

Approved March 29, 1991
Date

MINUTES OF THE Senate COMMITTEE ON Economic Development

The meeting was called to order by Senator Dave Kerr at
Chairperson

8:00 a.m. ~~XXX~~ on March 28, 1991 in room 123-S of the Capitol.

All members were present ~~XXXX~~

Committee staff present:

Bill Edds, Revisor of Statutes' Office
Lynne Holt, Legislative Research Department
LaVonne Mumert, Committee Secretary

Conferees appearing before the committee:

Senator Gus Bogina
Senator Dick Bond
Greg Musil, Attorney
James Maag, Kansas Bankers Association
Frank Dunnick, State Banking Commissioner
Bill Thompson, Department of Commerce

SB 411 - Authorizing credit card banks

Senator Bogina testified in support of the bill and urged the Committee's favorable action as promptly as possible. He explained that Mobil plans to move its credit card operation to Kansas, but without passage of the bill, they will move to another state.

Senator Dick Bond also testified in favor of the bill and said that economic development is an important element of the bill. Senator Bond said SB 411 would permit Mobil to have a limited banking entity in Kansas. The bill includes federal limitations on non-bank banks with an additional restriction that only deposits from Mobil Oil and its subsidiaries can be accepted. Answering questions from committee members, Senator Bond said the Mobil location is in Lenexa and that deposits in the non-bank bank are insured by the Federal Deposit Insurance Corporation.

Greg Musil spoke in favor of the bill (Attachment 1). Mr. Musil's law firm represents Mobil Oil Credit Corporation. He introduced Mark Zuschek, Mobil Oil Credit Corporation's General Counsel, and Tom Durst, Business Planning Manager for Mobil Oil Credit Corporation. Mr. Musil said that Mobil is moving its credit card operations from Missouri to Kansas in July, 1991. The move involves approximately 500 jobs. Mr. Musil stated that if Mobil does not obtain authority to establish the credit card bank in Kansas, they will be forced to move those operations to another state which could result in some current Kansas employees being moved as well. Mr. Musil explained the proposed operations of the bank and its limitations. He said that the proposed bank will not compete with traditional Kansas banks.

Senator Petty asked if any of the 500 jobs will be new hires. Mr. Zuschek said there will probably be a few people who do not want to move and those positions will be filled. Responding to Senator Feleciano's questions, Mr. Zuschek said that currently Mobil is subject to laws of the resident state for each customer. Establishment of a national bank would allow Mobil to "export" certain provisions of Kansas consumer credit law so that there would be a uniform finance rate for all Mobil customers. California and Ohio currently have no maximum finance rates, but that changes the end of this year. Mr. Zuschek said that Kansas' cap is not as high as some states, but is higher than Ohio and California rates will be after this year. Mr. Durst said the consumer credit laws of Kansas are a factor in their decision to move to Kansas but administrative costs were

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Economic Development,
room 123-S, Statehouse, at 8:00 a.m./~~p.m.~~^{XX} on March 28, 1991.

a factor as well. Mr. Musil mentioned that if Mobil were considering all 50 states as possible locations, Kansas would not be chosen because other states have more favorable rates and terms; but since Mobil is moving its administrative offices to Kansas, they also want to locate the credit card bank in Kansas. Chairman Kerr asked if the move would have any taxation effects. Mobil representatives said that they are aware that their Kansas tax will be increasing. Staff advised that Mobil will be subject to a privilege tax on Kansas banks.

Jim Maag stated that his association has found nothing in the legislation that would be detrimental to the commercial banking industry in Kansas and has no objection to the bill (Attachment 2).

Frank Dunnick testified that his office is in support of the bill and he does not believe it would harm the current banking establishment.

Bill Thompson spoke in favor of the bill (Attachment 3). He said his agency worked with Mobil in its site location search. They feel the legislation will encourage consideration of other credit card banks in Kansas.

Mr. Musil stated that Mobil has talked to the community bankers association, and it is their understanding that the association has no objection to the bill.

Senator Feleciano moved that the effective date of SB 411 be changed to publication in the Kansas Register and that the amended bill be recommended favorably for passage. Senator Moran seconded the motion. The Revisor mentioned some possible problems in changing the effective date. Senator Feleciano amended his motion to leave it to the discretion of the Revisor in changing the bill's effective date. Senator Moran seconded the substitute motion, and the motion carried.

SB 29 - Income tax credits and sales tax exemption for location of business in enterprise zone repealed

There was considerable discussion about the recommendations of the subcommittee and concerns that the proposals might hinder small businesses or rural development. It was agreed that the Chairman and Vice Chairman would work with staff to structure a limited charge to the Joint Committee regarding enterprise zones for this Committee's consideration.

Senator Oleen moved that the minutes of the March 26, 1991 meeting be approved. Senator McClure seconded the motion, and the motion carried.

The meeting adjourned at 9:00. The next meeting of the Committee will be Friday, March 29, 1991.

TESTIMONY OF MOBIL OIL CREDIT CORPORATION
BEFORE THE KANSAS SENATE ECONOMIC DEVELOPMENT COMMITTEE
IN SUPPORT OF SENATE BILL NO. 411
MARCH 28, 1991

I. Introduction

Good morning. Mr. Chairman and members of the Committee, on behalf of Mobil Oil Credit Corporation I want to thank you for scheduling 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 500 new jobs in our state.

My name is Greg Musil and 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, Mobil Oil Credit Corporation's General Counsel, and Tom Durst, the Business Planning Manager for Mobil Oil Credit Corporation. Also in attendance today to answer any questions you might have are Rob Schendel, also with Shughart, Thomson and Kilroy, and 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.

Attachment 1
3/28/91
Sen. Eco. Devel.

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 the legislature from Johnson County, and certainly appreciate the support and help they have given us, particularly Senators Bogina, Bond, and Burke. 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, and have been in touch with the Department of Commerce, and the Community Bankers Association. Most of these entities have representatives present today who will state their positions. We are not aware of any objections to the goal of Senate Bill 411 or the 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.

However, in order to secure those new jobs in 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, the only alternative will be to look to 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 35 to 50 or more 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 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.

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 Senate Bill 411 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 1% 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

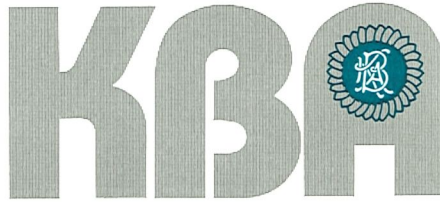
We will defer somewhat on this topic to the Kansas Banking Commissioner, the Kansas Bankers Association, and the Community Bankers Association, all of whom we expect to testify this morning. However, we will say that the legislation is so narrowly drafted and for such a limited purpose that we do not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

The credit card bank will not compete for deposits or consumer or commercial loans. Mobil has worked with the express goal of advancing economic development without in any way affecting Kansas banks.

VIII. Conclusion

Enactment of Senate Bill 411 would help secure the relocation of 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 Senate Bill 411 in the same light.

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



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 28, 1991

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

Mr. Chairman 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 that reads 'James S. Maag'.

James S. Maag
Senior Vice President

Attachment 2

3/28/91

Sen. Eco. Devel.

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Senate Bill 411
Kansas Department of Commerce
March 28, 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 connected with the operation.

The Department of Commerce would also like to point out that this change in the law will create an environment that will encourage other credit card banks to consider Kansas for facility locations. The benefit to Kansas is of course, new jobs, investment and economic growth.

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

Attachment 3
3/28/91
Sen. Eco. Devel.