

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Dick Bond at 9:10 a.m. on January 25, 1995 in Room 529-S of the Capitol.

All members were present.

Committee staff present: Dr. William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
June Kossover, Committee Secretary

Conferees appearing before the committee: John Smith, Administrator, Department of Credit Unions
Danielle Noe, Kansas Credit Union Association
Henry Dyhouse, U. S. Central Credit Union
Randy Hershey, Community Development Credit Union

Others attending: See attached list

Senator Stan Clark moved to approve the minutes of the meeting of January 24 as submitted. Senator Steffes seconded the motion. The motion carried.

The hearing was opened on SB 31, which concerns the regulatory authority of the credit union administrator. John Smith, Administrator of the Kansas Department of Credit Unions, appeared before the committee to explain this legislation. (Attachment #1-1) Mr. Smith advised the committee that this bill would amend language in KSA 17-2204a, provide the administrator authority to promulgate rules and regulations to clarify reporting requirements, and permit a corporate credit union to establish one or more classes of non-voting members. According to Mr. Smith, enactment of this legislation will not impose an additional regulatory burden upon credit unions. Senator Lee requested an explanation of the difference between corporate credit unions and actual person credit unions. It was clarified that a corporate credit union is an entity to serve credit unions only--not the public.

Danielle Noe, Governmental Affairs Director for the Kansas Credit Union Association, advised the committee that the bill would not substantially increase regulatory burdens on credit unions and would guarantee that procedures are followed during the rule making process. (Attachment #2)

Henry Dyhouse, Associate General Counsel of U.S. Central Credit Union, added his support to passage of this bill. (Attachment #3) In response to Senator Steffes' question concerning whether this would move credit unions away from social structure and toward a primarily business atmosphere, Mr. Dyhouse stated that there is no intent to deny any member representation. The intent is to create a more efficient credit union system, and that this has not been a controversial issue among credit unions.

Mr. Carman questioned why this bill deals with disparate issues and different statutes. Ms. Noe responded that the common denominator is that all three amendments deal with regulatory authority for credit unions. Following discussion of who would be affected by this legislation, the hearing was closed.

Senator Clark moved to recommend this legislation favorably. Senator Lawrence seconded the motion; the motion carried.

The chairman opened the hearing on SB 32, relating to security checks of applicants by the KBI prior to employment by the state department of credit unions. Mr. Smith, Credit Union Administrator, also testified as a proponent on this bill. (Attachment #1-2) There being no questions and no other conferees, the hearing was closed. Senator Praeger made a motion, seconded by Senator Steffes, to move this bill favorably and place it on the Consent Calendar. The motion carried.

The hearing was opened on SB 33, allowing payments to credit union share accounts by nonmembers. John Smith, Credit Union Administrator, also testified as a proponent of this legislation. (Attachment #1-2,3,4) There is currently no provision in state law to allow deposits or contributions to state chartered credit unions by nonmembers, although this is permitted to nationally chartered credit unions. Senator Lee asked why banks, etc., would want to deposit funds in credit unions and how this would help the credit union; the reply was that this would help banks comply with the Community Reinvestment Act and the credit union would have immediate access to funds which could be loaned to members in lower income areas.

CONTINUATION SHEET

MINUTES OF THE Senate Committee on Financial Institutions & Insurance, Room 529-S Statehouse, on January 25, 1995.

Danielle Noe, Kansas Credit Union Association, also testified as a proponent of this legislation, and offered amendments to clarify the language in KSA 17-2231 (g) and 17-2204(o). (Attachment #4)

Randy Hershey, Community Development Credit Union of Sedgwick County, explained the need for community development credit unions and stated that this legislation would allow credit unions to put money back into communities with a low income population. (Attachment #5)

Written testimony was submitted by Ken Stewart, legal counsel to the steering committee to form the community development credit union in Wichita. (Attachment #6)

There were no questions and no further conferees; the hearing on **SB 33** was closed.

