

Approved \_\_\_\_\_

Date

2/25/91

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:00 a.m./~~pm~~ on THURSDAY, FEBRUARY 21, 1991 in room 529-S of the Capitol.

~~All~~ members ~~were~~ present ~~except~~

Senators Anderson, Francisco, Kerr, Moran, Parrish, Reilly, Salisbury, Strick and Yost.

Committee staff present:

Bill Wolff, Research Department  
Fred Carman, Revisors Office  
Louise Bobo, Secretary

Conferees appearing before the committee:

Dr. Richard Morse, Professor Emeritus, Kansas State University  
Art Weiss, Deputy Attorney General  
Jim Maag, Kansas Bankers Association  
George Logan, Kansas Association of Broadcasters  
Jeff Sonnich, KS-Nebraska League of Savings Institutions  
Jerel Wright, Kansas Credit Union League

Chairman Bond called the meeting to order at 9:10 a.m.

SB 155 - Consumer savings disclosure and validation act.

Dr. Richard Morse, Professor Emeritus, Kansas State University, addressed the committee in strong support of this bill. Dr. Morse stressed that his reason for supporting this bill was to standardize the terminology regarding savings accounts and to put it in language easy for the average consumer to understand. He informed the committee that this bill would require the disclosure of only one rate which is applied to the daily balance to compute interest each day. The bill would also require that disclosure to be in terms of cents and \$100 units and consider a day a 24 hour period. The bill would also give a cash reward to consumers who find an error in their accounts and report it to the bank. (Attachment 1)

Art Weiss, Deputy Attorney General, rose in support of the principles of disclosure found in this proposed legislation and stated that the Attorney General's office support any legislation which enhances public awareness of daily transactions. He did, however, express some reservation about the proposed penalty for inadvertent errors as set out on page 5, lines 23-25, of the bill. (Attachment 2)

Jim Maag, Kansas Bankers Association, appeared before the committee in opposition to the provisions of SB 155. He explained that, although his organization certainly supported accurate disclosure of interest rates, they disagreed that it could be solved at the state level. He further stated that the American Bankers Association had supported "truth in savings" legislation at the national level but believed it would only cause confusion and expense to enact such legislation at the state level. He added that the global nature of present day financial services made it impractical for one state to enact its own financial disclosure law. (Attachment 3)

George Logan, Kansas Association of Broadcasters, expressed to the committee his reservation about the provision of the bill requiring additional disclosures in every advertisement relating to earnings payable. He explained that the very limited time for broadcast commercials would put them at a distinct disadvantage with the print media. Since radio and television stations do not collect subscription fees, advertising is their only source of revenue, therefore, they oppose this bill because it would further erode their revenue base. (Attachment 4)

Jeff Sonnich, KS-Nebraska League of Savings Institutions, informed the committee that his organization was concerned about several facets of the bill including: (1) the

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,

room 529-S, Statehouse, at 9:00 a.m./~~XXX~~ on THURSDAY, FEBRUARY 21,, 1991

extensive and expensive reprograming of computer software which would be necessary and the cost of which would be passed on to the consumer, (2) consumers are use to being paid interest not "pennies", and (3) the penalty provisions of the bill which appear to reward even an unintentional error. Mr. Sonnich added that Congress is currently considering a uniform "Truth in Savings" law and that it would seem prudent to wait the outcome of this congressional action before enacting state law which might conflict with the federal law. (Attachment 5)

Jerel Wright, Kansas Credit Union League, was the last conferee to appear before the committee. Mr. Wright stated that the credit unions believe disclosure of savings account information is good for the consumer, however, he has reservations about some of the provisions of this bill. Mr. Wright informed the committee that, for four years, credit unions have actively supported "truth in savings" disclosures and have provided their customers with specific savings account information. Mr. Wright questioned if "truth in savings" disclosures should be mandated, if state legislation would be the best way, and if financial institutions should be penalized for violations. (Attachment 6)

Minutes of Tuesday, February 19, 1991 were approved on a motion by Senator Reilly with Senator Strick seconding the motion. The motion carried.

The meeting adjourned at 10:05 a.m.



Feb. 21,  
1991

Interpretive Summary of Senate Bill No. 155  
by Richard L. D. Morse 2429 Lookout Drive, Manhattan, KS (913) 539 5135

Premises Premises for the Consumer Savings disclosure and Verification Act are:

1. Savers want and expect interest daily on all their money (dollars and cents) on deposit.

2. Savers want to be able to compare rates, when selecting a savings account, along with safety, liquidity, and convenience.

3. Savers need standardized terminology that is simple, useful, easy to understand and apply.

4. Simplification benefits everyone. It improves customer/bank relations, expedites bank personnel training, encourages consumer self confidence, generates trust in the banking system, and reduces costs.

S.B. 155

The Act meets these condition. The Act:

Sec. 4.  
(1)

[A] Requires the disclosure of only one rate. That rate is the DAILY RATE which is applied to the DAILY BALANCE to compute interest each day.

Sec. 3.  
(a)(b)(c)

[B] Expresses this DR (daily rate) in terms everyone can understand:

cents -- which everyone can count.

