

Approved 3/19/92  
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:10 a.m./p.m. on Wednesday, March 18, 1992 in room 529-S of the Capitol.

~~All~~ members ~~were~~ present ~~except~~: Senators Bond, Francisco, Kerr, McClure, Parrish, Salisbury, Strick, Ward, and Yost.

Committee staff present:

Fred Carman, Revisor  
Bill Wolff, Research  
June Kossover, Committee Secretary

Conferees appearing before the committee:

Wayne Warfel, Administrator of the Kansas State Department of Credit Unions  
Jerel Wright, Kansas Credit Union Association  
Frank Dunnick, Kansas State Bank Commissioner

The meeting was called to order by Chairman Bond at 9:10 a.m.

The Chairman opened the hearing on HB 2726, an act to provide for improved regulation of credit unions. Wayne Warfel, Administrator of the Credit Union Department, appeared before the committee to testify in favor of HB 2726. (Attachment #1.) He also presented a summary of the proposed amendments. (Attachment #2.) At Senator Bond's request, Mr. Warfel clarified language in Section 5 and Section 7 and the strikeover in Section 7. In response to Senator Salisbury's question, Mr. Warfel explained that the bill would allow the Credit Union Department to define at what point a deteriorating credit union could be placed in conservatorship.

Jerel Wright, Kansas Credit Union Association, appeared before the committee to testify in support of HB 2726, stating that the KCUA has had input into the bill and support its passage. (Attachment #3.)

There being no further questions and no further conferees, the Chairman declared the hearing closed. Senator Salisbury made a motion, seconded by Senator Parrish, to move HB 2726 favorably. The motion carried.

The Chairman opened the hearing on HB 2744. Bank Commissioner Frank Dunnick appeared before the committee to testify in support of HB 2744. (Attachment #4.) Mr. Dunnick advised that this bill would allow branch banks to engage in trust related activities, and that all other powers now exist in branch banks except for trust powers. There were no questions and no further conferees and the hearing was closed. Senator Salisbury made a motion to move HB 2744 favorably. Senator Parrish seconded the motion. The motion carried. The bill will be carried by Senator Salisbury.

The Chairman declared the hearing on HB 2745 open. Mr. Dunnick also testified in support of HB 2745. (Attachment #4.) This bill would amend K.S.A. 9-1115 to clarify that the burden of determining the amount of sufficient bond for officers and employees rests with the bank's board of directors and would simply reflect what is currently the actual practice. The amount would be determined by the bank's board, but the form would be approved by the Bank Commissioner. There being no further conferees, the Chairman declared the hearing closed. Senator Parrish made a motion, seconded by Senator Salisbury, to move HB 2745 favorably. The motion carried.

Senator Kerr made a motion, seconded by Senator Parrish to approve the minutes of the meeting of March 17, 1992, as submitted. The motion carried.

Chairman Bond announced that an amendment to HB 3040 will be offered on the floor to change the effective date to the date of publication in the Register. HB 3040 was moved favorably by the committee on March 17, 1992.

The committee adjourned at 9:35 a.m.

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.



TESTIMONY ON H B 2726

AN ACT RELATING TO CREDIT UNIONS

Presented to the

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

March 18, 1992

Mr. Chairman, Members of the Committee:

I am Wayne Warfel, Administrator of the Kansas State Department of Credit Unions. My agency is responsible for regulating 145 state chartered credit unions in the state of Kansas. My purpose today is to provide you with information about our bill which contains proposed amendments to twenty-six sections of the Kansas Credit Union Act. The proposed amendments are intended to provide for improved regulation of our credit unions.

We are proposing these changes for a variety of reasons -

to comply with requests from the attorney general's office that the act be brought into compliance with other acts, specifically, the Kansas administrative procedures act and the act for judicial review and civil enforcement of agency actions,

to revise or delete statutes that have become outdated or obsolete,

to more properly reflect the role the credit union council presently fills, which is that of an advisory body,

to provide the Department with conservatorship powers, which allows more latitude in managing the affairs of troubled credit unions.

Other more minor changes have been made that are technical or of a "housekeeping" nature.

The changes we are proposing were provided by a committee composed of individuals representing the attorney general's office, the Kansas Credit Union League, which is the state trade association for all Kansas credit unions and, of course, our Department. Our efforts and progress have been communicated from time to time to the Governor's office and the Revisor of Statutes office.

