

Approved: Feb. 10, 1998  
Date

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Don Steffes at 9:00 a.m. on February 4, 1998 in Room 529-S of the Capitol.

All members were present except: Senator Paul Feleciano

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

Conferees appearing before the committee: Bud Grant, KCCI  
Jana Price Davis, Helig-Meyers  
Bill Caton, Consumer Credit Commissioner  
Dan Moler, Kansas League of Municipalities  
Rob Taylor, Pawnbroker, Junction City  
Don Budd, Central Pawn, Kansas City, Kansas  
Lannie Ellis, Pawnbroker, Topeka

Others attending: See attached list

Copies of the list of investment subsidiaries which were established under Special Order 1995-6 and received from the Office of the State Banking Commissioner were presented to Committee members (Attachment 1). This data will be analyzed as to the size of the participating banks on both the national and state levels.

**Hearing on SB 470--Maximum finance charge on certain consumer credit sales**

Bud Grant, KCCI, who asked for introduction of the bill, presented Jana Price Davis, Helig-Meyers, headquartered in Virginia, and Cindy Norwood, Credit Compliance Manager, to the Committee. Ms. Davis told the Committee of their company's requirement to use precomputed finance charges so all payments are the same amount rather than having a fluctuating interest charge thus causing the payments to vary (Attachment 2). This practice was used in Kansas until 1993 when the Legislature changed the statute to require finance charges be figured on an actuarial basis working on the assumption that all payments would be made on the due date with late charges being assessed. There are no caps on interest rates in Kansas but Helig-Meyers charges all customers the same rate of 24 to 24.9%. Nineteen states are completely deregulated for interest charges but installment loans in Kansas are still regulated. All neighboring states use the precomputed installment plan which allows for rebate if payoff is made early. Ms. Davis described their customer base as being many first-time buyers who require installment payments (80%) to buy moderately priced furniture.

Bill Caton, Consumer Credit Commissioner, stated they have no problem with this proposed change in the law. Committee members were concerned that the statute would be changing to accommodate just one request but they were assured it would only be returning to the original statute which was changed in 1993.

The hearing was closed.

**Hearing on SB 537--Lawful interest rate for pawnbrokers; also regulation by consumer credit commissioner**

Bill Caton, Consumer Credit Commissioner, explained this statute as one in which pawnbrokers would be regulated by the Consumer Credit Department and required to make full disclosure on pawn contracts. The interest charged per month for a loan would be decreased from 10% to 5%. He said their department had no stand on the proposed reduction in finance charges. He explained there was no centralized registration of pawnshops at the state level and 87 were found to be in operation in the Topeka, Wichita, and Kansas City areas (information obtained from Yellow Pages). A rough estimate of cost to regulate pawnshops in Kansas would be approximately \$125,000 per year. If full time employees were not allowed on the budget, the regulation could be on a consumer complaint basis only. However, most customers do not complain and

## CONTINUATION SHEET

MINUTES OF THE Senate Committee on Financial Institutions & Insurance, Room 529-S Statehouse, on February 5, 1997.

payday loan customer complaints are non-existent. The only complaints are from the payday loan companies complaining about each other. The proposed legislation would make the least amount charged \$10.00 which would eliminate the very small loans that many pawnbrokers make. Licensing or examination fees would be a possibility in funding the proposed regulation. Such examinations would cost the shop owner approximately \$700 per year as it would take two days per location. Check cashing is not regulated in Kansas.

Don Moler, Kansas League of Municipalities, stated that local regulation of pawnshops includes hours of operation, report of sales, list of pawn tickets, etc. The cities do not regulate interest rates (Attachment 3).

Rob Taylor, President of the Kansas Association of Pawnbrokers, Junction City, gave the history of the 3000 year old pawn business (Attachment 4). Pawnbrokers make collateral only loans to about 10% of the adult population in the United States who use pawnshops annually. 75 million adults in this country do not have a bank account and operate on a cash only basis. There are no hidden charges on pawn loans. The percentage allowed in Kansas is 10% while the surrounding states charge 20% which have made pawnshops popular in Kansas cities bordering other states. The 10% interest fee must cover such costs as storage, theft, security, repair, appraisal, floor space, handling, and advertising. 15 to 30% of the customers do not return for their pawned goods. Short term loans which average \$50 to \$65 allow the stretching of the budget for many people who live on a very low income. Payment of necessities such as car repair, groceries, utilities, appears to be the major reason for pawning goods rather than for entertainment, gambling, and frivolous items. There is more accountability at the local level for pawnbrokers than if they were regulated at the state level. There is usually good communication and cooperation between local law enforcement. Pawnbrokers furnish copies of every pawn ticket, every sale, and every purchase to local authorities on a weekly basis.

Donald E. Budd, Jr., Central Pawn in Kansas City, Kansas, informed the Committee that in a recent survey only 3% of his customers reported pawning goods in order to have gambling money (Attachment 5). He walked the Committee through a pawn transaction and explained the system in which there is usually a loan granted for 50% of the estimated value of the item. There are nearly 100 shops in the Kansas City area and only 7 pawnshops in Kansas City, Missouri, because they charge a 20% interest rate.

Lannie Ellis, pawnbroker from the Topeka area, gave a breakdown on how the interest money is spent and explained that 5% was far too low and a minimum \$10.00 charge would eliminate the small loan borrower (Attachment 6). Pawnshops serve as a safety net for poor Americans who must rely on the pawn system to make ends meet for basic living necessities. He recommended that if changes were made to the law that the interest rate be increased due to the overhead incurred in the pawn business.

The hearing was closed.

The meeting was adjourned at 10:00 a.m. The next meeting is scheduled for February 5, 1998.