Chairman Bond requested that the language on page 3 be reviewed to be sure that it will accomplish what is intended by this legislation. The revisor will return to the committee at a future date with revised language.

The committee adjourned at 10:00 a.m. The next meeting is scheduled for January 26, 1995.

SENATE FINANCIAL INSTITUTIONS & INSURANCE
COMMITTEE GUEST LIST

DATE: 1/25/95

NAME	REPRESENTING
John P. Smith	KS STATE Dept Credit Union
Henry M. Anghouse	U.S. Central Credit Union
Stacy Empson	Hein, Ebert & Weir
Danielle Noel	KCUA
Randy Tushy	Wichita/Sedgwick Co. CDCU
A Lee Williams	Kansas Credit Union Assoc.
Michael D. Culbertson	Ks. Credit Union Assoc.
Sue Shelby	Nekar Bell CU
Stephanie Pughert	Nekar Bell CU
Meg Wible	KS Credit Union Assn.
Roger Traudt	FIC
Bob AT Hon	PIA
Jim Oliver	FIX
Lee Wright	FARMERS INS. GROUP

Kansas State Department of Credit Unions

January 25, 1995

Statement submitted by John P. Smith, Administrator, Kansas State Department of Credit Unions, to the Senate Financial Institutions and Insurance Committee in support of Senate Bills 31, 32 and 33.

Senate Bill 31

1. The amendment to K.S.A. 17-2204a is a "clean up" item by changing the reference of K.S.A. 17-2204a(7) to K.S.A. 17-2204a(g). The reference to K.S.A. 17-2204a(7) is incorrect as the designation of subsection (7) was changed to subsection (g) during the 1992 recodification of credit union statutes. The amendment will correct the oversight and provide the correct reference.
2. The amendments to K.S.A. 17-2206 and 17-2211 will provide the administrator authority to promulgate rules and regulations to clarify reporting requirements and plans and programs concerning the safety and soundness of credit unions as may be required by the state credit union department. During 1993 and 1994, the credit union administrator formed a quality improvement team of credit union leaders to review Kansas credit union statutes and the National Credit Union Administration's rules that apply to federally insured state chartered credit unions to determine if adoption of regulations could improve the supervision of Kansas credit unions. Following this review, the quality improvement team recommended that the credit union administrator request from the Kansas legislature, regulatory authority for K.S.A. 17-2206 and K.S.A. 17-2211. Adoption of rules and regulations by the administrator will **not** impose additional regulatory burden upon credit unions, but will provide the express statutory basis for the state credit union department to promulgate enforceable regulations in such areas as requirements for disaster recovery plans and their implementation and establishing and clarifying audit requirements. The Administrator will use the Kansas Administrative Regulations to develop and implement regulations if Senate Bill 31 is approved.

*Senate 7/41
1/25/95
Attachment # 1*

Statement submitted by John P. Smith, Administrator, Kansas State Department of Credit Unions, to the Senate Financial Institutions and Insurance Committee in support of Senate Bills 31, 32 and 33.

3. The amendment to K.S.A. 17-2214 will permit a corporate credit union, subject to the positive control of the administrator, to establish one or more classes of non-voting members. This change would allow a corporate credit union to directly provide services to related corporate entities without creating a block of votes in the corporate credit union.
-

Senate Bill 32

This addition to the credit unions statutes provides authority for a security background check prior to employment of the credit union department employees. The amendment will assist in ensuring that future employees of the credit union department have not been convicted of crimes that would render them unsuitable for employment in a position requiring physical presence in a credit union where cash and negotiable items are available. Language for the amendment was provided by the attorney general's office.

Senate Bill 33

This amendment to K.S.A. 17-2204 will provide authority for the administrator to promulgate rules and regulations to allow credit unions that have been designated as low income credit unions to accept payments to share accounts by non-members. "Low income" is an official National Credit Union Administration designation granted to credit unions serving a membership of which more than half are households of earning less than 80 percent of the national media income. Existing state statute does not allow for payment to shares by non-members or provide authority for the administrator to promulgate rules and regulations governing low income credit unions. Providing for non-member payment to shares and adoption of specific rules and regulations for this type of activity is basic to the success of establishing and maintaining low income credit unions in low wealth and undeserved communities.