\$100 units -- with which most people can identify.

Day -- which indisputably is a 24-hour period.

Sec. 4.  
(2)  
(A)-(H)

[C] Requires banks choosing not to compound daily and not to pay on daily balances to disclose whatever methods they use to determine the balances on which they pay interest, to compound interest, and to assess charges or penalties that affect the amount of earnings. In other words, "Let it all hang out for all to see".

Sec. 4.  
(2)  
(A)

[D] Requires those deviant banks to disclose the daily rate equivalent (DRe) of what is paid; savers will then have comparable rates. The thinking here is that banks, being more familiar with their own methods and having the expertise required to figure rates, are better able to make the computations needed for comparability. Savers then can make "apples-to-apples" comparisons, and be relieved from having to make correct comparisons in an "apples-to-oranges" environment.

Sec. 4.  
(b)  
(1)(2)

[E] Requires earnings-related advertising to give only the daily rate. This should present no problem for banks using simple methods, but banks using complex methods will bear the cost of complexity.

Sec. 4.  
(d)

[F] Requires account statement that provide sufficient detail for the saver to validate the facts and verify whether the interest was paid as promised. [Hence, the title includes: "Verification Act".

Sec. 3.  
(j)  
(k)

[G] Defines "earnings" as an all-inclusive term including interest, and defines "payable" to avoid such confusing terms as "paid", "credited", "posted", "effective". ....

Sec. 3.  
(i)

[H] Establishes precision limits for reporting and computing rates, thereby removing the reliance on the "fudge factor" to hide errors, ease compliance, or used by insiders for "skimming."

Sec. 5.  
(a)  
(b)

[I] Provides for writing regulations considered necessary by regulators to accommodate industry protocol and yet meet the purposes of the Act. For example, banks may want to quote those traditional fabricated terms as Annual Percentage Rate (APR) and Annual Percentage Yield (APY), in which case these terms can be defined by regulation and their use authorized.

Sec. 5.  
(a)  
line 34

[J] Places enforcement of the Act under the Attorney General, whose responsibility it is under the Consumer Protection Act to prohibit false, misleading and deceptive market promotions and activities -- which is the essence of this Act.

Sec. 6.  
(c)  
lines  
22 - 25

[K] Provides incentives for the saver to assist banks in reducing errors. As the saying goes, "There is no free lunch." Savers, who take the time and make the effort to validate their accounts and discover errors they bring to the attention of the bank, deserve a cash reward for their public service.

OVER

Please turn over for a copy of Senate Bill No. 155

Attachment 1  
FI + I  
2/21/91

SENATE BILL No. 155

By Committee on Financial Institutions and Insurance

2-11

8 AN ACT enacting the consumer savings disclosure and validation  
9 act.

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

12 Section 1. Title. This act may be cited as the consumer savings  
13 disclosure and validation act.

14 Sec. 2. Purposes. The purposes of this act are:

15 (a) To reduce costs and improve communications by standardizing  
16 the language used for computing and disclosing fully all of the terms  
17 and conditions pertaining to:

- 18 (1) The receipt and payment of principal amounts;
- 19 (2) the payment of earnings;
- 20 (3) the assessment of charges and penalties on consumer savings;

21 and  
22 (b) to limit and standardize the language used in providing  
23 depositors:

- 24 (1) With the information they need to shop for and efficiently  
25 compare the earnings of consumer savings;
- 26 (2) with the contract terms of any savings agreement and of any  
27 changes subsequently made therein; and
- 28 (3) with reports of savings account activity giving the facts needed  
29 to validate earnings paid for conformity with contract terms.

30 Sec. 3. Definitions. For purposes of the consumer savings disc-  
31 closure and validation act, unless the context clearly requires  
32 otherwise:

- 33 (a) "Day" means a twenty-four hour interval.
- 34 (b) "Daily percentage rate" is the percentage rate applied to the  
35 principal balance at the end of each day to determine the earnings  
36 for that day.
- 37 (c) "Daily rate" or "DR" is the daily percentage rate multiplied  
38 by 100 and expressed in cents per \$100 per day.
- 39 (d) "Daily rate equivalent" or "DRE" is that daily percentage  
40 rate, multiplied by 100, which if applied to successive daily balances  
41 would accrue earnings equal to those payable under the savings  
42 instrument at the end of a specified time interval specified by number  
43 of days.

1 (e) "Previous" is the term applied to any rate disclosure to indi-  
2 cate that the information pertains to the immediately preceding  
3 time interval of specified number of days. It shall be affixed by any  
4 savings institution prohibited by its charter from declaring rates ap-  
5 plicable to current or future deposits.

6 (f) "Individual" means a natural person.  
7 (g) "Savings institution" means any person, firm, corporation,  
8 association or organization which in the regular course of business  
9 receives and holds or issues consumer savings deposits or accounts  
10 and is authorized by law to pay earnings thereon.