SENATE FINANCIAL INSTITUTIONS & INSURANCE  
COMMITTEE GUEST LIST

DATE: 2/4/98

| NAME           | REPRESENTING          |
|----------------|-----------------------|
| Tommy V. Ellis | Kansas Pawnbrokers    |
| Richard Larson | MISTOP MONEY USA      |
| Alan E Sims    | Kansas Pawn Broker    |
| Don Crum       | Kansas Pawnbrokers    |
| Bruce R Harris | KANSAS PAWN BROKERS   |
| Jack Jacobs    | ✓                     |
| Bill RYAN      | KPA                   |
| Pat Livingston | Pats Pawn & Buy       |
| Don Moler      | League of KS Men.     |
| Bob Traut      | Nationsbank           |
| Matt Godderd   | HCBA                  |
| Bill Caton     | Consumer Credit Comm. |
| George Barbee  | Barbee & associate    |
| John Federico  | KS CU Assoc           |
| Alex Schmitz   | KS CU ASSOC.          |
| BOB MERRY      | SEN. EMERIT OFC.      |
| Chuck Stones   | KBA                   |
| Alyde Graeber  | Governors Office      |
| BUD GRANT      | KCCI                  |



## INVESTMENT SUBSIDIARIES

## SPECIAL ORDER 1995-6

| BANK  | SUBSIDIARY NAME AND LOCATION   | DATE OF OPERATION | DATE OF NOTIF/ACKN                 |
|---|--|-------------------|------------------------------------|
| Labette County State Bank, Altamont         | Labette Financial Services, 4th & Huston, Altamont                                   | 6-1-98            | 5-9-96/<br>5-15-98                 |
| The Farmers & Merchants State Bank, Argonia | The Farmers & Merchants State Bank Securities Management Corp., 101 S. Main, Argonia | 1-1-98            | 11-19-97/<br>11-25-97              |
| The Stockgrowers State Bank, Ashland        | SBAIC, Inc. 622 Main, Ashland  | 2-20-98           | 1-30-98/                           |
| Prairie State Bank, Augusta                 | Prairie Investment, Corp., 512 State St, Augusta                                     | 1-10-96           | 12-19-95<br>12-21-95/              |
| Farmers Bank & Trust, Atwood                | Farmers Holdings, Inc., 101 S 4th Street, Atwood                                     | 3-20-97           | 3-5-97/<br>3-13-97                 |
| American Bank, Baxter Springs               | American Bank Securities, Inc. 1201 Military, Baxter Springs                         | 1-1-96            | 11-27-95/<br>11-29-95              |
| Guaranty State Bank & Trust, Beloit         | Guaranty Investment, Inc., 201 S Mill, Beloit  | 1-1-96            | 11-29-95/<br>12-4-95               |
| Commercial State Bank, Bonner Springs       | CSB Financial Services, Inc., 309 Oak, Bonner Springs                                | 12-20-97          | 12-5-97/<br>12-23-97               |
| Caldwell State Bank, Caldwell               | SCB Investment Corporation, 24 N. Main, Caldwell                                     | 8-18-97           | 8-12-97/<br>8-18-97                |
| Union State Bank, Clay Center               | Union State Investment Subsidiary, Inc. 5th & Lincoln, Clay Center                   | 6-21-96           | 5-21-96/<br>5-28-96                |
| State Bank of Colwich, Colwich              | SBC Securities Corporation, 200 W. Wichita, Colwich                                  | 5-1-96            | 11-21-95 &<br>5-21-96/<br>11-29-95 |
| Farmers & Drovers Bank Council Grove        | Farmers and Drovers Co., 201 W. Main   | 1-1-97            | 12-12-96/<br>12-17-96              |
| Fidelity State Bank & Trust Co, Dodge City  | FSBI, Inc. 2nd & Gunsmoke, Dodge City  | 7-1-96            | 5-14-96/<br>5-21-96                |
| The Ellis State Bank, Ellis                 | Ellis Investment Corp., 916 Washington, Ellis  | 9-15-96           | 8-29-96/<br>9-9-96                 |
| Emporia State Bank, Emporia                 | ESB Financial Corp., Inc., 801 Merchant, Emporia                                     | 11-23-96          | 11-8-96/<br>11-14-96               |