Statement submitted by John P. Smith, Administrator, Kansas State Department of Credit Unions, to the Senate Financial Institutions and Insurance Committee in support of Senate Bills 31, 32 and 33.

The amendment will add section (o) to K.S.A. 17-2204(6) which would allow payment to shares by non-members to a credit union designated as a low income credit union. A non-member share would allow an entity not within the defined field of membership (i.e. banks, non-profit organizations, etc.) to make payments to share. Non-member shares would be allowed to only those credit unions that receive low income designation. Benefits derived by this addition include:

1. Geographic areas of Kansas which presently have income levels below national average and are under served would have made available to them financial services not presently available.
2. Currently it is easier to obtain a federal charter for low income credit unions.
3. Payment to shares by non-members will provide a source of funds to enable low-income credit unions to meet start-up costs and continuing operating expenses. This payment of shares is carried under the "shares" account in the equity portion of the balance sheet.

Rule and regulation authority will allow the administrator to:

1. Establish a limit of non-member shares.
2. Require and maintain an adequate business plan
3. Monitor and control the use of the non-member shares
4. Monitor and control the term of the non-member shares
5. Monitor and control the risk.

January 25, 1995

Statement submitted by John P. Smith, Administrator, Kansas State Department of Credit Unions, to the Senate Financial Institutions and Insurance Committee in support of Senate Bills 31, 32 and 33.

Attached is the rule adopted by the National Credit Union Administration for payments on shares by public units and non-members, low income designation. Similar rules would be adopted by the administrator for low income designated credit unions if Senate Bill 33 is approved.

§ 701.32 Payments on shares by public units and nonmembers, and low-income designation.

* * * * *

(b) *Limitations.* (1) Unless a greater amount has been approved by the Regional Director, the maximum amount of all public unit and nonmember accounts shall not, at any given time, exceed 20% of the total shares of the federal credit union or \$1.5 million, whichever is greater.

(2) Before accepting any public unit or nonmember shares in excess of 20% of total shares, the board of directors must adopt a specific written plan concerning the intended use of these shares and forward a copy of the plan to the Regional Director. The plan must include:

(i) A statement of the credit union's needs, sources and intended uses of public unit and nonmember shares;

(ii) Provision for matching maturities of public unit and nonmember shares with corresponding assets, or

justification for any mismatch; and
(iii) Provision for adequate income spread between public unit and nonmember shares and corresponding assets.

(3) A federal credit union seeking an exemption from the limits of paragraph (b)(1) of this section must submit to the Regional Director a written request including:

(i) The new maximum level of public unit and nonmember shares requested, either as a dollar amount or a percentage of total shares;

(ii) The current plan adopted by the credit union's board of directors concerning the use of new public unit and nonmember shares;

(iii) A copy of the credit union's latest financial statement; and

(iv) A copy of the credit union's loan and investment policies.

* * * * *

(6) Upon expiration of an exemption, nonmember shares currently in the

credit union in excess of the limits established pursuant to (b)(1) of this section will continue to be insured by the National Credit Union Insurance Fund within applicable limits. No new shares in excess of the limits established pursuant to (b)(1) of this section shall be accepted. Existing share certificates in excess of the limits established pursuant to (b)(1) of this section may remain in the credit union only until maturity.

3. The authority citation for part 741. continues to read as follows:

Authority: 12 U.S.C. 1757, 1766, and 1781-1790.

Section 741.11 is also authorized by 31 U.S.C. 3717.

