closed the hearings on S.B. 411.

The meeting was adjourned at 12:55 p.m.



SEDGWICK COUNTY, KANSAS

INTERGOVERNMENTAL COORDINATOR

WILLIE MARTIN

COUNTY COURTHOUSE • 525 N. MAIN • SUITE 315 • WICHITA, KANSAS 67203 • TELEPHONE (316)383-7552

To: House Economic Development Committee
From: Willie Martin, Sedgwick County
Date: April 9, 1991
Re: Senate Bill 432 - Kansas Local Residential Housing Finance Law

Madam Chair and members of the Committee, thank you for the opportunity to speak in support of Senate Bill 432.

Senate Bill 432 amends the Kansas Local Residential Housing Finance Law (K.S.A. 12-5219 et seq.) The Act authorizes cities and counties in the State to issue revenue bonds to finance housing programs which make mortgage loans available for persons and families of low and moderate income within the State. In furtherance of the purposes of the Act, the County and other similar situated cities and counties of the State have previously issued several series of revenue bonds to implement housing programs. K.S.A. 12-5222 (i) also authorizes cities and counties to issue bonds for the purpose of refunding bonds theretofore issued. The County has utilized this technique to refund previously issued revenue bonds to provide additional funds for the housing program.

The financial opportunity has now arisen for the County to to again refund such revenue bonds to provide further funds for mortgage loans. The proposed amendment would clarify the County's legal authority to refund "one or more times" previously issued housing revenue bonds.

Although the refunding is on bonds issued by Sedgwick County the Single Family Mortgage Revenue Bond Issue will provide additional funding for Sedgwick and Shawnee Counties in the amount of \$14,800,000

We respectfully request your support for favorable passage of this legislation.

*Eco-Devo
Attachment #1
04-09-91*

TESTIMONY OF MOBIL OIL CREDIT CORPORATION
BEFORE THE KANSAS HOUSE ECONOMIC DEVELOPMENT COMMITTEE
IN SUPPORT OF SENATE BILL NO. 411

APRIL 9, 1991

I. Introduction

Good morning. Madam Chairperson and members of the Committee, on behalf of Mobil Oil Credit Corporation I want to thank you for holding this hearing. Senate Bill No. 411 is, in our opinion, an important bill for the State of Kansas in that it will assist in securing all of 500 new jobs in our state.

My name is Greg Musil. I am an attorney with the law firm of Shughart, Thomson and Kilroy and represent Mobil Oil Credit Corporation. Joining me today are Mark Zuschek, General Counsel, and Tom Durst, Business Planning Manager, for Mobil Oil Credit Corporation. Also in attendance today to answer any questions you might have is Linda Pruitt, Executive Director of the Lenexa Chamber of Commerce.

Mobil Oil Credit Corporation is a wholly owned subsidiary of Mobil Oil Corporation. For clarity purposes, though, I will refer to Mobil Oil Credit Corporation simply as Mobil during my remarks.

*Eco-Devo
Attachment #2
04-09-91*

Let me tell you first about the groundwork we believe is in place for this bill. We have been in close contact with members of our local delegation and certainly appreciate the support and help they have given us, particularly Representatives Sader, Weimer and Brown, all of whom are members of this Committee.

We have worked closely with the Kansas Bankers Association to develop the legislative language before you today. We have met with the Kansas Bank Commissioner and his staff. We have the support of the Department of Commerce. We have met with the Governor. We have been in contact with the Community Bankers Association. Some of these groups have representatives here today who will state their positions. Most fully support the bill and none, to our knowledge, have any objections to the goal of Senate Bill 411 or its means of reaching that goal.

II. History of Senate Bill 411

For approximately 35 years, Mobil administered its credit card operations from offices in Kansas City, Missouri. For various reasons, Mobil has begun implementing plans to relocate to a new building in Lenexa, Kansas. The move means approximately 500 new jobs in Kansas, with all of the consequential economic development which follows. The move is to occur in July of this year.

In order to secure all of those new jobs for Kansas, Mobil needs the legislative authority to establish a limited-purpose credit card bank which would be headquartered in Kansas and which would be chartered as a national bank. Although federal law has allowed the establishment of credit card banks since 1987, Kansas statutes do not currently permit such banks.

Mobil is committed to Kansas. However, if Mobil cannot obtain authority to establish a credit card bank in Kansas, it will consider other states which do permit such banks, including Missouri. Depending on the law of other states, administrative costs and management needs, Mobil may be forced to move some employees out of Kansas and into the state where the bank is created.

