

Approved: 2-27-01
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Sandy Praeger at 9:30 a.m. on February 19, 2001 in Room 234-N of the Capitol.

All members were present except:

Committee staff present: Dr. Bill Wolff, Kansas Legislative Research Department
Ken Wilke, Office of the Revisor of Statutes
JoAnn Bunten, Committee Secretary

Conferees appearing before the committee:

Karen France, Kansas Association of Realtors
Erik Sartorius, Kansas City Regional Association of Realtors
Karen Hiller, Housing and Credit Counseling, Inc.
Pat Tholen, J. C. Nichols Real Estate, Prairie Village
Ron Gaches, Associated Credit Bureaus
Mike Stewart, Trans Union, Overland Park
Chuck Stones, Kansas Bankers Association
Dennis Hadley, Denison State Bank, Holton and Hoyt

Others attending: See attached list.

Hearing on SB 185 - Enacting the Credit Score Disclosure Act

Karen France, Kansas Association of Realtors, testified before the Committee in support of **SB 185** which would create the Fair Credit Score Disclosure Act. The Act would require credit reporting agencies to allow a consumer, upon request, to inspect all files maintained on that consumer. Ms. France pointed out that this bill only applies to mortgage credit scores, not consumer credit scores, and was drafted after the California bill. (Attachment 1)

Erik Sartorius, Kansas City Regional Association of Realtors, strongly encouraged passage of the bill noting that the legislation would require lenders to provide consumers their credit score and disclose the factors used to determine that score. He noted that consumers do not have the same protection and rights with credit scores as they do with their credit report. (Attachment 2)

Karen Hiller, Housing and Credit Counseling, Inc. and Pat Tholen, J. C. Nichols Real Estate, Prairie Village, also expressed support for the bill saying that the bill is important for the consumer when seeking a mortgage. (Attachment 3 and 4)

Testifying in opposition to **SB 185** was Ron Gaches, representing Associated Credit Bureaus, who outlined three provisions for not supporting the bill. He stated that (1) there is no single credit score that credit reporting companies could provide consumers in response to this bill, and the bill simply is not needed; (2) the Trade-Line Blocking portion of the bill (page 10, lines 10 thru 40), which is from the California statute, is an inflexible and possibly counterproductive effort to combat identify fraud; and (3) the bill also includes several changes to the Fair Credit Reporting Act, federal law since 1970 and Kansas law since 1973, which currently work well, and there is no need for change. Attached to his written testimony was material distributed to the Committee on Trans Union, Experian, Fair Isaac and Equifax, who are companies that will soon provide credit scoring information to consumers. (Attachment 5)

Also speaking in opposition to **SB 185** was Mike Stewart, Trans Union, Overland Park, (Attachment 6); Chuck Stones, Kansas Bankers Association, (Attachment 7); and Dennis Hadley, Denison State Bank, Holton and Hoyt, (Attachment 8).

CONTINUATION SHEET

Action on SB 123 - Insurance; model insurance producer licensing act

The Committee discussed whether or not to use the term "agent" or "producer" in **SB 123**, as well as technical changes in the bill.

Senator Feleciano made a motion that the Committee amend SB 123 by providing technical changes in the bill on page 2, line 28, relating to K.S.A. 40-241 referring to "New Sec. 3" of the bill, as well as a technical change on page 4, line 12, and insert language after the word "both," that would read, "or a personal lines qualification", seconded by Senator Steineger. The motion carried.

Senator Feleciano made a motion to amend SB 123 by inserting on page 12, line 1, after the word "commissioner", the language, "a non-refundable fee in the amount of \$30 and", seconded by Senator Steineger. The motion carried.

Staff briefed the Committee on a balloon of the bill showing proposed amendments. (Attachment 9)

Senator Corbin made a motion to amend SB 123 recommending a global change of the word "producer" to "agent" throughout the bill, and that a substitute bill be drafted showing the proposed amendments as discussed by the Committee, seconded by Senator Steineger. The motion carried.

Senator Steineger made a motion that the Committee recommend Sub for SB 123 favorable for passage, seconded by Senator Barnett. The motion carried.

Approval of Committee Minutes

Senator Teichman made a motion to approve the Committee minutes of February 13, 14 and 15, seconded by Senator Corbin. The motion carried.

Adjournment

The meeting was adjourned at 10:30 a.m. The next meeting of the Committee is scheduled for February 20, 2001.

SENATE FINANCIAL INSTITUTIONS & INSURANCE
COMMITTEE GUEST LIST

DATE: 2-19-0 /

NAME	REPRESENTING
Mike Stewart	Trans Union
Alan Murphy	Trans Union
Kathleen Olsen	ICs Bankers Assn
Chuck Stokes	"
Dennis Hadley	Denison St Bank, Holton.
Aue Schmeitzel	KCUA
Libby Brungardt	KS Ins Dept
Bill Sneed	HIAA
Kevin Davis	Am. Family Ins.
Karen Miller	Housing + Credit Counseling, Inc
Sonya Allen	OSPC
George Barbee	KAFS
Anne Spiess	KAIFA
Erik Santorius	K.C. Regional Assoc. of Realtors
Marilee Carpenter	KCCI
PAT THOLEN	J.C. Nichols.
Tom Cochran	Associated Credit Bureau
KAREN FRANCE	KC Assn of REALTORS
LARRY MAGILL	KAIA

Matt Geddard

HCBA



Kansas Association of REALTORS®

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TO: MEMBERS OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

FROM: KAREN FRANCE, DIRECTOR OF GOVERNMENTAL RELATIONS

DATE: FEBRUARY 19, 2001

RE: SB 185, CONSUMER ACCESS TO CREDIT SCORES

Thank you for the opportunity to testify. On behalf of the Kansas Association of REALTORS®, I ask for your support of SB 185.

Credit scoring is a critical factor in the mortgage lending decision. Daily, more than 30,000 mortgage loans are processed separately through Fannie Mae's and Freddie Mac's automated underwriting systems, which usually include a mortgage credit score. Large lenders have their own proprietary mortgage scoring models to make underwriting decisions. Though there are several disclosure requirements for lenders to make to consumers in taking a loan application and in closing a mortgage loan, there is no requirement that lenders or other risk score model users disclose mortgage credit scores to mortgage applicants. Yet there is growing sentiment that mortgage credit risk scores should be disclosed to borrowers, especially as automated underwriting and credit risk scoring gains prominence.

We acknowledge the benefits of automated underwriting with mortgage scoring, if properly used and with consumer safeguards. Credit and mortgage scoring associated with automated underwriting could make mortgage credit more widely available at lower costs.

Current law or regulation does not require disclosure of credit risk scores. Risk scores are not permanent data included in credit report files, and they are very dynamic – created at the time requested and can become immediately dated once used. However, properly explained, we believe consumers can become informed as to the existence of credit scores and the way to create and maintain strong scores.