§ 741.6 [Amended]

4. Section 741.6(a) is amended by removing the term "20%".

Testimony on SB 31
AN ACT concerning credit unions
Presented to the
SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
January 25, 1995
by the
KANSAS CREDIT UNION ASSOCIATION

Mr. Chairman and members of the Committee:

I am Danielle Noe, and I am the Governmental Affairs Director for the Kansas Credit Union Association. Our Association represents 166 member credit unions who serve almost 600,000 members.

We are here today in support of SB31 granting additional regulatory authority for the Credit Union Administrator.

We support this bill for two primary reasons. First, this bill would not substantially increase the regulatory burden on credit unions. This bill does not grant a broad based regulatory authority. Instead, it would simply allow the administrator to promulgate rule and regulations relating to information that is currently required.

Second, this bill would guarantee that procedures are followed during the rule making process. Not only would existing requirements become more clear, but it would also mean that all credit unions would have the opportunity to make comments prior to the regulations taking effect. Currently the administrator must use "department policy" and "bulletins" to notify credit unions what types of reports and information will be needed by the department.

We believe that the limited rule and regulation authority in SB31 would strengthen the safety and soundness requirements for Kansas Credit Unions.

Thank you, Mr. Chairman for allowing our association to testify.

*Senate 7141
1/25/95
Attachment # 2*

TESTIMONY ON SB31

AN ACT RELATING TO CREDIT UNIONS

Presented to the

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

January 25, 1995

by

U.S. CENTRAL CREDIT UNION

Mr. Chairman, members of the Committee:

I am Henry Dyhouse, Associate General Counsel of U.S. Central Credit Union.

U.S. Central Credit Union is pleased to testify in support of SB31 which would permit a Kansas Chartered corporate credit union, with the approval of the Kansas Credit Union Administrator, to establish a class of non-voting members. U.S. Central is a Kansas Chartered Corporate Credit Union located in Overland Park, Kansas.

A corporate credit union is a credit union whose primary members are other credit unions. A corporate credit union may also have other credit union related organizations as members. These other organizations include credit union leagues, league service corporations and other credit union service organizations.

U.S. Central is a unique corporate credit union. While other corporate credit unions' primary members are natural person credit unions, U.S. Central's primary members are the other 42 corporate credit unions. U.S. Central's other members include state credit union leagues as well as various national level credit union support organizations.

Because of limited resources, or the taxable nature of support businesses, credit unions and their service organizations often find it necessary to pool resources or to establish subsidiary organizations as the structural mechanism for providing services to themselves or other credit unions.

These subsidiary organizations usually prefer to obtain financial services from a corporate credit union. However, where the parent organization is already a member of a corporate, admitting a subsidiary or affiliate which is owned or controlled by a member raises the possibility of one member having more voting power than another member.

SB31 would allow corporate credit unions to directly serve these types of credit union support organizations without affecting the voting control of the entire membership. We believe that

*1/25/95
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Attachment #3*

SB31 preserves the democratic control of the corporate credit union and that by requiring approval of the Administrator before a corporate credit union could establish a class of associate members, appropriate flexibility and positive regulatory control is provided to govern the application in the future of non-voting membership status. Accordingly, we support this bill.

Thank you, Mr. Chairman. I would respond to questions at your direction.

Testimony on SB 33
AN ACT concerning credit unions
Presented to the
SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
January 25, 1995
by the
KANSAS CREDIT UNION ASSOCIATION

Mr. Chairman and members of the Committee:

I am Danielle Noe, and I am the Governmental Affairs Director for the Kansas Credit Union Association. Our Association represents 166 member credit unions who serve almost 600,000 members.

We are here today in support of SB 33. This bill would allow certain state chartered credit unions the same opportunities that federally chartered low income credit unions already have.

SB 33 would allow nonmember deposits only to those credit unions who are designated as serving the needs of low income areas. This does not mean that any credit union could receive nonmember funds. In order to be designated as a low income credit union, more than one half of the credit union's field of membership must have incomes below 80% of the national median income. The credit union would also have to be designated as low income by the National Credit Union Administration (NCUA).