III. Purpose of Senate Bill 411

Senate Bill 411 has a straightforward purpose: to permit Mobil to establish in Kansas a federally chartered credit card bank. If Senate Bill 411 becomes law, Mobil intends to apply to the Office of the Comptroller of the Currency for a national bank charter for its new credit card bank. Once chartered Mobil intends to operate both the credit card bank and its credit card operations in Kansas.

Establishment of a credit card bank will provide substantial benefits to Mobil which will, in turn, accrue to its employees and to the State of Kansas. Most importantly, federal law will allow Mobil's credit card bank to "export" certain provisions of

Kansas consumer credit law to all of the states where Mobil does credit card business. Currently Mobil must be concerned with 50 different state laws regarding permissible interest rates, disclosures, and other consumer credit terms and conditions. The ability to use a more uniform consumer credit law is very important because it eliminates significant administrative costs which Mobil now incurs in monitoring and complying with the law of all 50 states.

The timing of this legislation is also important. Two states where Mobil does significant business, California and Ohio, will roll back their permissible interest rates at the end of this year. Those states represent about one-third of Mobil credit card operation revenues. Mobil's obligations to its shareholders require it to create a credit card bank somewhere before the end of 1991 in order to avoid loss of revenues because of changes in California and Ohio law.

It is this time pressure which has led us to the legislature at this late date. Mobil simply cannot wait beyond this legislative session.

IV. What is a Credit Card Bank?

A credit card bank is a narrowly defined institution with strictly limited powers. By federal law, a credit card bank is defined as an institution which

- (i) engages only in credit card operations;
- (ii) does not accept demand deposits;

- (iii) does not accept time deposits of less than \$100,000;
- (iv) maintains only one office that accepts deposits; and
- (v) does not engage in the business of making commercial loans.

The powers of a credit card bank are very limited under federal law. Essentially, a federally chartered credit card bank can issue credit cards from a single office, can only accept time deposits in amounts over \$100,000, and cannot make commercial loans. These restrictions ensure that the credit card bank does not get into the traditional business of banking.

Senate Bill 411 contains all of those restrictions and adds one more. Under the bill, the credit card bank could accept deposits only from the majority owner of the bank or its corporate parent. Mobil did not intend to seek or accept deposits other than from its Mobil family and supports this additional restriction.

V. Substance of the Legislation

Senate Bill 411 amends two section of the Kansas statutes. First, it amends K.S.A. 9-519 (as amended by H.B. 2059 earlier this session). Second, it amends K.S.A. 9-811.

K.S.A. 9-519 deals with bank holding companies and defines a bank as an insured bank for federal deposit insurance purposes. Senate Bill 411 excludes from the definition of bank a credit card bank.

K.S.A. 9-811 prohibits the creation of any bank in Kansas which does not both accept demand deposits and make commercial loans. Senate Bill 411 amends K.S.A. 9-811 to permit the creation of a credit card bank.

VI. Effect on Kansas Citizens

Less than one percent of Mobil's credit card operations involve Kansas citizens. Because all requirements of Kansas consumer credit law will continue to apply to Mobil, there will be no effect on Kansas citizens other than the benefits of substantial new employment in our state.

VII. Effect on Kansas Banks

We will defer somewhat on this topic to the Kansas Banking Commissioner, the Kansas Bankers Association, and the Community Bankers Association, all of whom we expect to testify this morning. However, we will say that the legislation is so narrowly drafted and for such a limited purpose that we do not anticipate any effect on Kansas banks. Mobil certainly does not intend any.

The credit card bank will not compete for deposits or consumer or commercial loans. Mobil's express goal is advancing economic development without in any way affecting Kansas banks.

VIII. Conclusion

Enactment of Senate Bill 411 will help secure the relocation of all 500 jobs into Kansas. We see this as an opportunity to create good jobs, promote economic development, enhance the quality of life, and increase the tax revenues in our state. We hope members of this committee will view this legislation in the same light.

Mr. Zuschek, Mr. Durst and I would be happy to answer any questions the committee might have. Thank you Madam Chairperson.

SUMMARY OF SENATE BILL NO. 411

PURPOSE: To permit Mobil Oil Credit Corporation ("MOCC"), a wholly owned subsidiary of Mobil Oil Corporation, to establish a federally chartered credit card bank with its headquarters in Lenexa, Kansas. Establishment of such a bank will permit MOCC to apply certain provisions of Kansas consumer credit law uniformly to all of its credit card holders nationwide. This will significantly reduce administrative and compliance costs.

AMENDMENT: The bill amends K.S.A. 9-519 (as amended this session by H.B. 2059) and K.S.A. 9-811 to permit the operation in Kansas of a limited purpose, federally chartered credit card bank. Senate Bill 411 was unanimously recommended by the Senate Economic Development Committee and unanimously passed by the Senate on April 2, 1991.