We want to stress that this bill only applies to mortgage credit scores, not consumer credit scores. There were bills introduced in both houses of Congress last year. Senator Schumer has indicated his plans to introduce a new one in the Senate, but we do not yet have one in the House. We believe it will take a long time for Congress to get this handled.

We urge you to utilize and adopt the model before you. The California legislation was the product of most of the interested groups, even those who initially opposed it. We hope to come to similar agreement with Kansas groups involved in the real estate transaction to come up with a workable solution for consumers.

Thank you for your consideration.

Senate Financial Inst. & Insurance

Date: 2-19-01

Attachment No. 1

For NextGen and Classic Risk Scores

This chart lists the score reason codes and associated reason statements for Fair, Isaac's broad-based next generation credit bureau risk scores (NextGen), and the corresponding classic credit bureau risk scores (BEACON,® EMPIRICA,® the Experian/Fair, Isaac Risk Model) and their associated Industry OptionSM scores (Auto, Bankcard, Installment and Personal Finance) across the major US credit reporting agencies.

This chart may be used as a reference when taking adverse action or in customer service when responding to consumers' inquiries as to the reasons for declination.

This list is presented in alphanumeric sequence by assigned NextGen risk score reason code. The legend is as follows:

A number or alphanumeric code in the column specifies the code associated with the reason statement for that score.

I/O in the column indicates that the code is only used in one or more classic Industry Options but is not currently used in the classic base model.

A (w) indicates that the wording has slightly changed from the last published list.

A blank in the column indicates that the code is not presently delivered with that particular score.

An asterisk (*) indicates that the code was previously used in the classic risk scores, but will not be used in the NextGen risk scores.

Fair, Isaac has considered concerns of the Federal Reserve Board (FRB) and the Office of the Comptroller of the Currency (OCC) in developing the statements associated with these score reason codes. We believe that the regulatory agencies are likely to be satisfied with these reason codes and associated reason statements. In any event we recommend that Fair, Isaac be consulted whenever changes to score code reason statements are made. If this is necessary, please contact Fair, Isaac's toll-free Credit Bureau Scores Helpline at 1-800-777-2066 or cbhelp@fairisaac.com.

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For more information:

phone from US
1-800-777-2066

phone from anywhere
1-415-472-2211

email
cbhelp@fairisaac.com

Web site
www.fairisaac.com



#1-2

Reason Statement	NextGen Code	Equifax BEACON Code	Trans Union EMPIRICA Code	Experian Experian/Fair, Isaac Risk Model Code
Account payment history is too new to rate	A0	07	07	07
Accounts last reported in delinquent status	A1			
Amount of credit available on revolving accounts	A2			
Amount owed on accounts is too high	A3	01	01	01
Amount owed on bank/national revolving accounts	A4			
Amount owed on collections filed	A5			
Amount owed on delinquent accounts	A6	34	31 (I/O)	34 (I/O)
Amount owed on recently opened accounts is too high	A7			
Amount owed on recently opened bank/national revolving accounts is too high	A8			
Amount owed on recently opened consumer finance company accounts is too high	A9			
Amount owed on recently opened retail accounts is too high	B0			
Amount owed on recently opened revolving accounts is too high	B1			
Amount owed on recently opened sales finance company accounts is too high	B2			
Amount owed on retail accounts	B3			
Amount owed on revolving accounts	B4			
Amount owed on revolving accounts is too high	B5	11	11	11
Amount past due on accounts	B6	21	21	21
Bankruptcy filing reported	D0			
Date of last inquiry too recent	DJ		19	
Delinquency on accounts	D2			
Delinquency on recently opened accounts	D3			
Derogatory public record or collection filed	D4	40	40	40
Frequency of delinquency	D5			
Level of delinquency on accounts	D6	02	02	02
Serious delinquency	D7	39	39	39
Serious delinquency, and public record or collection filed	D8	38	38	38
Serious delinquency, derogatory public record, or collection filed	*	22	22	22
Insufficient installment payment history	F0			
Lack of recently established credit accounts	F1			
Lack of recently established revolving accounts	F2			
Lack of recent auto finance loan information	F3	98 (I/O)		
Lack of recent auto loan information	F4		97	98 (I/O)
Lack of recent bank/national revolving information	F5	15 (w)	15 (w)	15 (w)
Lack of recent consumer finance company account information	F6	99 (I/O)	99 (I/O)	99 (I/O)
Lack of recent installment loan information	F7	32	04	32
Lack of recent reported mortgage loan information	F8			
Lack of recent non-mortgage installment loan info	F9			
Lack of recent retail account information	G0			
Lack of recent revolving account information	G1	16	16	16
No mortgage loans reported	G2			
No recent bank/national revolving balances	G3		29 (w)	29 (w)
No recent non-mortgage balance information	G4	17	17	17
No recent retail balances	G5			
No recent revolving balances	G6	24	24	24
Length of time accounts have been established	J0	14	14	14
Length of time auto accounts have been established	J1			
Length of time bank/national revolving accounts have been established	J2			
Length of time consumer finance company loans have been established	J3		98	
Length of time installment loans have been established	J4	25 (I/O)		25 (I/O)
Length of time reported mortgage accounts have been established	J5			
Length of time open installment loans have been established	J6			36 (I/O)
Length of time retail accounts have been established	J7			

Reason Statement	NextGen Code	Equifax BEACON Code	Trans Union EMPIRICA Code	Experian Experian/Fair, Isaac Risk Model Code
Length of time revolving accounts have been established	J8	12	12	12
Time since account activity is too long	J9			
Time since delinquency is too recent or unknown	K0	13	13	13
Time since derogatory public record or collection is too short	K1	20 (w)	20 (w)	20 (w)
Time since most recent account opening is too short	K2	30	30	30
Time since most recent auto account opening is too short	K3			
Time since most recent bank/national revolving account opening is too short	K4			
Time since most recent consumer finance company account opening is too short	K5			
Time since most recent installment loan account opening is too short	K6			
Time since most recent retail account established	K7			
Time since most recent revolving account established	K8			
Time since most recent sales finance company account opening is too short	K9			
Number of accounts currently in delinquent status	M0			
Number of accounts with delinquency	M1	18	18	18
Number of accounts with recent delinquency	M2			
Number of active bank/national revolving accounts	M3			
Number of active retail accounts	M4			
Number of adverse/derog public records	M5			
Number of bank/national revolving accounts with balances	M6	23 (w)		23 (w)
Number of bank/national revolving accounts	M7			
Number of bank/national revolving or other revolving accounts	M8		26 (I/O) (w)	
Number of collections filed	M9			
Number of consumer finance company accounts established relative to length of consumer finance history	N0			37 (I/O)
Number of consumer finance company inquiries	N1			
Number of established accounts	N2	28	28	28 (I/O)
Number of open installment loans	N3			
Number of recently opened consumer finance company accounts	N4			
Number of retail accounts	N5			
Number of retail accounts with balances	N6			
Number of revolving accounts	N7	26 (I/O)		26 (I/O)
Number of revolving accounts with balances higher than limits	N8			
Proportion of balance to limit on auto accounts is too high	P0			
Proportion of balance to limit on delinquent accounts is too high	P1			
Proportion of balance to limit on consumer finance company accounts is too high	P2			
Proportion of balance to limit on retail accounts is too high	P3			
Proportion of balances to credit limits on bank/national revolving or other revolving accounts is too high	P5	10 (w)	10 (w)	10 (w)
Proportion of balances to credit limits on revolving accounts is too high	P6			
Proportion of balance to limit on sales finance company accounts is too high	P7			
Proportion of balances to loan amounts on mortgage loans is too high	P8			
Proportion of loan balances to loan amounts is too high	P9	33	03	33
Proportion of revolving balances to total balances is too high	Q0			
Proportion of balances to credit limits on bank/national revolving accounts is too high	Q1			
Too few accounts currently paid as agreed	R0	19	27	19
Too few accounts with balances	R1			
Too few accounts with recent payment information	R2	31		31 (I/O)
Too few active accounts	R3			
Too few bank/national revolving accounts	R4	03 (w)		03 (w)