In early December of last year, a draft copy of our proposed changes and an "executive summary" were provided to all state chartered credit unions. We asked credit union officials to review the changes and respond with any comments or concerns they may have. The few responses we received were reviewed by the committee and acted upon.

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Attachment #1

(2)

The changes we are proposing fall into one of four categories according to the principal area affected, namely -

Credit Unions  
The Credit Union Council  
Corporate Credit Unions  
The Kansas State Department of Credit Unions.

These changes are contained in the "Executive Summary" which I have provided to each of you.

I would like to respectfully ask the committee's support for this bill.

PROPOSED AMENDMENTS  
to the  
KANSAS CREDIT UNION ACT

EXECUTIVE SUMMARY  
(Revised January 30, 1992)

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Attachment #2

The Kansas State Department of Credit Unions is proposing a series of amendments to the Kansas Credit Union Act. The proposed amendments are intended to provide credit unions with limited additional flexibility in their operations; to make the Kansas Credit Union Act consistent with other Kansas statutes; to provide the Kansas State Department of Credit Unions with additional powers to enhance its ability to effectively regulate credit unions; and to clarify provisions of the current statute. We have attempted to make as few changes as possible to achieve these objectives.

The proposed changes generally fall into one of four categories. While all of the changes may directly or indirectly affect credit unions, for purposes of this summary, the changes will be classified according to the principal area which is affected. Those areas are:

1. Credit Unions
2. The Credit Union Council
3. Corporate Credit Unions
4. The Kansas State Department of Credit Unions

#### CREDIT UNION CHANGES

Section 17-2204(8) is proposed to be changed to provide that a credit union can discount and sell interim student loans to anyone.

Section 17-2204(10) is proposed to be changed to permit credit unions to discount or sell U.S. Government, agency or municipal securities to any corporate credit union.

Section 17-2209(d) is proposed to be added to permit credit unions to have an executive committee of the board of directors. This committee would only have those powers of the board as the bylaws would provide. The committee would be able to exercise the powers of the board when it would be difficult to hold a board meeting. Meetings of the executive committee would not count as one of the required board meetings.

Section 17-2212(a) is proposed to be changed to make clear that credit unions retain their statutory lien on shares which may be held by non-members.

Section 17-2212(c) is proposed to be changed to clearly cover all classes of persons who may have an interest in an account at the credit union.

Section 17-2216 is proposed to be changed by deleting subsection (c). This change is intended to make clear that employees of credit unions must be members to borrow money. In addition, this change will also eliminate the need for credit unions to report on loans to employees unless they are also a director or member of the credit or supervisory committee.

Section 17-2226(a) is proposed to be changed to increase to 5% of the credit union's total shareholdings, reserves and undivided earnings, the amount of real estate which a credit union could purchase or lease for its use.

Section 17-2226(b) is proposed to be changed to increase to 5% of the credit union's total shareholdings, reserves and undivided earnings, the amount of equipment or services that a credit union could purchase, contract for, or lease, subject to an overall combined limit with subsection (a) of 5%.

Section 17-2227 is proposed to be changed to provide that all information acquired by the administrator in an investigation or examination is confidential and may only be disclosed as authorized in the act. The Attorney General and the credit union's bonding company are added to those authorized to receive such information.

Section 17-2230(c) is proposed to be changed to make clear that all shareholders have the same priority in liquidation.

Section 17-2231(f) is proposed to be added to provide a definition for the term "nonprofit association" used in Section 17-2231(c).

Section 17-2232(a) is proposed to be changed to make clear that 5 members of the Credit Union Council must be officers of Kansas state chartered credit unions. In addition, this section would also make clear that only Kansas state chartered credit unions can submit names to the governor for membership on the Credit Union Council.

Section 17-2241 is being changed to conform appeals by credit unions under the Credit Union Act with the requirements of the Act for Judicial Review and Civil Enforcement of Agency Action, K.S.A. 77-601 through 77-627.