BENEFITS: Passage of Senate Bill 411 will help ensure all of nearly 500 jobs will be relocated from their current location in Kansas City, Missouri, to Kansas. Because MOCC has the option of chartering its bank in other states, including Missouri, the only effective way of assuring all of these jobs will move to and remain in Kansas is through this amendment.

LIMITATIONS: The bill would permit a narrowly and strictly defined credit card bank to operate in Kansas. The bank would be authorized only to engage in credit card operations, could not accept any demand deposits, could not accept any time deposits of less than \$100,000, could not maintain more than a single office, and could not engage in commercial loans. In addition, the only deposits which the bank could accept would be funds from its corporate parents.

EFFECT ON KANSAS CITIZENS: Less than one percent of MOCC's credit card operations now involve transactions with Kansas citizens. Moreover, because all requirements of Kansas consumer credit law will continue to apply to MOCC, there will be no effect on Kansas citizens other than the benefits of substantial new employment in the state.

EFFECT ON KANSAS BANKS: Because of the narrow purpose and definition of the credit card bank, as outlined above, no effect of any kind on Kansas banks is anticipated. Neither the Kansas Bankers Association nor the Community Bankers Association has expressed opposition to the bill. The Kansas Bank Commissioner and the Department of Commerce have both testified in favor of it. MOCC's goal is simply to advance economic development and job creation without affecting existing Kansas banks.

MORE INFORMATION: If you have any questions or would like to discuss this legislation, please call Greg Musil (913-451-3355) or Mark Zuschek, MOCC General Counsel, (816-391-9489).

**ANALYSIS OF SENATE BILL NO. 411
BY MOBIL OIL CREDIT CORPORATION**

I. Introduction

Mobil Oil Credit Corporation ("MOCC") is a wholly owned subsidiary of Mobil Oil Corporation and administers all credit card services offered by its parent corporation.

MOCC is implementing plans to move its credit card operations from Kansas City, Missouri to Lenexa, Kansas. This move, when completed, will add nearly 500 jobs to the Kansas work force. However, in order to ensure that all of these jobs are relocated to Kansas and remain here, MOCC is seeking an amendment to Kansas banking laws.

Senate Bill No. 411 amends K.S.A. 9-519 (as amended this session by House Bill No. 2059) and K.S.A. 9-811 to permit the operation in Kansas of a limited purpose, federally chartered credit card bank. Senate Bill No. 411 was unanimously approved by the Senate Economic Development Committee on March 28 and unanimously passed by the Senate on April 2, 1991.

II. Purpose

The purpose of Senate Bill No. 411 is to permit Mobil to charter a limited purpose national bank with its headquarters in Kansas.^{1/} The bank would be strictly and narrowly defined, authorized basically for the sole purpose of issuing credit cards, and would not, MOCC believes, affect in any way existing Kansas banks.

In the mid-1980s, community bankers became concerned about unfair competition from so-called "nonbank banks." Traditionally, banks had made commercial loans and had taken deposits which could be withdrawn on demand, and had been subject to strict regulation by both state and federal governments. The potential for unfair competition arose from nonbank banks which generally took deposits or made consumer loans but did not make commercial loans. In 1985, the Kansas legislature responded to this concern by prohibiting the operation of nonbank banks in Kansas.

^{1/} Other similarly situated retail credit card issuers could also utilize the amendment to charter national banks in Kansas. However, it is unlikely that any would do so due to other restrictions contained in Kansas banking laws. Mobil would choose Kansas as its home because of its pending plans to move the remainder of its credit card operations here.

In 1987, the U.S. Congress passed the Competitive Equality Banking Act (CEBA) in an effort to eliminate nationwide the problem of nonbank banks. As part of CEBA, Congress permitted the chartering of limited purpose banks which engage only in credit card operations. Under federal law, a credit card bank is an institution which:

- (i) engages only in credit card operations;
- (ii) does not accept demand deposits;
- (iii) does not accept deposits of less than \$100,000;
- (iv) maintains only one office that accepts any deposits;
and
- (v) does not engage in the business of making commercial loans.

MOCC wants to charter a national credit card bank headquartered in Kansas, thus committing all of nearly 500 jobs to this state.

By establishing a credit card bank, MOCC would be permitted to "export" certain Kansas consumer credit terms and conditions to its cardholders throughout the United States. In other words, the permissible interest rates, disclosures, and certain other consumer credit terms and conditions established by the state of Kansas would be applied to all Mobil credit card holders. This ability to use a uniform consumer credit law is very important because it eliminates significant administrative costs which MOCC now incurs in monitoring and complying with the consumer credit laws of all 50 states.