1-4

Reason Statement	NextGen Code	Equifax BEACON Code	Trans Union EMPIRICA Code	Experian Experian/Fair, Isaac Risk Model Code
Too few bank/national revolving accounts with recent payment information	R5			
Too few consumer finance company accounts with recent payment information	R6			
Too few installment accounts	R7			
Too few retail accounts	R8			
Too few retail accounts with recent payment information	R9			
Too few revolving accounts	S0			
Too few revolving accounts with recent payment information	S1			
Too few sales finance company accounts with recent payment information	S2			
Too many accounts recently opened	T0	09	09	09
Too many accounts with balances	T1	05	05	05
Too many bank/national revolving accounts	T2	04 (w)		04 (w)
Too many consumer finance company accounts	T3	06	06	06
Too many installment accounts	T4			
Too many inquiries last 12 months	T5	08	08	08
Too many recently active accounts	T6			
Too many recently active auto accounts	T7			
Too many recently active bank/national revolving accounts	T8			
Too many recently active consumer finance company accounts	T9			
Too many recently active installment loan accounts	U0			
Too many recently active retail accounts	U1			
Too many recently active sales finance company accounts	U2			
Too many recently opened accounts with balances	U4			
Too many recently opened bank/national revolving accounts	U5			
Too many recently opened consumer finance company accounts	U6			
Too many recently opened installment accounts	U7			
Too many recently opened retail accounts with balances	U8			
Too many recently opened revolving accounts	U9			
Too many recently opened revolving accounts with balances	V0			
Too many recently opened sales finance company accounts	V1			
Too many retail accounts	V2			
Too many revolving accounts	V3			
Too many recently opened bank/national revolving accounts with balances	V4			
Payments due on accounts	X0			46

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Testimony of Erik Sartorius
Governmental Affairs Director
Before the
Senate Financial Institutions & Insurance Committee
Regarding
Senate Bill 185 Fair Credit Score Disclosure Act

February 19, 2001

The Kansas City Regional Association of REALTORS® strongly encourages passage of Senate Bill 185. The bill extends important consumer protections to credit scores, providing consumers full and fair access to their credit scores. In our area, lack of consumer protection in this regard is affecting Kansans both in terms of securing a mortgage as well as paying higher interest rates due to the mysterious scores.

The legislation would require lenders to provide consumers their credit score and disclose the factors used to determine that score. For a fee, consumers could get copies of their credit score when requesting copies of their credit files.

A few years ago, Congress passed the Fair Credit Reporting Act, ensuring that individuals could get copies of their credit report. This empowered consumers by giving them the ability to see the information contained in the credit report and correct inaccuracies, as well as understand the information used by lenders in determining whether to grant a mortgage.

Many consumers are now aware of their right to access their credit report. Most of these people incorrectly assume that a clean credit report will translate into a high credit score. This is not necessarily true.

Consumers who are aware of the possible effects their current use of credit in terms of how their future purchasing decisions could be affected often try to make wise consumer credit decisions. They may close credit accounts they no longer use, or transfer balances from an account with a high interest rate to one with a lower rate, in order to minimize their debt. Some credit scores, however, see such behavior as a negative factor, leaving the consumers penalized for their good intentions.

Consumers do not have the same protections and rights with credit scores as they do their credit reports. Lenders may tell consumers their credit scores, but are not required to do so. Further, consumers are left in the dark as to the factors used to determine their credit score and what steps they could take to improve their score. The Kansas City Regional Association of REALTORS® believes such secrecy does not benefit consumers in their quest for home ownership.

We respectfully seek your support of this legislation.



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Senate Financial Inst. & Insurance

Date: 2-19-01

Attachment No. 2

The Doorway to Good Credit

TURNING THE KEY TO A STRONG CREDIT SCORE
AND A MORTGAGE TO BUY YOUR HOME

A Good Credit Record Takes you Across the Threshold to Homeownership

If you're planning to look for and buy a home any time soon, your real estate agent will recommend that you look carefully at your **credit record** to assist you through the financing process when buying your home.

Your **credit record** demonstrates how well you have handled credit in the past and how you use it right now. Your credit record is kept electronically by three private companies, also known as national credit repositories: Equifax, Experian and Trans Union.

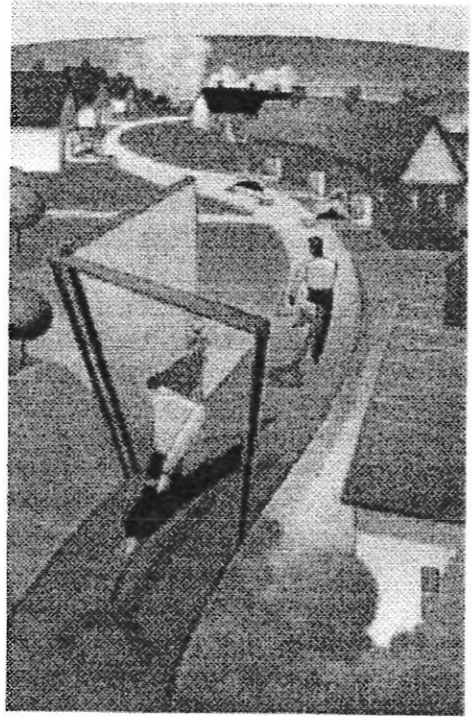
A **credit report** is a listing of the information in your credit record at any one of these companies. It lists your debts and payment history with people and companies who have loaned you money under an arrangement to pay it back, such as banks, credit card companies and department stores. It shows when you pay your bills (whether you pay bills on time) and how much you pay (whether you pay the proper amounts due). Your credit report also shows any history of tax liens or bankruptcies, even if any of these happened several years ago.