*Senate F&D  
Attachment 1  
Feb. 4, 1998*

|   |  |          |                           |
|---|--|----------|---------------------------|
| Lyon County State Bank,<br>Emporia                  | Emporia Investment Company,<br>902 Merchant, Emporia                                   | 1-18-96  | 1-3-96/<br>1-8-96         |
| Home Bank & Trust Co.,<br>Eureka                    | HB Management, Inc., 217 N.<br>Main, Eureka  | 2-29-96  | 2-14-96/<br>2-20-96       |
| State Bank of Fredonia,<br>Fredonia                 | Fredonia Investment, Inc.,<br>501 Madison, Fredonia                                    | 2-21-96  | 1-24-96/<br>2-2-96        |
| Fidelity St Bk, Garden City                         | Fidelity Investment, Inc.<br>215 N Main, Garden City                                   | 11-1-95  | 10-13-95/<br>10-30-95     |
| First Kansas Bank & Trust Co.,<br>Gardner           | FKB Investments, Inc., 109 E.<br>Main Street, Gardner                                  | 1-2-97   | 12-19-96/<br>12-30-96     |
| Kansas State Bank, Garnett                          | Garnett Investments, Inc., 131<br>E. 4 <sup>th</sup> , Garnett                         | 10-14-97 | 9-29-97/<br>10-6-97       |
| BANKWEST, Goodland                                  | BANKWEST Investment<br>Company, 924 Main St.,<br>Goodland                              | 7-1-97   | 6-13-97/<br>6-27-97       |
| Freeport State Bank, Harper                         | Freeport State Bank Securities<br>Management Corp., 807 W<br>14 <sup>th</sup> , Harper | 1-1-98   | 11-19-97<br>11-21-97      |
| Citizens State Bank & Trust,<br>Hiawatha            | Citizens Holding, Inc., 610<br>Oregon, Hiawatha  | **       | 12-19-97/<br>12-23-97     |
| Farmers & Merchants Bank of<br>Hill City, Hill City | F&M Investments, Inc., 301<br>W. Main, Hill City                                       | 10-1-97  | 9-2-97/<br>9-12-97        |
| The Consolidated State Bank,<br>Hill City           | Consolidated State Bank<br>Building, Inc., 101 E. Cherry,<br>Hill City                 | 12-23-97 | 12-8-97/<br>12-11-97      |
| First Kansas Bank, Hoisington                       | Hoisington Investment<br>Company, 101 N. Main,<br>Hoisington                           | 1-18-96  | 1-3-96/<br>1-8-96         |
| The Denison State Bank,<br>Holton                   | Denison Investments, Inc. 421<br>New York Street, Holton                               | 1-15-96  | 12-28-95/<br>1-3-96       |
| Kansas State Bank, Holton                           | KSB of Holton Investment<br>Corporation, 5th & Penn,<br>Holton                         | 6-1-96   | 5-9-96&7-1-<br>96/5-14-96 |
| Citizens State Bank, Hugoton                        | CSB Security Fund, 601 S.<br>Main, Hugoton   | 9-15-96  | 8-27-96/<br>8-30-96       |
| Central Bank and Trust Co.,<br>Hutchinson           | Central Holdings, Inc., 101 W.<br>Ave A, P.O. Box 1366,<br>Hutchinson                  | 11-15-96 | 10-31-96/<br>11-5-96      |
| Emprise Bank, Iola                                  | Emprise Investment Corp. -<br>Iola, 211 North Broadway,<br>Wichita                     | 7-24-96  | 7-9-96/<br>7-17-96        |

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| Iola Bank & Trust Co, Iola                 | IBT Investment Corporation, Inc., 119 E. Madison, Iola           | 6-1-96     | 4-24-96/<br>4-29-96  |
| The Johnson State Bank, Johnson            | JSB Investments, Inc., 202 S. Main Street, Johnson               | 2-1-96     | 1-9-96/<br>1-23-96   |
| 1st St Bk, Junction City                   | First State Bank Securities, Inc., 904 W 6th, Junction City      | 11-1-95    | 10-12-95/<br>11-2-95 |
| The Kearny County Bank, Lakin              | KCB Investments, Inc., 221 N. Main, Lakin                        | 4-24-97    | 4-9-97/<br>4-17-97   |
| Brotherhood Bank & Trust, Kansas City      | Brotherhood Investments Company, 756 Minnesota Ave., Kansas City | 1-1-98     | 11-21-97/            |
| First Community Bank, Kansas City          | First Community Investments, Inc., 1300 N. 78th St., Kansas City | 9-30-97    | 9-9-97/<br>10-6-97   |
| Industrial State Bank, Kansas City         | Industrial Investments, Inc., 32nd & Strong Avenue, Kansas City  | 5-30-97    | 5-15-97/<br>5-21-97  |
| Security Bank of Kansas City               | Security Investments, Inc., 701 Minnesota Ave., Kansas City      | 5-31-97    | 5-16-97/<br>5-21-97  |
| First State Bank, Kansas City              | FSB Investment Holdings Co., Inc. 650 Kansas Ave, Kansas City    | by 9-30-96 | 6-18-96/<br>7-9-96   |
| Linn County Bank, LaCygne                  | Linn county Investment Corp., 119 N. Broadway, LaCygne           | 9-30-97    | 9-11-97/<br>9-17-97  |
| First St Bk, Larned                        | First State Investments, Inc., 116 West 6th, Larned              | 5-1-96     | 4-5-96/<br>4-10-96   |
| The First State Bank, Leoti                | FSB Securities Co., 2nd & Broadway, Leoti                        | 12-1-96    | 11-8-96/<br>11-15-96 |
| Lyndon State Bank, Lyndon                  | LSB Investments, Inc., 817 Topeka Ave., Lyndon                   | 5-1-96     | 4-10-96/<br>4-16-96  |
| Farmers & Merchants State Bank, Macksville | FAM Securities, Inc., 234 N. Main, Macksville                    | 3-31-96?   | 3-18-96/<br>3-20-96  |
| Kansas State Bank, Manhattan               | Kansas State Capital Corporation, Inc., 1010 W. Loop, Manhattan  | 6-19-96    | 6-4-96/<br>6-24-96   |
| Home State Bank & Trust, McPherson         | Home State Investment Company, 223 N. Main, McPherson            | 10-1-97    | 9-11-97/<br>9-17-97  |
| The Mission Bank, Mission                  | Mission Investment, Inc., 5201 Johnson Dr., Mission              | 6-3-97     | 5-19-97/<br>5-27-97  |