Currently, federally chartered low income designated credit unions can receive nonmember deposits. It is important to note, that nonmember account holders do not

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Senate 7/4/1
Attachment # 4

have the normal voting rights given to credit union members. Potential sources for nonmember accounts include: Banks, Churches, Nonprofit Organizations, Foundations, the Community Development Revolving Loan Program, etc. In addition to federally chartered low income credit unions, there are approximately 14 other states that have statutes providing for low income credit unions.

The ability to accept nonmember deposits would allow low income credit unions to build an adequate asset base from which to operate and serve their members. In states with laws similar to SB 33, credit unions designated as low income have been able to use those accounts as a base from which to build the credit union; such credit unions historically have not had to rely on those funds once the credit union became established within the community.

Those members who could be served by a low income credit union often have high need for loans or other credit, however, they tend to be cash poor. The average share account balance for a low income credit union member is about one half of that of a regular credit union member.

The importance of having a low income designated credit union reaches beyond simply serving an under served area's financial needs. Credit unions involve the members in the decision making process of the credit union through the boards of directors, credit committees and supervisory committees. The officials serving on the board and the committees are elected by the members and serve in a volunteer capacity. This unique structure makes credit unions true financial cooperatives.

Today, in Kansas there is one credit union which has received a low income designation from NCUA. This Coffeyville credit union serves about 450 members and has approximately \$300,000.00 in assets. Because of this credit union, many members of

that community are receiving financial services which were not previously available. This credit union is in the process of applying to the Community Development Revolving Loan Program. In order to accept funds from the CDRLP, the credit union will have to request a special order be granted by the administrator under the "wild card" provision in the statutes.

The "wild card" provision in the Credit Union Act authorizes our state regulator to issue special orders to allow state chartered credit unions the ability to engage in any activity which federally chartered credit unions can engage in. However, we believe it would be more prudent to include this provision in the statutes. We feel that having specific requirements in the statutes and in rules and regulations will clarify the credit unions' powers and duties with such a designation.

Thank you, Mr. Chairman for allowing our association to testify.

"Low-Income" Credit Union Fact Sheet

What is a "low-income" credit union?

This is a credit union with a special low-income designation by either the National Credit Union Administration (NCUA) or a state credit union regulator. In order to receive the designation, more than one-half of the membership must earn less than 80% of the national median income. (The current national median income is \$31,600, which means that more than 50% of the members earn less than \$25,300.) A low-income credit union may accept non-member accounts from any other source.

What are non-member accounts?

Non-member accounts are essentially deposits from any individual or entity not within a credit union's approved field of membership. These sources may include the Community Development Revolving Loan Program, banks and other credit unions, churches, foundations, non-profit organizations, and others. The sources of these funds have no ownership interest in the credit union. (This means they cannot serve on the board, vote at an annual meeting, or influence policy in any way.)

Why are low-income credit unions allowed to accept non-member accounts?

Although credit unions typically are allowed to serve only members, low-income credit unions may accept non-member deposits for two primary reasons. These accounts are used to provide loanable funds to members, or for reinvestment purposes to increase earnings.

Credit unions serving in low-wealth communities have greater difficulty building an adequate asset base from which to operate. The greatest demand on these credit unions is for loans to members, yet they are unable to provide these loans without an adequate asset base.

Credit unions in low-wealth communities many times have higher operational costs than their peers. Non-member accounts can become an economical source of funds to generate income, which is the only way a credit union can build capital.

Is there a limit on these non-member deposits?

Each credit union regulator (either NCUA or state) can set a maximum limit on these funds. NCUA currently allows the greater of \$1.5 million or 20 percent of total shares.

What regulatory responsibilities are imposed on the credit union?

A credit union must put into place a specific business plan outlining the term, usage, and amounts of these non-member accounts. The credit union's regulator will also monitor these situations during their annual examination.

Is there any insurance coverage on these accounts?