11 (h) "Consumer savings" is limited to amounts of less than  
12 \$100,000 and means:

- 13 (1) Any deposit or account in a savings institution which consists  
14 of funds deposited to the credit of one or more individuals or in  
15 which the entire beneficial interest is held by one or more individ-  
16 uals, and upon which earnings are payable, or upon which the law  
17 allows earnings to be paid;
- 18 (2) shares in a savings institution which are issued for the savings  
19 of its members and upon which earnings are payable; or
- 20 (3) any evidence of indebtedness issued by a savings institution  
21 to one or more individuals or in which the entire beneficial interest  
22 is held by one or more individuals, and upon which earnings are  
23 payable. Such terms include regular, notice and time deposits and  
24 share accounts, money market accounts or certificates, saving cer-  
25 tificates, Christmas club, vacation club, or other special accounts  
26 regardless of whether earnings are paid, and any such other deposits  
27 and accounts whether or not evidenced by an instrument and  
28 whether or not earnings are paid.

29 (i) "Rates" when used for computations or disclosures shall con-  
30 form to the standard values as published in research paper no. 27  
31 of the Kansas agricultural experiment station. At least four places to  
32 the right of the decimal place shall be used for computing earnings,  
33 with earnings accruing at not less than \$.0001 and with earnings  
34 paid or posted rounded up to the nearest cent.

35 (j) "Earnings" means any amount accruing to or for the account  
36 of any individual as compensation for the prior use of funds consti-  
37 tuting consumer savings regardless of whether the earnings have  
38 been posted to the account or paid to its holder. Earnings are  
39 computed at the end and not at the beginning of a period.

40 (k) "Payable" means the absolute right to earnings regardless of  
41 whether earnings are actually paid to the depositor or posted or  
42 credited to the account.

43 Sec. 4. Disclosures. (a) With respect to individual savings de-

1 posits, each savings institution shall make available in writing, which  
2 is clear and noticeable, to any individual upon request and at the  
3 time funds are initially placed in an individual savings deposit in  
4 such savings institution:

- 5 (1) The daily rate (DR) if earnings are payable and compounded  
6 daily on daily balances and there are no charges, penalties, restric-  
7 tions or other benefits;
- 8 (2) if earnings are other than as provided in paragraph (1):  
9 (A) The daily rate equivalent (DRE);  
10 (B) the method used to determine the balance on which earnings  
11 are paid, if the balance is other than the principal balance at the  
12 end of each day;  
13 (C) the number of times each year earnings are compounded, or  
14 use of the words "continuous compounding", if compounding is more  
15 frequent than daily;

- [C] 16 (D) the dates on which earnings are payable, if other than daily,  
17 and any restrictions on a depositor's access to the principal balance  
18 and accrued earnings;
- 19 (E) the days, if any, that interest is not paid on deposits;
- 20 (F) any penalties to be paid for early withdrawal before any  
21 specific time period, the nature of the penalties and the minimum  
22 period required for deposits to be exempt from those penalties;
- 23 (G) any terms, conditions or charges imposed initially or period-  
24 ically against any deposit which restrict, limit, increase or reduce  
25 the rate or amount of earnings payable as disclosed under paragraph  
26 (1) and clauses (A) through (F) of this paragraph (2), including the  
27 method by which such sources of deviation are determined; and
- 28 (H) for those accounts whose net earnings are computed by other  
29 than compounding of single periodic percentage rate, the net earn-  
30 ings and DRE projected for such accounts as if terminated at the  
31 end of each quarter under specifically disclosed hypothetical condi-  
32 tions representative of account holder practices.
- [E] 33 (b) Advertisements. (1) Every advertisement relating to earnings  
34 payable daily on the daily balances of consumer savings shall state  
35 clearly and conspicuously the daily (DR);  
36 (2) every advertisement relating to earnings payable other than  
37 daily on daily balances of consumer savings shall state clearly and  
38 conspicuously the daily rate equivalent (DRE) and the method used  
39 in determining the balances on which earnings are paid;  
40 (3) no advertisement, announcement or solicitation shall:  
41 (A) Include any indication of any percentage rate or yield based  
42 on a period in excess of one year or on the effect of the grace period;  
43 (B) make reference to compounding frequency if the period is

4

1 less than one day without stating the monetary difference in earnings  
2 on a principal amount of \$1,000 for one year between the method  
3 of compounding and daily compounding; or

4 (C) fail to make known such other information about any condi-  
5 tions, charges or penalties as would materially affect the earnings  
6 depositors might expect from the information disclosed in accordance  
7 with the requirements of this section.

8 (c) Notification. Each savings institution shall notify in writing  
9 each individual depositor at least 10 days prior to the adoption of  
10 any change with respect to any item of information required to be  
11 disclosed under this section, unless such change is directed by regu-  
12 latory authority or made in accordance with a previously disclosed  
13 procedure, in which cases notice of such change shall be disclosed  
14 to depositors with the next report of earnings to depositors, and  
15 unless such institution is prohibited by its charter from ascertaining  
16 such information in advance of a change, in which case notification  
17 under this subsection shall be given within 92 days after the change.  
18 No change in the minimum balance requirements or grace periods  
19 of existing accounts shall become effective prior to the commence-  
20 ment of the next report of earnings to depositors.