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| Citizens State Bank, Moundridge       | CSBI, 201 S. Chrisitan, Moundridge                               | 11-1-96  | 10-15-96/<br>11-1-96  |
| First Bank of Newton, Newton          | First Newton Investments, Inc., 128 E. Broadway, Newton          | 7-1-96   | 6-12-96/<br>6-17-96   |
| 1st Sec Bk, Norton                    | First Security Investment Corp, Inc. 201 E Main, Norton          | 11-15-95 | 10-19-95/<br>11-2-95  |
| The Bank, Oberlin                     | Securities, Inc. 205 S Penn, Oberlin                             | 11-1-95  | 10-13-95/<br>10-25-95 |
| Heritage Bank, Olathe                 | HBO Financial Services, Inc. 16650 W 135th St. Olathe            | 11-1-95  | 10-19-95/<br>10-27-95 |
| Kansas State Bank, Ottawa             | KSB Investment Company, 236 N. Main, Ottawa                      | 1-18-96  | 1-3-96/<br>1-8-96     |
| Bank of Blue Valley, Overland Park    | Blue Valley Investment Corp., 11935 Riley, Overland Park         | 1-2-96   | 12-15-95/<br>12-18-95 |
| Mercantile Bank, Overland Park        | Mercantile Financial of Kansas, Inc., 9900 W 87th, Overland Park | 7-1-96   | 5-17-96/<br>5-21-96   |
| Metcalf State Bank, Overland Park     | MSB Investments, Inc. 7840 Metcalf, Overland Park                | 12-20-95 | 12-5-95/<br>12-8-95   |
| Valley View State Bank, Overland Park | Valley View Investment, Inc., 7500 W 95th, Overland Park         | 6-3-97   | 5-19-97/<br>5-27-97   |
| Citizens State Bank, Paola            | Paola-Citizens Investment Company, Inc. 3 E. Wea, Paola          | 12-25-95 | 12-6-95/<br>12-8-95   |
| Commercial Bank, Parsons              | Commercial Bank Investment Co. 1901 Main, Parsons                | 12-31-95 | 12-5-95/<br>12-18-95  |
| Plains State Bank, Plains             | United Resources Corp, 411 Grand, Plains                         | 5-24-96  | 5-9-96/<br>5-15-96    |
| Plainville State Bank, Plainville     | PSB Holdings, Inc., 201 S. Main, Plainville                      | 7-1-96   | 5-31-96/<br>6-6-96    |
| The Peoples Bank, Pratt               | PeoplesCenter, Inc., 222 S. Main, Pratt                          | 11-15-96 | 10-31-96/<br>11-8-96  |
| The State Bank, Riley                 | Riley Investments, Inc., 201 South Broadway, Riley               | 1-12-98  | 12-24-97/<br>1-6-98   |
| Farmers State Bank, Sabetha           | IFC Financial Services, Inc., P.O. Box 9, Clyde                  | 12-19-97 | 12-4-97/<br>12-15-97  |
| The Bennington State Bank, Salina     | BSB Investments, Inc., 2130 South Ohio, Salina, Kansas           | 1-2-97   | 12-17-96/<br>12-18-96 |



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|--|--|----------|-----------------------|
| First Bank Kansas, Salina                    | Salina Investment Company,<br>235 S. Santa Fe, Salina            | 1-18-96  | 1-3-96/<br>1-8-96     |
| Sedgwick State Bank,<br>Sedgwick             | Sedgwick Investment Corp.<br>514 Commercial, Sedgwick            | 5-30-96  | 5-15-96/<br>5-29-96   |
| Citizens State Bank & Trust<br>Co., Seneca   | Citizens Investment, Inc., 502<br>Main, Seneca                   | 1-21-97  | 1-6-97/<br>1-7-97     |
| The Bank of Tescott, Tescott                 | Tescott Investment Company,<br>Inc., 104 S. Main, Tescott        | 11-14-97 | 10-28-97/<br>10-30-97 |
| First State Bank & Trust,<br>Tonganoxie      | FSB of Tonganoxie Investment<br>Corp., 4th & Bury, Tonganoxie    | 8-1-96   | 7-3-96/<br>7-9-96     |
| Columbian Bank and Trust<br>Company, Topeka  | Columbian Investments, Inc.,<br>701 S. Kansas Ave., Topeka       | 1-1-98   | 12-17-97/<br>12-18-97 |
| Commerce Bank, Topeka                        | Commerce Portfolio Mgmt.,<br>Inc. 3035 S. Topeka, Topeka         | 12-1-95  | 11-14-95/<br>11-20-95 |
| Fidelity State Bank & Trs,<br>Topeka         | Fidelity Kansas Securities, 600<br>Kansas Ave, Topeka            | 1-2-96   | 12-18-95/<br>12-18-95 |
| Kaw Valley State Bank &<br>Trust Co., Topeka | KV Investment Corporation,<br>1110 N. Kansas Ave., Topeka        | 12-1-97  | 11-19-97/<br>11-21-97 |
| Trego-Wakeeney State Bank,<br>WaKeeney       | TregoWaKeeney Investments,<br>Inc., 134 Main Street,<br>WaKeeney | 10-1-97  | 9-5-97/<br>9-12-97    |
| Chisholm Trail State Bank,<br>Wichita        | Chisholm Trail Resource Corp,<br>6160 N. Broadway, Wichita       | 3-21-96  | 3-6-96/<br>3-13-96    |
| Emprise Bank, Wichita                        | Emprise Investment Corp,<br>211 N Broadway, 3rd Floor<br>Wichita | 10-26-95 | 10-11-95/<br>10-26-95 |
| Garden Plain State Bank,<br>Wichita          | Garden Plain Investment<br>Corp., 10526 W. Maple,<br>Wichita     | 3-19-97  | 2-28-97/<br>3-6-97    |

BEFORE THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND  
INSURANCE

Concerning Senate Bill 470

Testimony of Jana Price-Davis, Heilig-Meyers Co.  
February 4, 1998

Good Morning Mr. Chairman, Members of the Committee.

My name is Jana Price-Davis and I work for Heilig-Meyers Furniture, a national home furnishings retailer with stores located in 39 states, including a Rhodes Furniture store in Olathe, Kansas.