It is important to understand how significant your credit record is to getting a mortgage loan to buy your home. One of the first things you should do when you begin to search for a home is to order a copy of each of your credit reports and review them carefully. **(To find out how you can get copies of your credit reports, turn to the last two pages of this booklet.)** A real estate agent who is a REALTOR® is ready to work with you throughout the homebuying process—from helping you obtain and review your credit reports to providing helpful hints on qualifying for a mortgage—so you'll be ready to buy the home you select.

When you're finally ready to apply for a home loan, the lender you choose often gets a **credit score** as part of your credit report. A credit score is a computer-generated number that provides a snapshot of how likely you are to repay your debts.

A credit score is calculated by analyzing all the pieces of information in your credit record and summarizing them in a number. **Your credit score is important!** It will be used—along with your credit report and other information from your loan application—to determine whether you will get the financing to buy your home. Your credit score also may be used to determine the interest rate you get on your mortgage.

Pay attention to your credit and keep it on the right track. A good credit record will give you a strong credit score. And that's good news when you go out with either an agent who is a REALTOR® or a real estate agent to buy a home.



Opening the Front Door

TO HOMEOWNERSHIP

More about Credit Scores and Getting a Home Loan

A **credit score** is a statistical way of predicting how likely it is that you will pay back a loan that might be made to you.

The most commonly used credit score today is known as a FICOSM score. Developed by Fair, Isaac & Co. Inc., the FICO score is a mathematical way to look at factors in your credit record that may affect your ability and willingness to repay a debt.

These factors can include your record of repaying loans, e.g., student loans, car loans and credit card bills; any public records you might have, like tax liens and bankruptcies; how often you apply for installment loans and new credit cards; and how much you actually owe. For example, if you charge up to the limit on your credit cards—even if combined they don't seem to add up to a lot of money—this might hurt your credit score. Or, if you have recently applied for several credit cards, including department store payment plans, bank credit cards or finance company accounts—even if you haven't begun to use them yet—your credit score might be affected negatively. However, if you show a pattern of managing your credit wisely, such as keeping credit card balances low or paying your bills on time consistently, your credit score will be affected positively.

Your lender looks at other information besides your credit score before deciding whether to make you a home loan. Lenders look at

- Employment history, including whether you are self-employed
- Monthly debt payments versus your current income
- Savings patterns and amount of savings
- The type of loan you want
- The value of the property you want to buy or refinance
- The amount of the down payment you plan to make or the equity that you have in your home already

All of these factors combined together make up your "loan application" profile.

After collecting this information, the lender evaluates it to decide whether to approve the home loan. Until recently, this was done manually by reviewing each piece of information separately. Today, many lenders use automated underwriting, a computer-based process that evaluates the information easily, objectively and within minutes.

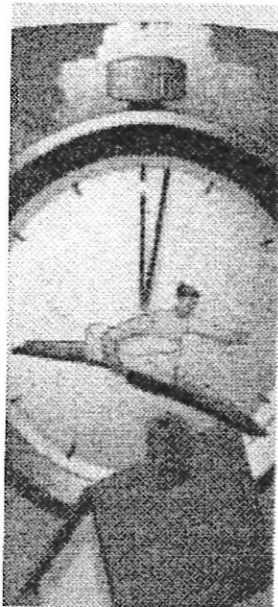
The lender then views the electronic recommendation along with other information gathered to create a full picture of your loan application and makes a final decision about your ability and willingness to repay your loan.

Credit scores and automated underwriting are widely used today because they speed up the mortgage approval process for consumers. What's more, by using credit scores, mortgage lenders treat each person objectively because the same standards apply to everyone. Credit scores assess each factor equally for every consumer, every time. They do not include race, religion, national origin, gender or marital status as factors. Credit scores are blind to demographic or cultural differences among people.

Step up to the front door and be smart about your credit.

Follow these **three rules of thumb** to learn how to manage your credit wisely.





1 The Front Door

Pay Your Bills on Time!

This is the single most important thing you can do.

How you've paid your bills in the past is usually the best indicator of how you'll pay in the future. Be sure to pay at least the minimum amount required by the date it is due on your account statement or invoice. You can always pay more, but you should never pay less than the minimum. Remember—being late on a payment is a negative mark on your credit record, even if you make up the payments later.

If you don't pay your bills on time, you can start today! Credit scores emphasize your most recent payment record.

2 The Side Door

Keep Credit Card Balances Low

Don't apply for too many loans or too many credit cards. This might be interpreted as a sign that you can easily get in over your head on payments you owe. Don't charge as much as your credit limits allow you to charge. Think about closing down accounts you never use and try to keep credit card balances low on your remaining credit lines.

Remember, though, that it is good for you to use credit because it demonstrates your ability and willingness to pay your bills. You must have some credit history to have a credit score. If you rarely or never borrow money or use a credit card, consider applying for a few credit cards and using them carefully, paying off the debt each month. But keep your overall debt at a reasonable level relative to your income.



3 The Gateway

Make Sure Your Credit Records are Accurate and Protect Them!

It's important that you review your credit reports from each of three private companies—Equifax, Experian and Trans Union—at least once a year to make sure they are right. **Your credit record, and therefore, your credit report may vary from one company to the other.** You don't want your credit score or mortgage application to be based on incorrect information in any of your reports. Simply contact all three companies that report on your credit—or national credit repositories as they are often called—listed below. If you've been denied credit, you can get your credit report for free by following instructions in the written notice you received denying you credit. Otherwise, you can receive a copy for a minimal fee.

**Equifax**

Credit Information Services
P.O. Box 740256
Atlanta, GA 30374-0256
Phone: 1 (800) 685-1111
Web Site: www.equifax.com

Experian

National Consumer Assistance Center
P.O. Box 949
Allen, TX 75013-0949
Phone: 1 (800) 682-7654
Web Site: www.experian.com

Trans Union

National Disclosure Center
P.O. Box 390
Springfield, PA 19064
Phone: 1 (800) 888-4213
Web Site: www.tuc.com

If you believe that any one of your credit reports contains mistakes and you wish to dispute or change the mistake, contact the national credit repository that developed the report. Under the Fair Credit Reporting Act (FCRA), the repository must complete an investigation of your disputed items within 30 days and provide you written notice of the results of the investigation within five days of its completion, including a copy of your credit report if it has changed based upon the dispute.

The Federal Trade Commission (FTC) is responsible for enforcing FCRA. The

FTC also publishes consumer-related credit brochures where you can obtain additional information on credit reports. To contact the FTC, call or write:

Federal Trade Commission

Public Reference Branch
6th & Pennsylvania Avenue, N.W.
Washington, D.C. 20850
Phone: (202) 326-2222
Web Sites: www.ftc.gov/ftc/consumer.htm and www.ftc.gov/ftc/moreinfo.htm

To learn more about credit scores, contact us at our address listed below.

This booklet is provided to you by



NATIONAL ASSOCIATION
OF REALTORS®



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February 19, 2001

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MEMBER

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COUNCIL ON ACCREDITATION
OF SERVICES FOR FAMILIES
AND CHILDREN, INC.