As long as NCUA has approved the low-income credit union designation, non-member deposits are insured up to \$100,000 per account, just like a member's account.

How prevalent are these non-member accounts in low-income credit unions?

Fourteen states have laws which currently provide for low-income designated credit unions. Twenty-seven states allow some form of non-member accounts. Less than 40% of low-income credit unions currently hold any non-member deposits. These accounts amount to only 15% of their total assets.

Are there any low-income credit unions designated in Kansas?

There is currently only one, Three-C Credit Union in Coffeyville. Three-C Credit Union serves a predominantly minority field of membership within a five-mile radius of Coffeyville. The community itself has a household and per capita income that falls significantly below county, state, and national median income levels.

A potential second low-income credit union is preparing to file a charter to serve the northeast area of the city of Wichita. A credit union serving this area would also meet the definition to receive a low-income designation.

JAN-24-1995 12:30 FROM SERVICE OFFI 316 251 0885 TO

19132966830 P.01

3-C Credit Union

504 Union - 251-4150

COFFEYVILLE, KANSAS 67337

All Shares Insured UP to \$100,000.00 by N.C.U.A.

January 19, 1995

Honorable Senator Dick Bond
9823 Nall
Overland Park, Kansas 66207

Dear Senator Bond,

We would respectfully request your support for Senate Bill 33. We are a small community credit union located in Coffeyville, Kansas, and we primarily serve the needs of the minority population of Coffeyville. We serve approximately 450 members and we have assets of \$316,201.18. It is imperative for us to be able to attract additional funds and be able to provide additional financial services to our membership.

Senate Bill 33 would provide the opportunity for the State Credit Union Administrator to designate our credit union "as a low-income credit union". Although, we have been designated as "low income credit union" by the National Credit Union Administration, we cannot except non member payments unless Senate Bill 33 is enacted. Once Senate Bill 33 is enacted it would allow our credit union the ability to attract share payments from non members.

These additional funds would allow us the opportunity to build assets and capital and expand our services to our community.

Thank you in advance for any and all support that you can provide on Senate Bill 33.

Sincerely,
3-C Credit Union Board

Renice Newton
Renice Newton, Secretary

cc: Mike Culbertson, KCUA
John P. Smith, KSDCU

Include a definition in K.S.A. 17-2231

(g) "low-income credit union" means a credit union serving a membership of which more than half earn less than 80 percent of the national median household income; or the credit union may document that more than 50 percent of its members make less than 80 percent of the national average wage.

Alternative language for 17-2204 (o):

Subject to rules and regulations of the administrator, a low-income credit union may accept deposits from non-members. Such rules and regulations shall specify the maximum level of non-member deposits, the use of such deposits, the term of such accounts, and other requirements to address safety and soundness issues. Non-member account holders do not have the same rights and privileges as members.

Testimony on SB 33
AN ACT concerning credit unions
Presented to the
SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
January 25, 1995
by the
KANSAS CREDIT UNION ASSOCIATION

I am Randy Hershey, chairman of the steering committee for the proposed Community Development Credit Union of Sedgwick County. I am here today to voice support for Senate Bill 33. Our credit union will be chartered to serve minority and low-income individuals in Sedgwick County.

There are two options when chartering a credit union: a state or federal charter. It was the consensus of our group to apply for a state charter. The main reason for this was due to the support and assistance we received from the State Department of Credit Unions when we sought information about the chartering process of credit unions. Inter-Faith Ministries, the Kansas Credit Unions Association, and several ministers in the targeted area have been very instrumental in gathering signatures and developing a business plan for the proposed credit union. We feel it would be beneficial to the credit union and the people it serves to have a local agency regulate and provide assistance. We feel the response and understanding of the area we are serving would be greater from the state level than at the national level, and of course, our State stands to gain the most.