The largest division of our company is Heilig-Meyers Furniture. Heilig-Meyers stores operate in small towns and medium cities throughout the United States. We are a moderately priced furniture chain oriented toward providing friendly customer service combined with quality furniture at affordable prices. One of the key factors in Heilig-Meyers' success is our installment credit program. 80% of our customers take advantage of this program which allows them to set up payment plans that fit their budget, to know exactly how much they will be paying for their furniture and how long it will take to pay for it.

Unfortunately, although our market research has shown us that Kansas consumers represent the ideal Heilig-Meyers customer, the current statute precludes the use of a precomputed installment credit program.

This is why we are here today. In order for us to operate Heilig-Meyers stores in Kansas, we need to have the statute changed. We have been working with Bud Grant at the Kansas Chamber of Commerce and Industry and Commissioner Caton to develop language that would allow Heilig-Meyers to provide Kansas consumers with the furniture and financing choices available to their neighbors.

When Kansas amended the Uniform Consumer Credit Code, it did not include the language adopted in other states which allows for precomputed installment sales. This language (which we propose to insert into the Kansas statute) allows the merchant in a precomputed installment sale to operate under the assumption that all payments will be made on the due date and that the finance charge is not affected by the actual date payment is received. By excluding this language and requiring that finance charges be calculated based on an actuarial charge, the statute effectively prohibited precomputed installment credit. If a finance charge is

*Senate FDI  
Attachment 2  
Feb. 4, 1998*

calculated actuarially based on the date each payment is received, it becomes impossible to precompute the finance charge.

Why precomputed installment credit? This type of credit offers a choice to consumers. It is more easily qualified for and provides that "first credit" experience to many of our customers. In addition, the customer has the advantage of always knowing exactly how much he owes on his purchase and how long it will take him to pay it off. This is significantly different from a revolving plan in which the customer's interest rate may change and the amount of interest paid in any given period or over the life of the credit will vary depending on the size and timing of his payment. For a major purchase like home furnishings, the duration of the credit and the amount of interest paid under a revolving agreement may both be substantial.

If a customer makes a purchase under a precomputed credit plan, he knows he has, for example, 24 payments of \$65.00 each, he sees his bill drop by the exact amount he pays each month. If he chooses to pay off the credit early, he receives a rebate of any unearned finance charge. A similar process occurs if he adds-on to the contract (he is rebated the unearned charge on the earlier agreement and a new contract is entered into for the principal balance remaining + the add-on amount).

In working with Commissioner Caton on this bill, we wanted to address his concern with regard to equity in the rebate process and to this end, the bill contains language which provides that rebates of unearned finance charges will be calculated on an actuarial basis.

On behalf of Heilig-Meyers, I would to thank you for your consideration of Senate Bill 470 and ask you to recommend passage of this legislation. We believe this legislation would benefit the people of Kansas by giving them greater choice in credit products as well as greater employment opportunities throughout the state as companies like Heilig-Meyers will be able to do business within the state.

I have with me here today our Credit Compliance Manager, Cindy Norwood, and if either she or I can answer any questions for you we would be glad to do so.

Thank you.



League of  
Kansas  
Municipalities

Legal Department  
300 S.W. 8th  
Topeka, Kansas 66603  
Phone: (785) 354-9565/ Fax: (785) 354-4186

**M E M O**

**TO:** Senate Financial Institutions and Insurance Committee  
**FROM:** Don Moler, General Counsel  
**DATE:** February 4, 1998  
**RE:** SB 537

Thank you for allowing the League to testify today concerning SB 537. We have reviewed the bill and the ordinances of cities having pawnbroker licenses and concluded that this legislation will not in any way adversely impact our cities or the ordinances currently in place at this time. We therefore, have no problem with SB 537 and feel that it is simply a policy decision to be made rather than something that will work a hardship on local government in Kansas.

In our survey of cities, we identified that 18 of 24 cities of the first class have some type of a pawnbroker ordinance and we do not believe any of these would be adversely affected by this legislation.

We thank the Committee for allowing us to make these brief comments and would be happy to answer any questions the Committee may have. Thank you very much.

*Senate FID*  
*Attachment 3*  
*2/4/98*

**KANSAS PAWNBROKERS ASSOCIATION**  
**"Serving the Kansas Pawnbroker"**

PRESIDENT  
Rob Taylor  
Santa Fe Ent. Inc.  
128 W. 18th St.  
Junction City, KS 66441  
PH: 913-762-5626  
FAX: 913-762-5347

BOARD OF DIRECTORS  
Phil Balano -- Kansas City -- 913-371-4043  
Dick George -- Wichita -- 316-265-3752  
Jack Gorelick -- Kansas City -- 913-371-0459  
Bruce Harris -- Wichita -- 316-682-2191

SECRETARY/TREASURER  
Don Budd  
Central Pawn  
1000 Central  
Kansas City, KS 66102  
PH: 913-321-0620  
FAX: 913-321-0629

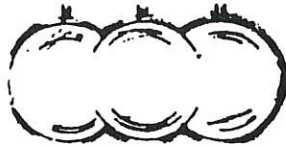
TO: Chairman Steffes and Members of the Committee on  
Financial Institutions and Insurance

RE: Proposed changes to Senate Bill #537

INTRODUCED BY: Rob Taylor, President Kansas Pawnbrokers  
Association

- 
- I. History of the Pawn Industry
    - A. Past to the present
  
  - II. Interest Rates
    - A. Risks involved in a pawn loan
    - B. Comparison of a pawn loan to a bank loan
    - C. Community favorable
  
  - III. Local accountability vs. Consumer Credit Commission
    - A. Local control and local accountability
    - B. Positive features of control by local sources
    - C. "BIG GOVERNMENT" vs. local law/local government
  
  - IV. Summary

*Senate F.D.S.*  
*Attachment 4*  
*2/4/98*



## CENTRAL PAWN

1000 Central  
Kansas City, KS 66102  
913-321-0620

Regarding S.B. 537

I would like to take the committee through a average pawn transaction that a Kansas Pawnbroker does on a daily basis.