21 (d) Periodic reports. Each savings institution shall disclose at least  
22 annually to an individual in person or by mailing to the individual's  
23 last known address and at the time any earnings report is made with  
24 respect to the individual savings deposit, whether or not any earnings  
25 are payable:

- 26 (1) An itemized record of deposits, withdrawals, charges and  
27 earnings with applicable dates thereto; and
- 28 (2) information disclosed under subsection (a) needed to verify  
29 the account, including the daily rate (DR) or its equivalent (DRE).

30 Sec. 5. Administration, rules and regulations. (a) The state bank  
31 commissioner, consumer credit commissioner, savings and loan com-  
32 missioner and credit union commissioner shall jointly adopt such  
33 rules and regulations as deemed necessary and proper to effectuate  
34 the purposes of this act and facilitate its enforcement by the attorney  
35 general of the state of Kansas. Such rules and regulations shall be  
36 published in only one place in the Kansas administrative regulations  
37 as directed by the state rules and regulations board.

38 (b) Such rules and regulations may prescribe language, compu-  
39 tational procedures and disclosure forms, and any other forms or  
40 procedures which render the disclosure readable and facilitate ver-  
41 ification by the savers; and they shall proscribe the use of language  
42 and forms which might be misleading or obscure the meaning of  
43 the disclosures required by this act.

5

[J] 1 Sec. 6. Enforcement. (a) If a savings institution willfully and  
2 knowingly gives false or inaccurate information or fails to provide  
3 information which is required to be disclosed under the provisions  
4 of this act, that institution shall be subject to the remedies provided  
5 in K.S.A. 50-634 and 50-636, and amendments thereto.

6 (b) Except as otherwise provided in this section, a savings in-  
7 stitution which, in violation of the provisions of this act, fails to  
8 disclose information to a person entitled to the information under  
9 the provisions of sections 1 to 5, inclusive, shall be liable to such  
10 person in an amount not less than \$100 nor more than \$1,000 and  
11 the costs of the action together with reasonable attorney fees as  
12 determined by the court.

13 (c) A savings institution may not be held liable in any action  
14 brought under this section for a violation of the provisions of sections  
15 1 to 5, inclusive, if the savings institution shows by a preponderance  
16 of evidence that the violation was not intentional and resulted from  
17 a bona fide error notwithstanding the maintenance of procedures  
18 reasonably adopted to avoid the error, and within 15 days after  
19 discovering an error, and prior to the institution of an action under  
20 this section or the receipt of written notice of the error, the savings  
21 institution notifies all persons concerned of the error, makes whatever  
22 adjustments in the appropriate account as are necessary. Neverthe-  
23 less, the person bringing the error or infraction of the law to the  
24 attention of the savings institution shall be rewarded an amount of  
25 not less than \$100.

26 (d) No action pursuant to this section may be brought more than  
27 five years after the date of the occurrence of the violation.

28 Sec. 7. This act shall take effect and be in force from and after  
29 its publication in the statute book.

1-2

# BEFORE

# AFTER TRUTH IN SAVINGS

1990 KANSAS HOUSE BILL No. 2321

## \$ THRIFT'S CURRENT SAVINGS RATES

	Current Rate	Annual Yield
Savings Account:	8.750%	9.241%

### Fixed Rate, Fixed Term Certificates:

90-179 Days	9.700%	10.058%
180-364 Days	10.000%	10.381%
12-24 Months	10.500%	10.921%
24-36 Months	11.000%	11.462%
36-48 Months	11.300%	11.788%

### IRA/KEOGH

18-Month Term	10.500%	11.231%
---------------	---------	---------

Thriftville  
700 East 12th Street  
Banking, US 72272  
(010) 537-2837

Suburbia  
15 North 8th Street  
Credit, US 72272  
(010) 532-5510

Center  
100 West Street  
Loan, US 72177  
(010) 539-5135

## \$ THRIFT'S CURRENT SAVINGS RATES

	Daily Rate Cents /\$100/Day	Payable without Penalty
Savings Account:	2.42 ¢	Monthly

### Fixed Rate, Fixed Term Certificates:

90-179 Days	2.62 ¢	Quarterly
180-364 Days	2.70 ¢	Quarterly
12-24 Months	2.84 ¢	Quarterly
24-36 Months	2.97 ¢	Quarterly
36-48 Months	3.05 ¢	Quarterly

### IRA/KEOGH

18-Month Term	2.91 ¢	Varies
---------------	--------	--------

Thriftville  
700 East 12th Street  
Banking, US 72272  
(010) 537-2837

Suburbia  
15 North 8th Street  
Credit, US 72272  
(010) 532-5510

Center  
100 West Street  
Loan, US 72177  
(010) 539-5135

An actual advertisement with names substituted

NOTE: This ad fails to tell you that the yields were computed by:  
Monthly compounding on a 365/360 day basis for Savings Accounts.  
Quarterly compounding on a 365/365 day basis for CDs.  
Daily compounding on a 365/360 day basis for IRAs.