Low-income credit unions have historically had a difficult time of providing loans and other financial services because of the areas and individuals they serve. The membership usually has a high need for loans and very little savings. Non-member payment to shares, in some cases, becomes the only way a credit union can operate and provide the needed financial services to its members. Low-income areas that rely on pawn shops and check-cashing centers for financial services must feel the credit union is a stable part of the community. Non-member payment to shares will allow the credit union the foundation to support its operations, provide education to its volunteer board and committee members, as well as putting money back in to the community in the form of loans soon after its doors open.

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1/25/95
Attachment #5

Financial institutions have received CRA credits for helping CDCUs with non-member payment to shares.

The goal of a community development or low-income credit union is to create genuine opportunities for low income area citizens to participate in the economic mainstream of the greater community. A healthy credit union can implement and foster community self-help and financial access that will keep more of the community's wealth under its own control. A low-income credit union is a financial cooperative that exists to provide service to an underserved area for the benefit of the entire community.

I would like to thank you, Mr. Chairman, for allowing me to testify today.

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
Dick Bond, Chair
January 25, 1995

Re: Senate Bill 33, An Act concerning credit union's increased power to accept payments from nonmembers.

Testimony: Ken Stewart, Attorney, Boyer, Donaldson & Stewart, Wichita, Kansas, legal counsel to steering committee to form community development (low-income) credit union, Wichita, a project supported by Inter-Faith Ministries, Wichita, and Community Development Coalition.

My name is Ken Stewart. I am acting as legal counselor to a steering committee in Wichita, seeking to establish a low-income credit union in northeast Wichita. I appreciate the opportunity to offer testimony in support of Senate Bill 33.

Reasons:

- (1) There is a real need for savings and loan access to citizens of low income neighborhoods.
- (2) A commitment to establish a low income credit union has been made by the steering committee and the Community Development Coalition, and is supported by hundreds of potential members and supporters in the designated neighborhood.
- (3) There is a need for capital to support operating costs and to provide lending dollars.

Other testimony has been received to support the need for savings and loan access and the degree of commitment which has been made. I want to deal with the requirement for capital.

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1/25/95
Attachment #6

According to existing Kansas law (K.S.A. 17-2205), the source of capital under current Kansas statute is significantly limited because credit unions must have members who live in or are associated with agencies and organizations in a low income neighborhood. This is sort of an oxymoron. That is, persons of low income are not apt to have excess capital to fund operations and lending activities. The statute specifically provides:

"Credit union organizations shall be limited to groups (of both large and small membership) having a common bond of occupation or association or to groups residing within a well-defined neighborhood, community or rural district."

No matter how committed, a credit union to serve low income residents is not feasible without a source of capital.

Justification

In general, the Kansas legislature has developed a credit union statute which has been changed to meet changing times. Since the original law in 1929, amendment of existing provisions and additions to the statute have come about because of changing business requirements. The addition of the power to accept payment for shares of nonmembers to provide capital is no different. Specifically, adoption of the proposed amendment seems justified because:

- A. The philosophy of nonmember payments is accepted under federal law in 18 states and the District of Columbia, and has apparently been successful.

- B. A state-chartered credit union already may be authorized to operate and do any act of a credit union under federal charter (K.S.A. 1993 Supp. 17-2244).
- C. A state-chartered credit union is already permitted "(to) exercise such powers, including incidental powers, as shall be necessary or requisite to enable it to carry on effectively the purposes and business for which it is incorporated." (K.S.A. 1993 Supp. 17-2204(1).)
- D. Exercise of the proposed power is "subject to rules and regulations of the administrator" just as the power of credit unions to invest in the purchase of notes of nonmembers is subject to written guidelines under K.S.A. 1993 Supp. 17-2204(n).
- E. All of the above is consistent with the statutory philosophy that state-chartered credit unions "shall be subject to the exclusive supervision of the administrator" (K.S.A. 1993 Supp. 17-2206(a)).

I urge your favorable recommendation and action on Senate Bill 33.

Kenneth P. Stewart,
SC #04242, Legal
Counselor, Steering
Committee, Wichita Low
Income Credit Union
Establishment