HUD Comprehensive
Counseling Agency



United Ways of
Greater Topeka, Douglas, Flint Hills
and Riley Counties

**Support Statement for SB 185, An Act Concerning Credit Scores;
Enacting the Fair Credit Disclosure Act**

Housing and Credit Counseling, a nonprofit consumer counseling agency serving statewide in Kansas, encourages your **support** of SB 185.

Housing and Credit Counseling, Inc. (HCCI) provides, among other services, homebuyer and consumer credit counseling and classes for Kansas consumers. About 4000 Kansas per year are served in these two program areas.

HCCI has had an arrangement with our local (Experian) credit bureau to include credit scores on credit reports since 1997.

These reports are, in particular, invaluable for prospective first-time homebuyers. The information about current credit scores allows the clients to prepare their credit for homeownership, repair their credit for homeownership and, in the process, prepare better for financial success as homeowners.

Increasingly, both government and private home mortgage loan programs are being structured for consumers with specified credit scores and above. At the same time, families of loan products are being structured so that the lower the credit score, the higher the interest rate, and there are variables on downpayment as well. For first-time borrowers, particularly those of lower incomes, knowing their credit scores and how they are structured is critical both in accessing credit as well as securing appropriate products that will ensure long-term affordability.

Again, we encourage you to support SB 185 and its requirement for credit scoring disclosure. Not only do consumers have the right to know, but the information is critical for "opening the door" for consumers to access today's array of loan products.

For further information, please contact:
Karen A. Hiller, Executive Director x308
Nancy R. Artzer, Homebuyer Counselor x321

Senate Financial Inst. & Insurance

Date: 2-19-01

Attachment No. 3

Testimony of Pat Tholen
J.C. Nichols Residential, Prairie Village, Kansas
for
The Fair Credit Disclosure Act

Madame Mr. Chairman and members of the committee, thank you for allowing me to appear before you today in support of Senate Bill ~~2254~~ ¹⁸⁵, the Fair Credit Disclosure Act.

I have taken a special interest in the availability of credit score information due to the experiences of my clients. Over the past year or so, I have seen a growing number of them tripped up one way or another by credit scores. I believe it is very important that consumers can make informed decisions about their credit behavior.

The importance of credit scores becomes more apparent with each passing year. Most all of my clients are on what most all of us would deem solid financial ground. They make good salaries, they have investments and savings, and from the information on their credit report it appears they have good credit histories.

Time and again, though, when seeking a mortgage they get blindsided by their credit score. While in their case the score does not result in an outright denial of their application, they are left to pay a higher rate on the loan. This puts buyers in a difficult bind. They can either take the rate offered by the lender, or they can go somewhere else.

Unfortunately, few, if any, lenders publish or make known any rate other than their best available rate. As such, buyers have no way of knowing whether the rate they have been offered is the best rate they could find for their circumstances. The only option would be to pay another lender another application fee, and \$150 to \$300 can add up quickly.

Giving borrowers access to their credit scores and the reasoning behind them will help borrowers avoid the shock of these disheartening experiences. They need to know how their credit, in terms of a credit score, will be viewed by a lender before they apply for a loan. Doing so will give them the opportunity to change behaviors that they may think demonstrate judicious use of credit, but are actually treated negatively in a credit scoring model.

I thank you for the opportunity to appear before you today, and strongly urge your support for Senate Bill ~~2254~~ ¹⁸⁵.

Senate Financial Inst. & Insurance
Date: 2-19-01
Attachment No. 4



Gaches, Braden, Barbee & Associates
Governmental Affairs & Association Management

300 SW EIGHTH • THIRD FLOOR • TOPEKA, KANSAS 66603-3912 • 785-233-4512 • FAX 785-233-2206

Testimony of Ron Gaches
On Behalf of Associated Credit Bureaus

Presented to
Senate Financial Institutions and Insurance Committee

Hearing on Senate Bill 185
The California Credit Scoring Act

Monday, February 19, 2001

Senate Financial Inst. & Insurance
Date: 2-19-01
Attachment No. 5

Thank you Senate Praeger for this opportunity to appear on behalf of the Associated Credit Bureaus (ACB) in opposition to Senate Bill 185, The California Credit Scoring Act. I am Ron Gaches, of Gaches, Braden, Barbee & Associates, speaking on behalf of the Associated Credit Bureaus and the Kansas Credit Bureau Association members of ACB. ACB members include the three large credit reporting agencies serving lenders in the United States, as well as hundreds of smaller credit bureaus and affiliated companies that comprise the credit reporting industry.

ACB is opposed to passage of SB 185 for three simple reasons.

First, there is no single credit score that credit reporting companies could provide consumers in response to this bill. But more fundamentally, the bill simply is not needed. All three major credit reporting companies have already announced plans to provide consumers with a credit score product that will achieve the purposes of this bill. Equifax and Trans Union should have their credit score product available to consumers within the next few weeks and Experian by July 1. These products will be designed specifically for consumers and will include the necessary details for a consumer to understand what their credit score means and what factors impact their credit score.

Second, the Trade-Line Blocking portion of the bill (page 10, lines 10 thru 40), which is also lifted from the California statute, is an inflexible and possibly counterproductive effort to combat identity fraud. ID fraud is an increasingly high-tech crime. Credit reporting agencies need the flexibility to adapt quickly to the changing tactics of those who perpetrate ID fraud. The California law, while well intended, will handicap the credit reporting industry in trying to address this crime. Credit reporting agencies and lenders are also victims of ID fraud and have taken significant steps within recent years to address this problem. Consumers who believe they are victims of ID fraud may obtain a copy of their credit report at no charge and are assisted by all three credit reporting agencies in clearing their name and correcting their credit files. Recent consumer-oriented innovations include fraud flags and file monitoring on problem accounts and information sharing between the three major credit reporting firms.

Third, the bill also includes several changes to the Fair Credit Reporting Act, federal law since 1970 and Kansas law since 1973. These laws work well and there is no need for change. The Senate Judiciary Committee considered a bill last year that proposed changes to the Fair Credit Reporting Act, but chose instead to make identity theft a felony and dropped other suggested changes.

For these reasons, we urge the Committee to not take any action on this bill. The California law will take affect July 1 of this year and the three major credit reporting firms will have their consumer credit score products in place by that time. Your committee can review the progress made next year and determine if any state legislation is required at that time.

Thank you for the opportunity to appear before your committee. I am available to answer any questions.



TRANS UNION

555 West Adams Street
Chicago, IL 60661
Telephone: (312) 258-1717

News Release

Trans Union Announces It Will Offer Credit Scores Directly to Consumers

CHICAGO May 15, 2000 Trans Union LLC today announced plans to provide consumers with tools to help them more effectively manage their financial health. The company is developing a credit score that will be offered to consumers, free of charge, when they request a copy of their Trans Union credit report. The score is expected to be available before the end of the year.