Thank you

  
Donald E. Budd Jr.  
Pawnbroker

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*Senate F.D.D*  
*Attachment 5*  
*2/4/98*

**Capitol City Pawn Shop Inc.**

1415 SW Topeka Blvd., Suite C

Topeka, KS, 66612

(785)232-1823

Fax(785)232-2080

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February 3, 1998

To the committee on Financial Institutions and Insurance.

I am Lanny W. Ellis of Topeka, Ks.. I would like to speak at your herring on the Senate Bill 537, and to the amendments to revise the current law governing Kansas pawnbrokers.



Senate F.D.S.  
Attachment # 5-2  
2/4/98

To: sendonsteffes@mail.ks.leg.state.ks.us  
From: Bruce Michal <bmjm@kansas.net>  
Subject: Senate Bill No. 537  
Cc:  
Bcc:  
X-Attachments:

Dear Senator:

This message is in reference to Senate Bill No. 537 introduced by Senator Donald Biggs, which will be reviewed by the Committee on Financial Institutions and Insurance on Wednesday, February 4th. This bill would amend current interest rates Kansas Pawn Shops can charge for collateral loans.

My name is Bruce Michal, my brother and I own and operate a Pawn Shop in Manhattan. We have been in business since 1972. We are requesting that you do not make any changes to the current Pawn Shop Laws.

Senator Biggs suggests reducing the 10 percent interest rate per month to 5 percent per month and/or adding a finance charge of \$10.00 per borrower. This appears to reduce both the Pawn Shops income and the expense incurred by the borrower but facts will prove otherwise.

According to the National Pawnbrokers Association and the franchise giant, Cash America, (402 shops) the average amount of a pawn loan is \$65.00. With current Kansas Law the borrower would pay \$6.50 to redeem this loan. The new \$10.00 finance charge would be a 65% increase for this customer. That percentage would be even higher for the customers who only borrow \$10 or \$20.

The 5 percent rate on the few larger loans that we write would be a reduction for the borrower yet the current 10 percent offers our shop the margin to make both small and large loans profitable. A simple 10 percent is easy for customers to understand.

Also, an amendment that Senator Biggs included is for Pawn Shops to be participants of the Consumer Credit Commission. Please do not allow for this amendment to occur. Pawn Shops issue collateral loans, the borrower pledges merchandise that the shop maintains on premise. If a borrower defaults on a loan the Pawn Shop recoups the loan by selling the pledge, we do not hold the customer liable and will not report any bad credit history as a result of any loan. The National Pawnbrokers Association recently lobbied to remove a similar bill introduced on the Federal level and was successful for this reason.

I am sorry if this message is lengthy, but I will be unable to attend the hearing tomorrow and these are my thoughts. The Pawn industry is a

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rapidly growing small business venture, great for people who thought they could never own their own business. Please do not damage our chances for continuing.

Bruce Michal  
Manhattan Pawn Shop  
317 S. 4th St.  
Manhattan KS 66502  
785-776-6112  
E.Mail - BMJM@Kansas.net

TESTIMONY ON SENATE BILL # 537

Thank you for the opportunity to appear before you and offer testimony concerning the proposed Senate Bill # 537.

This bill as you are well aware ,deals specifically with the Pawnbroking industry.

To give you some insight as to my involvement , my family and I own the MISTER MONEY USA STORES in Manhattan and Topeka. We are franchisees of MISTER MONEY USA , home officed in Ft. Collins , Colorado. We make both pawn loans and payday loans and also have a large retail area . Our stores are considered to be upscale , modern retail outlets with an emphasis on customer service .

I have over 30 years experience in business as a banker , fast food franchises and owner of several other businesses.

I have found that if you treat the consumer fairly, honestly and courteously they will patronize your business . The pawn industry , while it has some unscrupulous business owners , can fulfill a widening gap in the consumer credit industry where a large segment of the population has no place to turn for credit needs . Several years ago American Express did a study , which I haven't verified yet , that stated over 35 million Americans do not use financial institutions . While you and I may find that astonishing , over the past year that I have been in the pawn business , I have been amazed with a whole culture that exists solely on a cash basis.

To understand what has been and is happening in Kansas and across America , you only have to look at the fee structure that has blossomed in the banking industry during the past decade. Working families that make \$15,000 to \$35,000 can no longer enjoy the privileges of banking . They not only have been priced out of the checking account category , but can no longer obtain small loans at all . While the pawn and banking businesses are regulated on interest rates , there really are no regulations on the banking industry concerning their fee structure. Banks will not make small loans of 40-50 100 or 200 dollars because of the high cost of processing them . Yet , in a survey of the two largest local banks , for their regular customer checking accounts, one must maintain a minimum balance of \$500 to \$1000 or be charged a \$6.00 and a \$7.00 monthly service charge respectively. Overdraft charges in both institutions were \$20.00 per item . Their fee structure is not calculated in annual percentage rates , but merely as fees . A \$20.00 fee on a \$10.00 overdraft is over 2000 percent APR . In Colorado Springs ,

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banks are charging a \$3.00 transaction fee if one uses a live teller . Thats if you're making a withdrawal or a deposit , either way you're charged . To 35,000,000 million Americans who make a minimum living wage working strictly with cash is their only practical alternative .

On the loan side of banking , both of the large local banks charge a minimum loan fee of \$100.00 . For a \$100.00 loan that's an APR of over 1,000 percent . But whats even more important is that they don't want these loans even at these rates because they consider them unprofitable .