The advertised yields expressed in Cents per \$100 per Day

NOTE: All rate quotes After Truth in Savings are daily, simple. No problem! All rates are easy to compare. Higher is better.



STATE OF KANSAS

OFFICE OF THE ATTORNEY GENERAL

2ND FLOOR, KANSAS JUDICIAL CENTER, TOPEKA 66612-1597

ROBERT T. STEPHAN  
ATTORNEY GENERAL

MAIN PHONE: (913) 296-2215  
CONSUMER PROTECTION: 296-3751  
TELECOPIER: 296-6296

TESTIMONY OF  
DEPUTY ATTORNEY GENERAL ARTHUR R. WEISS  
ON BEHALF OF ATTORNEY GENERAL ROBERT T. STEPHAN  
TO THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

RE: S.B. 155

FEBRUARY 21, 1991

Mr. Chairman and Members of the Committee:

Thank you for allowing the Attorney General's Office this opportunity to testify in support of the principles of Senate Bill 155. One of the best and most effective tools the Attorney General's Office has in preventing injury to Kansas consumers is education. Disclosure plays a major role in the education of our citizens.

Senate Bill 155 takes great steps in clarifying the complexities of our everyday transactions with financial institutions. It has long been a goal of the Attorney General's Office to support any legislation which further enhances public awareness of daily transactions.

For that reason we give our support to the principles of disclosure found in Senate Bill 155. Thank you for this opportunity.

*Attachment 2*  
*7 I & I*  
*2/21/91*



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

February 21, 1991

TO: Senate Committee on Financial Institutions and Insurance  
RE: **SB 155** - The consumer savings and validation act

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss the provisions of **SB 155** with the committee. This is not the first time the Legislature has addressed this issue and, as in past hearings, we must express our concern about the viability of such legislation.

We do not disagree with Dr. Morse and the supporters of this measure on the issue of accurate disclosure of interest rates, but we do disagree that it can be solved at the state level. Because of the interstate, national, and even global nature of financial services in today's world it simply is not feasible for one state to enact a unique financial disclosure law. In addition, we believe it would be very difficult, if not impossible, for banks to meet current federal regulatory requirements for disclosing information on interest on deposits and also meet the extraordinary disclosure requirements of **SB 155**.

In a state like Kansas which has extensive interstate printed and electronic media advertising by financial institutions the enactment of **SB 155** would create enormous confusion and significant costs which would ultimately be reflected in lower rates and higher service fees. This would obviously put Kansas institutions at a competitive disadvantage with their peer institutions just across the state line.

If disclosure on savings accounts and other interest-bearing deposits is a problem for the average citizen then it should be addressed on a national basis. The American Bankers Association has, in fact, supported the most recent efforts in Congress to enact "truth in savings" legislation.

There are a number of questions concerning the enforcement provisions of **SB 155** to which we would have objection, but we believe the committee should first give careful consideration to the negative competitive impact the bill would have on all Kansas financial institutions.

A handwritten signature in black ink that reads "James S. Maag".

James S. Maag  
Senior Vice President

*Attachment 3  
FI + I  
2/21/91*



TESTIMONY

Before the Senate Committee on Financial Institutions and Insurance  
February 21, 1991

By  
George Logan, WIBW TV  
Government Relations Chairman  
Kansas Association of Broadcasters (KAB)

RE: SB 155

Mr. Chairman, Members of the Committee, I am George Logan, general manager of WIBW TV, Topeka and chairman of the KAB Government Relations Committee. The KAB represents a membership of 120 radio stations and 21 television stations in Kansas.

We appreciate the opportunity to appear before you concerning SB 155.

The provisions of SB 155 are well-intentioned and I want to assure you the broadcasters of this state do not condone false advertising. In fact, each station has established procedures for reviewing commercials and rejecting claims that are proven to be false or misleading.

However, we wish to bring to your attention the provisions of the bill that address advertising and the requirement that every ad relating to earnings payable contain disclosures above and beyond what is already required by federal regulation.

As you know, broadcast commercials are limited in length. They generally are either 10, 15, 20, 30 or 60 seconds. We fear the requirement of additional disclosures would have the tendency to place broadcast advertising at a competitive disadvantage with print with regard to any "earnings payable" advertising by financial institutions.

The print media is not time-bound and disclosures can be added very easily. For *4I+I*

*Attachment 4*  
*2/21/91*

those reasons, we feel this legislation, if enacted, could have the effect of driving this type of advertising from the broadcast media to print.

Advertising is the only source of revenue available to radio and television stations. We do not collect subscription fees. In these difficult economic and competitive times, stations all across Kansas are struggling to survive. In fact, during the last five years, our industry in this state has suffered a nine percent decrease in employment.

For these reasons, we must stand opposed to any proposed legislation that would cause a further erosion of our revenue base. We think such measures are not in the best interest of the State or the communities we are licensed to serve.

Thank you for your consideration.