The timing is right for this consumer service. Consumers have become empowered in their use of financial information through the Internet. They are banking on-line, reviewing daily valuations of their investments, even trading their own stock portfolio, explains Harry Gambill, Trans Union president and chief executive officer. At Trans Union, we understand that consumers financial transactions are more effective when they can manage all aspects of their financial health.

According to Trans Union, the credit score will provide consumers with a snapshot of their credit profile at a specific point in time. Credit scores are used by credit grantors banks, retailers, etc. to assist in the evaluation of a consumer s creditworthiness and predict the likelihood the consumer will pay as agreed. Trans Union is the first major information services organization to commit to providing a score directly to consumers.

We want to make this tool available to every U.S. consumer that wants it and are exploring options for broad distribution, says Gambill. At the very least Trans Union s consumer credit scoring information will be made available before the end of the year to consumers who request a copy of their credit report on-line at www.transunion.com, by phone or by mail.

In addition to the credit score, Trans Union will provide consumers with the factors influencing the rating so as to help them understand how to maintain or improve their credit standing.

By planning ahead and using the tools we provide, consumers will have the opportunity to review and better understand credit scoring before applying for mortgages, credit cards and auto loans, says Gambill.

Headquartered in Chicago, Trans Union LLC is one of the nation s leading information services providers. Using its large database of consumer credit information, Trans Union develops tools that facilitate financial transactions between lenders and consumers, making it possible for consumers to enjoy the benefits of good financial health. Trans Union has stringent privacy protocols to protect the confidentiality and proper use of consumer information maintained in its database. The company operates regional consumer relations facilities in Crum Lynne, PA and Fullerton, CA.

[[Subscriber Products & Information](#)] [[Consumer Products & Information](#)] [[Order Your Credit Report](#)]

[[tucNET](#)] [[Company Fact Book](#)] [[Employment Opportunities](#)] [[Related Sites](#)]

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5-3



news release

Contacts: Donald Girard
Director, Public Relations
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Experian announces comprehensive consumer credit education program

New service provides consumer credit risk scores and detailed credit education online

Orange, Calif. – February 8, 2001-- Experian, a leading information solutions company, today announced the structure of its new consumer credit education program. The new program will be launched in phases, with most components available by July 1, 2001, and will provide consumers with the ability to receive their credit reports and dispute them on-line, receive a credit risk score, and learn how to better manage their financial health through a variety of educational tools. All services will be available through Experian's recently announced consumer credit website, www.CreditExpert.com.

"Consumers have an increasing desire to take charge of their personal financial information including receiving and understanding their credit risk scores," said Steve Krenzer, chief operating officer of Experian's E-commerce Solutions business unit. "A comprehensive education process must accompany this new information so consumers can reap the maximum benefit. www.CreditExpert.com will offer the most features of any online credit information site in an incredibly user-friendly format."

Upon launch consumers will have access to the same industry-leading information that businesses have used in making credit decisions. Scores range from a low of 340 to a high of 820 as risk indicators for credit grantors. In addition to their Experian risk score, consumers will receive score factors, education about how to interpret them and suggested steps to take in improving their scores. The risk score will be available for \$6.00. The price of a credit report will remain \$8.50, or as authorized by individual state laws.

"We're excited about providing consumers with the industry's most complete array of credit tools to better manage their personal finances," said Laura DeSoto, Experian's vice president of CreditExpert.com. "CreditExpert.com offers a meaningful look at the consumer's total credit picture—credit reports, risk scores, the ability to question credit entries, interpret the scores and model changes in their credit profiles--all in real time. Consumers can determine, and then make, real changes that may improve their credit standing and they can be confident they're doing so on Experian's highly secure Web site."

-more-

Additional features available on July 1 include: Credit Manager, a comprehensive credit management service designed to help consumers better understand, protect and manage their credit health; an electronic registration and protection service for debit/credit and other in-wallet consumer information; the automated dispute of credit report entries and tri-bureau credit report services.

Technology: Experian's delivery service was developed using a secure Web server allowing users' browser programs to interact with Experian via an encrypted session. Experian employs a Secure Sockets Layer (SSL) 128-bit connection that scrambles ordinary text or data into cyphertext to safeguard sensitive information.

Experian is an information solutions company. It uses the power of information to help its clients target prospective customers, manage existing customer relationships and identify opportunities for profitable growth. Through multi-channel delivery of its web-based products and services, Experian enables its clients to conduct secure and profitable e-business. Experian is a subsidiary of The Great Universal Stores PLC and has headquarters in Nottingham, UK and Orange, California. Its 12,000 people support clients in more than 50 countries. Annual sales are about \$1.5 billion. For more information, visit the company's Web site, www.experian.com.

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About Equifax | Consumers | Investors | Locations

Equifax at a Glance

News Releases

- ▶ [2001](#)
- ▶ [2000](#)
- ▶ [1999](#)
- ▶ [1998](#)
- ▶ [1997](#)
- ▶ [1996](#)

Employment Opportunities



FAIR, ISAAC and EQUIFAX FORM STRATEGIC ALLIANCE TO PROVIDE CONSUMERS PREMIER ONLINE CREDIT SCORE SERVICES

Partnership is industry first to open door to consumer credit decisioning standard

San Rafael, CA, and Atlanta, GA, January 11, 2001 - As part of an ongoing initiative to empower consumers to understand and act on issues affecting their credit standing, Fair, Isaac and Company (NYSE:FIC) and Equifax (NYSE:EFX) today announced a new strategic alliance designed to enlighten consumers about how credit decisions are made and enable them to impact and improve their individual credit standing.

The new online credit score service, available in the first quarter of 2001, will provide consumers with an individual Equifax Profile™, a BEACON® score and a personalized score analysis designed to help consumers understand how their scores may be interpreted by lenders and affected by their credit behavior. The FICO® score - the premier risk score developed by Fair, Isaac - is calculated on the Equifax Credit Profile™.

"We forged this alliance with Fair, Isaac to enlighten, enable and empower consumers to improve their credit health," said Tom Chapman, Equifax Chairman and CEO. "By combining our strength as the leader in consumer credit information with Fair, Isaac's world-class analytics, we will be the premier source for the credit score information consumers are demanding."

Equifax is the first consumer-reporting agency to offer consumers unique insights into the factors evaluated by Fair, Isaac to arrive at FICO credit risk scores. This represents a key advantage to consumers since FICO scores are the "gold standard" used for credit decisioning by the vast majority of financial institutions. U.S. lenders use FICO scores to make billions of credit decisions each year, including more than 75 percent of mortgage loan originations.

"Just as the FICO score is an industry standard for credit risk assessment, the educational services we are creating will set the standard for explaining scores to consumers," said Tom Grudnowski, CEO of Fair, Isaac. "We will provide the tools to not only review an individual's credit information, but to help them understand how that data may be analyzed to predict the risk associated with a credit application."