To my knowledge there are very few wealthy pawnbrokers in Kansas , but there are many wealthy bankers . Pawnbroking over the past decade or more has been emerging as a very legitimate lender of last resort for millions of Americans who have no other means of obtaining credit for short term cash needs . Fringe banking fees are high because the cost of providing the credit or payment service is high relative to size of the transaction . What has been happening in other states is not a lowering of allowable interest rates , but rather an increase of the rates . Oklahoma , Missouri , Nebraska , Iowa and many other states are at rates of 20% per month . Wisconsin recently enacted new legislation with no limit on rates . Rates under this bill would be reduced in half , making it almost if not entirely unprofitable to make these small loans . Our average pawn loan is less than \$100.00 yet we can only charge \$10.00 for a 30 day loan . Banks can charge a loan fee of \$100.00 yet they still don't want the loans . It is extremely expensive to process small loans and we must do a large volume of these loans in order to make a profit . We opened our store in Topeka last October and during the next year and a half we are expecting to have operating losses in excess of \$100,000 dollars . This is not a get rich quickly business . We expect to be in the business over the long term in order to be profitable and be a viable business . What many of you may not be aware of in our business is the pawn loan process and how it affects our profitability . We make a loan for 30 days , then if the customer makes no payments on the loan , then we must hold the items for another 60 days or a total of 90 days before the item is forfeited , only then can we put the items on the floor for sale . Approximately 30 % of our loans are forfeited , that means we collect no interest of any kind on these loans . Our only profit is what we can sell the item for . We try to sell the items for 35 to 40 per cent markup . That is less than the markup in a typical retail outlet such as Sears and others.

To illustrate : suppose we have a total of \$50,000 in pawn loans . Only \$35,000 of them are earning interest as this is the 30% or \$15,000 that will be forfeited by the consumer . The consumer in effect , has an option to buy back their collateral , but

they are under no obligation to do so . Our effective interest rate becomes 7% per month , not the 10% , because the \$15,000 in loans is not having interest paid on them . Also on the \$15,000 in loans , a number of these items such as VCRs , stereos , etc will be broken and we have to have them repaired before they're sold . We guarantee every item we sell to work or we refund the purchase price . Yes , the pawn business can be profitable , but we are not guaranteed success , and every cost must be controlled and managed effectively in order to be viable . Also with the high start-up costs and operating losses for the first two years , it will take many years of profitability before our capital investments are recaptured . With higher operating costs every year we need to be looking to 20% interest rates , not reducing our rates to 5%. All the states around us now allow the higher rate of 20% as they realize for us to meet the needs of this segment of the population we have to be viable , profitable businesses .

For those of us who believe in the honesty and integrity of the pawn business as meeting the vital credit needs of a large segment of our population we don't object to the regulations of the Consumer Credit Commissioner . I respectfully request , however , that if you do put us under the Commissioner , who has the ability to impose substantial fees to pay for examinations on us , that you in turn allow us greater flexibility in our fee structure in order to pay for those higher costs. Creating a balance of fairness between the lender , the consumer and the regulator should be your primary concern .

As you may not be aware , less than 1% of all our business involves stolen items . We are required to report weekly all items that we have as collateral or have purchased to the local police. Most stolen items today are sold through unregulated flea markets , not reputable pawn businesses . My point here being that 99% of our customer are honest , working families who have short term credit needs . Those 99% have their names , addresses and telephone numbers reported publicly to a police department who are under no requirement to keep that information confidential . In banking , individuals are protected by law to keep their banking confidential . In several states the press has requested this information be made available to the public under the Freedom of Information Act . Our customers loan needs should be protected under a privacy act the same as afforded the banking industry .

In summary I request this committee to carefully examine this proposed bill . Will it in its present form help meet the credit needs of thousands of Kansans or will it

stifle credit availability to a large population of low-income consumers . The banking industry is not and will not be there for the small consumer loan . For us to be there we need the avenues to make a profit , not an unfair profit , but at least at a profit . As it is often quoted , most Americans are but one paycheck away from bankruptcy . If they lose their job and its two months before they find a new job , we are the only lender who can and will bridge that gap between jobs . I believe we provide credit to consumers at what may be the most critical time in many of their lives . Our hope is to continue providing loans to those individuals and families at a competitive rate or fee that will enable our company to remain economically viable and still meet the loan needs of our customers . I offer my time , expertise and abilities to help you in any way in the future .

Respectively submitted by ;



Richard Carlson

Owner

Mister Money USA of Topeka

3001 SW Topeka Blvd

Topeka , Kansas 66611

Ph: 785-266-7370

footnote : For additional information concerning Pawnbroking and Check-Cashing outlets refer to the book , Fringe Banking , published 1994 , written by John P. Caskey .

# MISSION PAWN

5960 Lamar  
Mission, KS 66202  
(913)831-1684

I wish to make some comparisons between traditional lending institutions and pawn shops. There are many more differences than just the rate. My credentials for making such comparisons include being on the Board of Directors of one or more banks since 1976 and being a pawnbroker since 1993.

# ALL STATE PAWN & JEWELRY

1901 NW TOPEKA BLVD. ♦ TOPEKA, KANSAS 66608  
Phone 785-235-3252 ♦ Fax 785-235-1688

## SENATORS on committee for Financial Institutions and Insurance

SENATE BILL No 537  
RICH BECKER  
KARIN BROWNLEE  
STAN CLARK  
DAVE CORBIN  
PAUL FELECIANO  
JIM BARONE  
DONALD BIGGS

Dear Senators, I have read the bill #537. I have also been advised that Senator Donald Biggs is the sponsor of the bill, I have been told that the reason behind the bill, was because the current interest rate was excessive.

I can understand how someone might look at the current interest rate, and think it too high.