#### CREDIT UNION COUNCIL CHANGES

One of the areas in which we were required to make major changes was in the area of responsibility for the Credit Union Council. These changes were necessary as part of the amendments to conform the administration of the Credit Union Act to the requirements of the Kansas Administrative Procedure Act. The proposed changes retain the Council as an adviser to the Kansas Credit Union Administrator (Section 17-2232(c)). However, the council's other statutory powers have been deleted to reflect required or actual

administrative processes or practices. These changes are found in 17-2232 through 17-2242.

#### CORPORATE CREDIT UNION CHANGES

The proposed changes in Section 17-2214(a) provide an express statutory statement of corporate credit union powers. In most cases, the powers reflect activities in which corporates currently engage relying upon incidental powers or interpretation of other powers. These changes will better position Kansas corporate credit unions to defend the nature of their activities. In addition, Section 17-2217(c) is proposed to be changed to establish a required statutory reserve for corporate credit unions.

#### STATE DEPARTMENT OF CREDIT UNIONS

The proposed changes will affect the Kansas State Department of Credit Unions in three major ways: (1) The Department will be granted conservatorship powers to provide flexibility in managing the affairs of troubled credit unions as may be necessary to protect the members. This proposed change is found in Section 17-2206(h). (2) The Department will be given the ability to establish by regulation the circumstances under which it may step in as conservator before a credit union reaches the point of insolvency. This proposed change is found in Section 17-2206(d); and (3) Section 17-2206(g) of the act will provide that all administrative proceedings under the act will be conducted in accordance with the Kansas Administrative Procedure Act.

#### CONCLUSION

In addition to the primary changes previously discussed, several other minor changes are being proposed. These changes are primarily conforming changes to one section caused by changes in another section. In addition, other minor changes include deletion of sections no longer needed such as those dealing with uninsured credit unions.

We believe that the proposed changes will improve the Kansas Credit Union Act and provide greater flexibility for and protection of Kansas Credit Unions.



# Kansas Credit Union Association

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## TESTIMONY ON H.B. 2726

### AN ACT relating to credit unions

Presented to the

### SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

March 18, 1992

by the

### KANSAS CREDIT UNION ASSOCIATION

Mr. Chairman, members of the Committee:

I am Jerel Wright, Governmental Affairs Director for the Kansas Credit Union Association. Our association represents 183 of the 185 state-chartered and federally chartered credit unions located in Kansas.

#### CREDIT UNIONS SUPPORT THE PASSAGE OF HB 2726

A long standing position of the credit union association is support for the Kansas State Department of Credit Unions to maintain an effective state supervisory and regulatory agency. The changes proposed in HB 2726 will assure that the department of credit unions can supervise and regulate state-chartered credit unions in a manner consistent with regulation of federally chartered credit unions in Kansas.

The Kansas Credit Union Association is comfortable with the current provisions of HB 2726 since credit unions throughout the state have had sufficient time to provide comments and input to the credit union department concerning the proposed changes to Kansas credit union law.

For these reasons, we support HB 2726.

Thank you Mr. Chairman for considering our comments. I will stand for questions at your direction.

File 3/18/92  
Attachment #3

**TESTIMONY BEFORE**

**THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE**

**Presented by Bank Commissioner Frank Dunnick**

**Wednesday, March 18, 1992**

Good morning, Mr. Chairman, members of the committee. My name is Frank Dunnick; I am the Kansas Bank Commissioner. I am appearing before you today to testify in support of several proposed amendments to statutes which affect Kansas banks and the operation of our department.

**HOUSE BILL 2744**, if approved, would amend K.S.A. 9-1111, which pertains to branch banking. The current statute does not provide for banks to engage in trust related activities at branch locations. This amendment will clarify that this activity may be exercised at branch locations, provided the bank has been granted trust authority by the state bank commissioner.

This clarification of the statute will ensure banks can legally provide trust services to the community through branch locations. Generally, this issue is most prevalent in merger situations. This amendment allows trust services to continue in all locations of a merged bank.

**HOUSE BILL 2745**, if approved, will amend K.S.A. 9-1115 regarding surety bond coverage for bank officers and employees. This amendment will clarify that the burden of determining the amount of sufficient bond for officers and employees rests with the bank's board of directors. This change in the statute would simply reflect what is the actual practice of the banking department.

This concludes my comments on the proposed amendments. I appreciate the committee's time and attention, and I am happy to answer any questions the members of the committee may have. Thank you.

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Attachment #4