Fair, Isaac and Equifax, long-standing partners in creating credit risk management products, are forging the multi-year agreement to create innovative and unique online credit services for the benefit of consumers. Together, the two companies are developing a suite of products and services that will offer consumers greater insight into how personal credit standing is measured, how financial institutions award credit, and how consumers

can take steps to positively impact their credit standing.

The new score explanation service represents a continuation of ongoing consumer initiatives for both companies. Equifax was the first credit-reporting agency to offer consumers online access for the Equifax Credit Profile™, and has recently launched a new monitoring service - Equifax Credit Watch™ - that alerts consumers within 24 hours of any change to their credit file. Fair, Isaac has led an overall industry shift in developing more open, informative and accessible credit scoring criteria, decisioning factors and steps that consumers can take to improve financial health and credit standing.

About Fair, Isaac

Fair, Isaac and Company is a global provider of customer analytics and decision technology. Widely recognized for its pioneering work in credit scoring, Fair, Isaac revolutionized the way lending decisions are made. Today the company helps clients in multiple industries increase the value of customer relationships. Fair, Isaac has made the Forbes list of the top 200 U.S. small companies seven times in the last eight years, and was named by InformationWeek as one of the top 50 application service providers. Headquartered in San Rafael, California, Fair, Isaac has 21 offices worldwide.

About Equifax

Equifax (www.equifax.com), a worldwide leader in enabling and securing global commerce, brings buyers and sellers together through its information management, transaction processing, direct marketing, and customer relationship management businesses.

Atlanta-based Equifax (NYSE:EFX) serves the financial services, retail, credit card, transportation, telecommunications/utilities, information technology and healthcare industries and government. Equifax adds knowledge, expertise, convenience and security to provide value-added solutions and processes for its customers wherever they do business, including the Internet and other networks.

Equifax employs about 13,000 associates in 17 countries with sales in almost 50 and has \$1.9 billion in revenue.

Statements in this press release that relate to Equifax's future plans, objectives, expectations, performance, events and the like are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and the Securities Exchange Act of 1934. Future events, risks and uncertainties, individually or in the aggregate, could cause actual results to differ materially from those expressed or implied in these statements. Those factors could include changes in worldwide and U.S. economic conditions that materially impact consumer spending and consumer debt, changes in demand for the Company's products and services, risks associated with the integration of acquisitions and other investments, the spin-off of Payment Services on a timely basis without adverse impact on the Company's operations, and other factors discussed in the "forward-looking information" section in the management's discussion and analysis included in the annual report on Form 10-K for the year ended December 31, 1999 and 10-Q for the period ending September 30, 2000.

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credit scoring

CREDIT SCORING

FAQ

HOW DOES MY CREDIT SCORE RELATE TO MY CREDIT RISK?

HOW DOES MY CREDIT SCORE RELATE TO MY CREDIT RISK?

HOW DOES MY CREDIT SCORE RELATE TO MY CREDIT RISK?

HOW SCORING WORKS

WHAT IS A CREDIT SCORE?

HOW DOES MY CREDIT SCORE RELATE TO MY CREDIT RISK?

FAIRNESS

FACTS & FALLACIES

AVERAGE CREDIT USE

GLOSSARY

LINKS

How Scoring Works

Along with the credit report, lenders can also buy a credit score based on the information in the report. That score is calculated by a mathematical equation that evaluates many types of information that are on your credit report at that agency. By comparing this information to the patterns in hundreds of thousands of past credit reports, the score identifies your level of future credit risk.

In order for a FICO® score to be calculated on your credit report, the report must contain at least one account which has been open for six months or greater. In addition, the report must contain at least one account that has been updated in the past six months. This ensures that there is enough information — and enough recent information — in your report on which to base a score.

How Do People Score?

About FICO scores

Credit bureau scores are often called "FICO scores" because most credit bureau scores used in the US are produced from software developed by Fair, Isaac and Company (FICO). FICO scores are provided to lenders by the three major credit reporting agencies: Equifax, Experian and Trans Union.

What FICO Scores Ignore

FICO scores provide the best guide to future risk based solely on credit report data. The higher the score, the lower the risk. But no score says whether a specific individual will be a "good" or "bad" customer. And while many lenders use FICO scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product. There is no single "cutoff score" used by all lenders.

More than one score

In general, when people talk about "your score," they're talking about your current FICO score. However, there is no *one* score used to make decisions about you. This is true because:

Other names for FICO scores

- **Credit bureau scores are not the only scores used.** Many lenders use their own scores, which often will include the FICO score as well as other information about you.
- **FICO scores are not the only credit bureau scores.** There are other credit bureau scores, although FICO scores are by

5-8



credit scoring

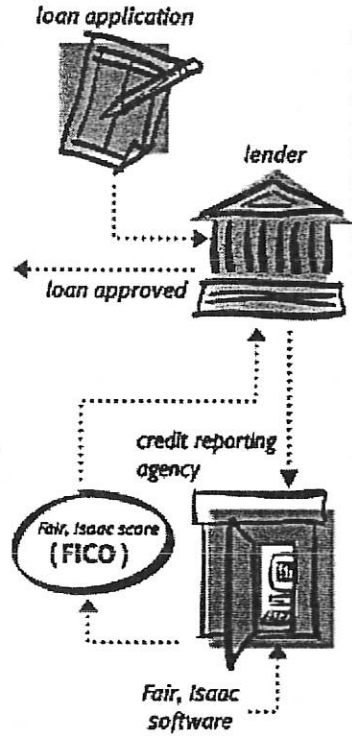
- CREDIT SCORING
- FAQ
- HOW DOES IT WORK?
- WHAT IS THE VALUE OF CREDIT REPORTING?
- YOUR CREDIT REPORT
- HOW DOES IT WORK?
- FACTS & FALLACIES
- AVERAGE CREDIT USE
- GLOSSARY
- LINKS

As a business solutions company, Fair, Isaac provides accurate, objective risk assessment tools to lenders. Credit scoring is one such tool. A credit bureau risk score — commonly known as a FICO® score — is a snapshot of your credit risk picture at a particular point in time. It's a number lenders use to help them decide: "If I give this person a loan or credit card, how likely is it that I will get paid back on time?" Fair, Isaac develops the software used by banks and credit reporting agencies to generate scores, but Fair, Isaac does not calculate credit scores or have access to them.



Path of a credit score

When you apply for a loan, your bank sends a request to one of the national credit reporting agencies to run a credit bureau score. The credit bureau then uses Fair, Isaac's software to calculate a score from your credit bureau report. Once the score is calculated, it is returned to your lender.



Ask us for more information on Fair, Isaac solutions.
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far the most commonly used. Other credit bureau scores may evaluate your credit report differently than FICO scores, and in some cases a higher score may mean *more* risk, not less risk as with FICO scores.

- **Your score may be different at each of the three main credit reporting agencies.** The FICO score from each credit reporting agency considers only the data in your credit report *at that agency*. If your current scores from the three credit reporting agencies are different, it's probably because the information those agencies have on you differs.
- **Your FICO score changes over time.** As your data changes at the credit reporting agency, so will any new score based on your credit report. So your FICO score from a month ago is probably not the same score a lender would get from the credit reporting agency today.