Jeffrey D. Sonnich, Vice-President

Suite 512  
700 Kansas Avenue  
Topeka, Kansas 66603  
(913) 232-8215

February 21, 1991

TO: Senate Committee on Financial Institutions and Insurance  
FROM: Jeff Sonnich  
RE: S.B. 155 - Consumer savings disclosure and validation act

Mr. Chairman. Members of the Committee. The Kansas-Nebraska League of Savings Institutions appreciates the opportunity to appear before the Senate Committee on Financial Institutions and Insurance to express some of our concerns with S.B. 155.

One of the purposes of S.B. 155 as stated in section 2 is "To reduce costs and improve communication by standardizing the language used for computing and disclosing fully all the terms and conditions pertaining to: the receipt and payment of principal amounts, payment of earnings and assessment of charges and penalties on consumer savings." We submit that this bill as written will not achieve this purpose. In fact it may have the direct opposite effect.

The implementation of S.B. 155 would be costly for financial institutions in Kansas. Extensive reprogramming of an institutions software would be required to comply with this act. This problem is further compounded for those institutions that utilize large data centers. The cost of compliance will be borne by the consumer through higher fees, charges and higher loan rates.

The use of the terms DR (daily rate) and DRE (daily rate equivalent) we feel would be confusing to the consumer. The consumer's frame of reference is based on being paid interest on their accounts not "cents per \$100 per day". Further, these terms are inconsistent with those used by financial institutions in the surrounding states. Kansas financial institutions located in border cities may be at a competitive disadvantage to financial institutions across state lines since, as I stated before, the consumer is used to being paid interest not "pennies".

*Attachment 5  
FI + I  
2/21/91*

The advertising disclosure requirements in Sections 4 would effectively preclude Kansas financial institutions from soliciting deposits. This goes back to the confusion that would be created in explaining the terms used in the bill. It would appear that Section 4 sub (b) (2) would require that the majority of an advertisement be dedicated to the explanation of the details of many savings instruments that do not compound daily on daily balances. Television, radio ...and to some extent print advertisements...would be limited to a generic reference to savings accounts being offered by financial institution and not to the specific products they offer.

We are also concerned that in section 3 the definition of "Savings Institution" is inconsistent with both legal and presumed definition in other part of the country. Also, it is questionable as to whether S.B. 155 would have application to out-of-state money market funds.... a chief competitor of Kansas financial institutions for Kansas dollars.

We are equally confused with the intent of the penalty provisions of this bill. We agree that any willful intent to give false or inaccurate information should be punishable, but even minor errors or omissions are subject to civil penalties. We are unaware of any Kansas financial institution confronted with a bona fide error that has failed to make corrections to the consumer's accounts. This bill would require that even in those cases where a bona fide mistake was made and the appropriate adjustments were made to the account a "reward" of up to \$100 dollars must be given to the individual who brings the infraction to the attention of the financial institution.

The League supports the concept of providing consumers with meaningful and accurate information in the disclosure and advertisement of savings accounts. S.B. 155 in our opinion goes far beyond this objective.

In closing I would like to point out that Congress is currently considering a uniform Truth-in-Savings law that would apply to all financial institutions. HR 447 was recently introduced by Representative Lehman (FL.). Passage of state legislation at this time would be premature. It would seem that a better approach would be to await Congressional action so that we could be assured that Kansas law would not be in conflict with Federal law and consistent disclosures would be utilized nationwide.

Jeffrey Sonnich  
Vice President, KNLSI

JDS:bw

TESTIMONY ON SB 155

AN ACT concerning the consumer savings disclosure  
and validation act

Presented to the

Senate Financial Institutions and Insurance Committee

February 21, 1991

by the

KANSAS CREDIT UNION LEAGUE

Mr. Chairman, members of the Committee:

I am Jerel Wright, Governmental Affairs Director of the Kansas Credit Union League. Our association holds a voluntary membership of 185 of the 188 credit unions located in Kansas.

Credit unions believe the disclosure of savings account information is good for the consumer. For almost 4 years, credit unions have actively promoted and supported voluntary Truth in Savings (T-I-S) disclosures among credit unions in Kansas and throughout the United States. Examples showing how credit unions are fulfilling our commitment to this idea are attached. This includes:

- a sample credit union T-I-S resolution
- a model T-I-S disclosure policy
- a sample savings account disclosure
- a brochure explaining what will be disclosed under T-I-S.

Kansas credit unions provided individual credit union members with specific savings account information including rates, computation methods, minimum deposit requirements, minimum balance requirements, early withdrawal penalties as well as special fees for the account.

*Attachment 6  
T I & I  
2/21/91*

I emphasize that credit unions have been successful in implementing T-I-S voluntarily. This proposal implements many savings account disclosure provisions which credit unions have adopted voluntarily.

At the same time, this proposal brings to mind several questions.

Should T-I-S disclosures be mandated?

Is state legislation the most appropriate way to establish T-I-S requirements?

How does this affect out-of-state financial institutions providing accounts to Kansas consumers?

Should a financial institution be subject to a strict penalty for violating the act?

What additional legal liabilities does this create for financial institutions?