I first looked at the pawn brokering industry six years ago, and made the decision to become a pawn broker. I did not think that the interest rate was excessive, but would be profitable. I and a partner opened our store April of 1994. We did not borrow funds to set up or operate our new enterprise, because I already owned the building that we were going to house our new enterprise in. We both had other income to rely on, and thought that we would be profitable in a short time. The real facts are, we would have had to close our new business several times during our first three years of operation, and derived no income from the business during that time. If I had not already owned the building & we had borrowed money.. We would have gone bankrupt.

I will try to give you some insight into the business, to better help you review bill #537.

First of all we should look at the average loan within a pawn shop. The average loan in our store is less than 50.00. We make a lot of 20.00 loans. The income produced from that twenty dollar loan is "\$2.00" per month. The way a loan starts out, is that a customer brings an item or items in with the intent to borrow money on the item. By the time the item is reviewed, TESTED to see if it will operate as it is supposed to, and assuming that the item in question is operational, we would then type in the needed information for the loan, and print the police report, and pawn ticket. The merchandise would then be placed in storage. The cost for doing the above "employee hourly cost only" is \$1.78. This is to say nothing of the overhead cost for storing the merchandise, and our day in and day out operational cost.

If the customer reclaims his property within the 30 day period of the loan, we have grossed twenty two cents. There are several other factors to take into consideration.

The cost to the consumer to pawn something is often LESS than getting a cash advance on a credit card. It is also LESS than a so called PAYDAY LOAN. The other possibility is to go to a bank for a short term loan. Banks don't make short term loans in small amounts.

The above types of business have recourse to collect the money they have advanced. PAWN BROKERS do not. We can of course hold the property until the loan defaults, and then sell it. The problem here is that, the new retail on the item may have gone down to the point that we may, and often do, have more money tied up in the merchandise than we can sell it for.

To give you a couple of examples: VCR's, Computers, Video games & systems, home stereo units. These have all had dramatic price shifts, and we are holding in inventory many that we have more money loaned against them than we can sell them for. Does it still look like the current interest rate is too high? Another problem that I didn't think of when beginning business was that often people bring in items to pledge that they know to be less than operational. ie. Cassette player plays for a while, and then eats the tape. The VCR that we tested, it plays but will not record properly. The T.V. that we loaned on loses its picture after an hour or so when it gets warm. These items often get thrown away, because we can't recover our investment by selling them.

I know that's what one gets for being a Pawn Broker.

Now what good do we provide. A large percentage of our customers often pledge items to buy gas so they can get back and fourth to work until payday. Often it's for an unexpected expense like medical, or a emergency requiring them to go out of town. I could go on, and on about the problems that people have, and how we help with those problems, and will do so upon request.

The problem at hand is Senate bill # 537. I review this bill as a direct attempt to put Pawn Brokers out of business.

Most states provide for an interest rate to be charged, and a storage charge to cover the expense involved in storing merchandise that is bulky and requires a large storage area. If anything should be changed in regard to the interest rate it should be increased not decreased.

As to allowing the consumer credit commissioner authority to assess and collect fees, and to have access to a persons property that we are holding on pledge. This in itself seems very excessive. We pay enough fees to be regulated through our license fees, which include Pawn Broker, Precious metals license, and a federal firearms license. Pawn Brokers do fall under the same laws as any other type of business when a consumer has a complaint? Or do we really need more government intervention in our business. When a business is required to pay a fee to be watched in order to stay in business, it reminds me of some of the movies that I have seen that depicted how business was done in the 1930's and 1940's... I am sorry, but I feel like we have plenty of government control, and license requirements.

Respectfully

DAN E. SIMS

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~~5-10~~

Feb. 3, 1998

Kansas Senators  
Kansas State Capitol  
Topeka, Kansas 66612

I am writing this letter in opposition of Senate Bill 537. This Bill would destroy all the small Pawn Shops in the State of Kansas and simply put them out of business.

We make lots of small loans in the \$20.00 to \$50.00 range to ordinary people who need a little extra money to make it to the end of the month. On a \$20.00 loan we charge \$2.00 interest to hold the item for a month. We are required to write up a Pawn ticket and also store the item for a month, while also taking the gamble that if the customer leaves the item we can sell it later. We have the lowest interest rate in the entire midwest. The surrounding states like Colorado, Missouri and Oklahoma charge 20 per cent interest per month. I have never had a customer in the past 25 years complain about the rate of interest we charge monthly.

This Bill states that the Consumer Credit Commissioner has the power to assess and collect reasonable fees. What are these fees and how much?

We now have a simple system that works where we charge 10% interest per month without any other charges whatsoever.

I think this is ridiculous to try to turn us into a banking or financial institution which we are not!

Our local Police Department gets a copy of every Pawn ticket we write weekly, They have access to all of our papers, records, files and safes. I don't think someone did their homework on this Bill because it is just duplicating what our local law enforcement agencies are doing now.

I feel that most of this Bill 537 is what that is already the law. The only thing new is the reduction in the interest rate to 5% per month which is not in line with other states and harmful to our business.

I believe we preform a service to our customers who are in need of quick cash to pay their bills.

I think it is better to leave the regulation of Pawn Shops to the local law enforcement agencies and keep the bureaucracy out of the Pawn business.

Patrick Livingston  
President  
Pat's Pawn and Gun  
Ogden, Kansas

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**Capitol City Pawn Shop Inc.**

1415 SW Topeka Blvd., Suite C

Topeka, KS, 66612

(785)232-1823

Fax(785)232-2080

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February 3, 1998

To the committee on Financial Institutions and Insurance.

I am Lanny W. Ellis of Topeka, Ks.. I would like to speak at your herring on the Senate Bill 537, and to the amendments to revise the current law governing Kansas pawnbrokers.



Senate F.I.I.  
Attachment #6  
2/4/98