Credit card banks are now permitted by numerous other states and MOCC is analyzing the possibility of chartering its bank in other states, including Missouri, should it be unable to do so in Kansas. However, MOCC wants to complete its plans to move its entire operation to Kansas without interruption.

ANALYSIS OF SENATE BILL NO. 411

Senate Bill No. 411 amends the definitions of a bank contained in K.S.A. 9-519. K.S.A. 9-519 defines a bank according to the definition in federal law for purposes of federal deposit insurance. Currently K.S.A. 9-811 requires all banks to accept demand deposits and make commercial loans and prohibits any banks which do not do both.

Adoption of Senate Bill No. 411 first simply expands the definition to include nationally chartered credit card banks, and defines credit card banks in the same narrow language contained in federal law. Second, the bill includes an additional

condition limiting the authority of a credit card bank calling Kansas home. Although federal law would permit a credit card bank to accept deposits over \$100,000 from any source (so-called "jumbo deposits"), Senate Bill No. 411 would limit acceptance of deposits to those from corporate parents of the credit card bank. Thus, the Kansas law would be even more restrictive than federal law.^{2/}

EFFECT ON KANSAS CITIZENS

Less than one percent of MOCC's credit card operations now involve Kansas citizens. Moreover, because all requirements of Kansas consumer credit law will continue to apply to MOCC, there will be no effect on Kansas citizens other than the benefits of substantial new employment in the state.

EFFECT ON KANSAS BANKS

This legislation is so narrowly drafted and is for such a limited purpose that no effect on Kansas banks is anticipated or intended. MOCC's credit card bank will not compete with Kansas banks for savings or demand deposits, consumer loans or commercial loans. In testimony before the Senate Economic Development Committee, the Kansas Bankers Association stated it had no objection to the bill. The Kansas Bank Commissioner and the Kansas Department of Commerce testified in support of the legislation. MOCC has also been informed that the Community Bankers Association has no objection to the bill. MOCC simply seeks to promote legislation which will advance economic development in and bring jobs to Kansas without in any way affecting Kansas banks.

CONCLUSION

Enactment of Senate Bill No. 411 would help ensure MOCC's continued commitment to maintaining all of nearly 500 jobs in Kansas. By permitting establishment of a credit card bank in Kansas, the legislature can promote economic development and Kansas can benefit from the quality of life, increased revenues, and community involvement provided by new employees and taxpayers.

If you have any questions or would like to discuss this legislation, please contact Greg Musil (913-451-3355) or Mark Zuschek, MOCC General Counsel, (816-391-9489).

^{2/} MOCC has no plans to accept jumbo deposits from any source other than its corporate parents and supports this restriction.

Senate Bill 411
Kansas Department of Commerce
April 9, 1991

The Kansas Department of Commerce supports passage of SB 411. The bill is needed by Mobil Oil Credit Corporation to allow chartering under federal law of a limited purpose national bank in Kansas for the purpose of issuing credit cards to customers across the nation.

The Kansas Department of Commerce worked with Mobil Oil Credit during the company's site location search to relocate its Missouri operation to Kansas. This relocation brought 400 to 500 new jobs to the state. SB 411 is important to the company if it is to locate all of its operations in the state, because if a credit card bank cannot be established in Kansas, it will be established in another state, and Kansas will not gain the job opportunities and tax revenues resulting from the operation.

The Department of Commerce urges the House Economic Development Committee to give favorable consideration to S.B. 411.

*Eco-Devo
Attachment #3
04-09-91*



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

April 9, 1991

TO: House Committee on Economic Development
RE: **SB 411** - Establishment of a credit card bank

Madam Chairperson and Members of the Committee:

We appreciate the opportunity to comment on the provisions of **SB 411** which would amend the Kansas bank holding company act and the state banking code to allow the establishment of a credit card bank in Kansas.

The State Affairs Committee of the KBA has reviewed **SB 411** very carefully and the committee believes the establishment of such a specialized banking operation would pose no threat to commercial banks in Kansas. They further believe locating such a bank in Kansas would have a very positive impact on the Kansas economy. Therefore, the KBA has no objection to the favorable consideration of **SB 411** by this committee.

Thank you for the opportunity to appear and we would be pleased to answer any questions concerning the KBA position on this measure or provide any additional information for the committee.

A handwritten signature in black ink, appearing to read 'James S. Maag', with a long horizontal flourish extending to the right.

James S. Maag
Senior Vice President

*Eco-Devo
Attachment #4
04-09-91*