CREDIT UNION TRUTH IN SAVINGS RESOLUTION

WHEREAS the credit union movement, representing a nationwide network of member-owned financial cooperatives, believes that credit union members have a right to know all relevant information about their credit union accounts; and

WHEREAS the complexity of savings instrument terms and conditions is often overwhelming for the average consumer; and

WHEREAS consumer education is a priority service offered by credit unions to their members;

THEREFORE BE IT RESOLVED that the Board of Directors of the \_\_\_\_\_ Credit Union adopts the following Policy on Truth in Savings:

The \_\_\_\_\_ Credit Union Truth-in-Savings Disclosure Policy

1. Written Advertising Disclosure

All written advertisements, promotional announcements, and solicitations by the \_\_\_\_\_ Credit Union for any type of account will include:

- o A statement that credit unions are member owned financial cooperatives that pay dividends or interest to members based upon earnings; therefore future dividend or interest rates cannot be guaranteed (this provision is not applicable to state chartered credit unions with deposit authority);
- o A disclosure of the dividend or interest rate paid during the most recently-ended accounting period for which interest or dividends were paid, on each type of account described in the advertisement, announcement or solicitation; and the beginning and ending dates for each accounting period(s) (for state chartered credit unions with deposit authority, substitute, "A statement of any annual percentage yield, the period during which such yield will be in effect and the frequency with which interest will be compounded and credited");
- o A disclosure of the method used to calculate the balance upon which dividends or interest are compounded, and the frequency of compounding, for each type of account;
- o A disclosure of minimum opening balances required for each type of account described;

- o A disclosure of minimum ongoing account balances required for each type of account described;
- o An itemized disclosure of additional fees that are required for each type of account described;
- o A disclosure of all penalties resulting from early withdrawal of funds from each type of account described;
- o A disclosure of any time requirements necessary to earn dividends on each type of account described.

2. Account Schedules

For each type of account offered, the \_\_\_\_\_ Credit Union will maintain at each office, and make available to members when accounts are opened and thereafter upon request, a schedule of fees, charges, penalties, terms, conditions, interest and dividends paid during the most recently-ended accounting period. Each schedule for each type of account will also disclose the method of calculating the balance upon which interest or dividends are paid and the compounding schedule.

3. One-time Mailing of Account Schedules to Members

The \_\_\_\_\_ Credit Union will mail directly to all members, within 120 days of adoption of these voluntary guidelines, a copy of the schedule for each class of account offered by the credit union. Thereafter, the \_\_\_\_\_ Credit Union will give schedules to members when accounts are opened and upon request.

4. Changes in terms, conditions, etc. - Disclosures to Members

Whenever the \_\_\_\_\_ Credit Union changes any term, charge, condition, method of computing or compounding dividends or interest, or penalty for any type of fixed rate account, the credit union will mail a notice of any such change to each member owning that type of account prior to the effective date of such change whenever possible, and in any event within 45 days of the effective date of such change.



## Model Truth-in-Savings Disclosure Policy

### 1. Written Advertising Disclosures

All written advertisements, promotional announcements, and solicitations by credit unions for any type of account will include:

- o A statement that credit unions are member owned financial cooperatives that pay dividends or interest to members based upon earnings; therefore future dividend or interest rates cannot be guaranteed;
- o A disclosure of the dividend or interest rate paid during the most recently-ended accounting period for which interest or dividends were paid, on each type of account described in the advertisement, announcement or solicitation; and the beginning and ending dates for each accounting period(s):
- o A disclosure of the method used to calculate the balance upon which dividends or interest are compounded, and the frequency of compounding, for each type of account;
- o A disclosure, if applicable, of minimum opening balances required for each type of account described;
- o A disclosure, if applicable, of minimum ongoing account balances required for each type of account described;
- o An itemized disclosure of additional fees, if any, that are required for each type of account described;
- o A disclosure, if applicable, of all penalties resulting from early withdrawal of funds from each type of account described;
- o A disclosure, if applicable, of any time requirements necessary to earn dividends on each type of account described.

### 2. Account Schedules

For each type of account offered, credit unions will maintain at each office, and make available to members when accounts are opened and thereafter upon request, a schedule of fees, charges, penalties, terms, conditions, interest and dividends paid during the most recently-ended accounting period. Each schedule for each type of account will also disclose the method of calculating the balance upon which interest or dividends are paid and the compounding schedule.

### 3. One-time Mailing of Account Schedules to Members

Credit unions will mail directly to all members, within 120 days of CUNA's adoption of these voluntary guidelines, a copy of the schedule

for each class of account offered by the credit union. Thereafter, credit unions will give schedules to members when accounts are opened and upon request.

4. Changes in terms, conditions, etc. - Disclosures to Members

Whenever the credit union changes any term, charge, condition, method of computing or compounding dividends or interest, or penalty for any type of fixed rate account, the credit union will mail a notice of any such change to each member owning that type of account within 45 days of the effective date of such change.

# SAVINGS ACCOUNT DISCLOSURE

Credit Union \_\_\_\_\_

Here is important information about your savings account(s).

I. TYPE OF ACCOUNT \_\_\_\_\_

II. TERMS OF INTEREST (DIVIDENDS):

1. The most recent dividend rate \_\_\_\_\_ %
2. The annual yield \_\_\_\_\_ %
3. The dividend is computed (*check one*)
  - on share multiples of \$ \_\_\_\_\_
  - on the actual dollar amount
4. Dividends are paid at the close of the dividend period which is every \_\_\_\_\_.
5. The account earns dividends based on (*check one*)
  - the low monthly balance in dividend period
  - each day's balance
  - the average daily balance
  - other \_\_\_\_\_
6. Dividends are:
  - declared at the close of the dividend period (variable)
  - fixed (certificate of deposit or money market account)
  - variable tied to a floating market index which is: \_\_\_\_\_
7. Unless dissolved, the credit union guarantees payment of dividends at rates so declared.
8. The dividend rate is tied to a floating market index which is \_\_\_\_\_

III. CONDITIONS (*only the box(es) checked apply*)

- Minimum Deposit \$ \_\_\_\_\_
- Minimum Withdrawal \$ \_\_\_\_\_
- Minimum balance required \$ \_\_\_\_\_
- If the account falls below the minimum balance required above, then here is what will happen to your account \_\_\_\_\_
- Maturity Date \_\_\_\_\_
- Penalty for early withdrawal:
  - 90 days interest on amount withdrawn
  - 180 days interest on amount withdrawn
  - other \_\_\_\_\_
- Funds paid by the \_\_\_\_\_ earn from the \_\_\_\_\_. This account is NON-TRANSFERABLE.

IV. FEES

You will be charged a fee of (*only the box(es) checked apply*):

- \$ \_\_\_\_\_ for each in person or mail withdrawal over \_\_\_\_\_
- \$ \_\_\_\_\_ as maintenance fee, once each \_\_\_\_\_
- \$ \_\_\_\_\_ once each \_\_\_\_\_ for as long as your balance is less than the minimum balance required.
- \$ \_\_\_\_\_ for each telephone transfer
- \$ \_\_\_\_\_ for each preauthorized transfer over \_\_\_\_\_
- \$ \_\_\_\_\_ for each transfer from savings to cover the NSF item(s) over \_\_\_\_\_
- \$ \_\_\_\_\_ for each returned item(s)
- \$ \_\_\_\_\_ for each stop payment
- \$ \_\_\_\_\_ for each block of 4 or more stop payments
- \$ \_\_\_\_\_ for closing the account
- \$ \_\_\_\_\_ Other \_\_\_\_\_
- \$ \_\_\_\_\_ Other \_\_\_\_\_

## TRUTH IN SAVINGS PLEDGE TO YOU

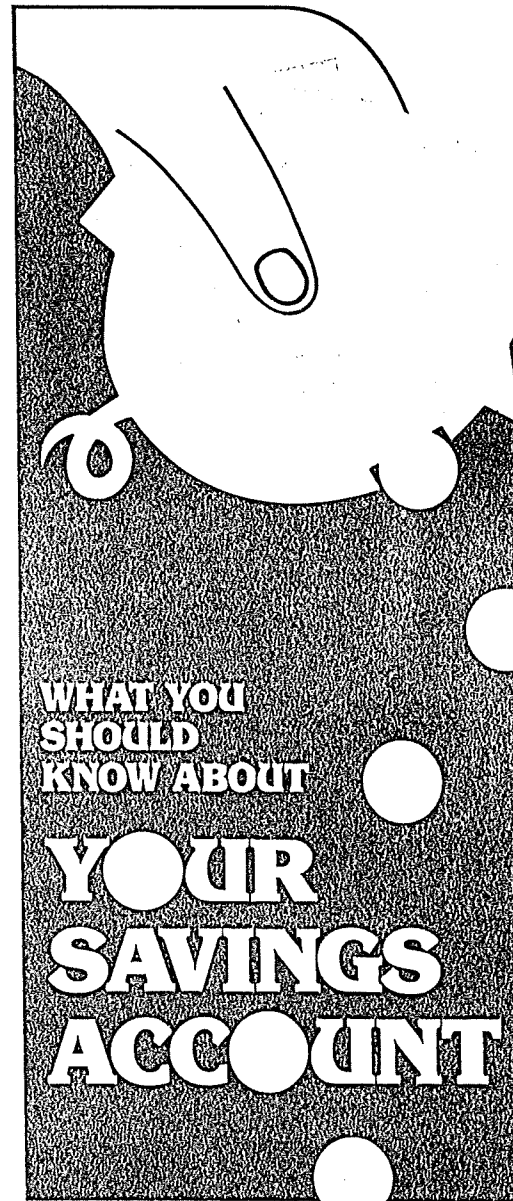
**W**e pledge to tell you:

- How dividends on your accounts are calculated
- When your money starts earning dividends
- Whether any special conditions exist on your accounts
- How other accounts at the credit union earn dividends
- When any conditions on your accounts change
- All about time requirements, withdrawal limits, penalties, minimum balances and transaction limits.

This savings pledge is one of the many things that make your credit union unique.

A Service of Your Credit Union, the League, and  
the Credit Union National Association

© 1987 CUNA



89