Ask us for more information on Fair, Isaac solutions.
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credit scoring

What a FICO® Score Considers

Listed in the hypertext links below are the five main categories of information that FICO scores evaluate, along with their general level of importance. Within these categories is a complete list of the information that goes into a FICO score.

How a
Score
Breaks
Down

1. PAYMENT HISTORY *What is your track record?*
2. AMOUNTS OWED *How much is too much?*
3. LENGTH OF CREDIT HISTORY *How established is yours?*
4. NEW CREDIT *Are you taking on more debt?*
5. TYPES OF CREDIT USE *Is it a "healthy" mix?*

Please note that:

- **A score takes into consideration all these categories of information, not just one or two.** No one piece of information or factor alone will determine your score.
- **The importance of any factor depends on the overall information in your credit report.** For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your score. Thus, it's impossible to say exactly how important any single factor is in determining your score — even the levels of importance shown here are for the general population, and will be different for different credit profiles. What's important is the *mix* of information, which varies from person to person, and for any one person over time.
- **Your FICO score only looks at information in your credit report.** However, lenders look at many things when making a credit decision including your income, how long you have worked at your present job and the kind of credit you are requesting.
- **Your score considers both positive and negative information in your credit report.** Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will raise your score.

CREDIT SCORING
FAQ

HOW DOES IT
WORK?

HOW DOES IT
AFFECT MY
CREDIT?

HOW DOES IT
AFFECT MY
CREDIT?

WHAT A FICO SCORE
CONSIDERS

FAIRNESS

FACTS & FALLACIES

AVERAGE CREDIT USE

GLOSSARY

LINKS



credit scoring

Interpreting Your Score

When a lender receives your Fair, Isaac credit bureau risk score, up to four "score reason codes" are also delivered. These explain the top reasons why your score was not higher. If the lender rejects your request for credit, and your FICO® score was part of the reason, these score reasons can help the lender tell you why your score wasn't higher.

These score reasons are more useful than the score itself in helping you determine whether your credit report might contain errors, and how you might improve your score over time. However, if you already have a high score (for example, in the mid-700s or higher) some of the reasons may not be very helpful, as they may be marginal factors related to the last three categories described previously (length of credit history, new credit and types of credit in use).

Common score reasons

Here are the top 10 most frequently given score reasons. Note that the specific wording given by your lender may be different from this.

- Serious delinquency
- Serious delinquency, and public record or collection filed
- Derogatory public record or collection filed
- Time since delinquency is too recent or unknown
- Level of delinquency on accounts
- Number of accounts with delinquency
- Amount owed on accounts
- Proportion of balances to credit limits on revolving accounts is too high
- Length of time accounts have been established
- Too many accounts with balances

CREDIT SCORING
FAQ

HOW DOES IT
WORK?

WHY DOES MY
SCORE CHANGE?

WHAT IS A
CREDIT REPORT?

HOW DOES MY
SCORE AFFECT
MY CREDIT?

WHAT IS A
CREDIT REPORT?

INTERPRETING YOUR
SCORE

FAIRNESS

FACTS & FALLACIES

AVERAGE CREDIT USE

GLOSSARY

LINKS

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(913) 339-0777

Mike Stewart
Vice President / Area Sales

Statement to:
Senate Committee on Financial Institutions
Senate Bill No. 185
Monday, February 19th, 2001

Madam Chairman and members of the Committee, my name is Mike Stewart, representing Trans Union who is one of three national Credit Reporting Agencies and the primary agency operating in Kansas with offices in Overland Park and Wichita. I appear today in opposition to SB185.

You have heard testimony regarding the California law that will be taking effect in July and why the Kansas Realtors Association has submitted a request for an identical law in Kansas.

My opposition to SB185 is not opposition to the disclosure of credit scoring information to consumers in Kansas.

The general public currently believes that there is one score that numerically rates consumers and that this score is a part of the consumer credit report.

There are actually dozens of scores utilized by different credit grantors because different businesses place difference emphasis on specific behaviors that a consumer may display in their credit transactions. All of these scores have been developed, paid for and are the proprietary property of a developer like Fair Isaacs, the credit grantor themselves, or one of the credit repositories.

Trans Union, Equifax and Experian all announced in mid 2000 their intentions to develop processes for not only disclosing a score to consumers, but to create a process that explains the use of credit scoring and how the consumer may impact or reinforce those credit related behaviors that cause a score to change.

Trans Union has developed the generalized score that will be provided to consumers and is developing the consumer disclosure and explanation process that will accompany them when given as a part of the disclosure of a consumer credit report.

It is our opinion that the industry is moving towards satisfaction of the intent of this bill and would ask that those actions I described above be given time to be implemented and tested before legislation is passed.

Thank you for the opportunity to address the committee. I would be happy to answer questions that you or members of your committee may have.

Senate Financial Inst. & Insurance
Date: 2-19-01
Attachment No. 6

Kansas Bankers Association

800 SW Jackson, Suite 1500

Topeka, KS 66612

785-232-3444 Fax - 785-232-3484 kbacs@ink.org

2-19-01

TO: Senate Financial Institutions and Insurance Committee

From: Chuck Stones, Senior Vice President

RE: SB 185

Madam Chair and Members of the Committee:

The Kansas Bankers Association appreciates the opportunity to appear before you regarding SB 185. I have with me today, Dennis Hadley. Dennis is a Senior Vice President at the Denison State Bank in Holton. Dennis is an experienced loan officer and has served as the Chairman of the KBA's Lending Committee.

Dennis will give you comprehensive reasons why we oppose this legislation. Therefore, my testimony will only be summary in nature.

- SB 185 is NOT needed. The consumer already receives more than adequate information and disclosures. Regulation B requires a financial institution to disclose to a consumer the reasons for a loan denial, and if necessary, how that consumer can obtain a free copy of his or her credit bureau report.
- Lending is both science and art. People without adequate lending experience should not attempt to make loan decisions. This only confuses the consumer.

Thank you for your consideration and we urge you to oppose SB 185.

Senate Financial Inst. & Insurance

Date: 2-19-01

Attachment No. 7

Madame Chairperson

Committee Members:

My name is Dennis Hadley, Senior Vice President, Denison State Bank, of Holton, Ks and Hoyt, Ks. I have been in banking for the last 18 years and Finance for three years prior to that. I am a native Kansan and my mother was a career banker in the state of Kansas, also. I have been a board member and past chairman of the Credit Bureau of Topeka for the last ten years.

I speak to you today, regarding SB 185. This is a bill that has grown its roots in California and because of this I appreciate the fact that you are looking so closely and researching so thoroughly the bill that is before you. This bill seeks to overhaul, but yet duplicate, the current credit reporting activity in the state of Kansas. I wish to specifically address the credit scoring requirements of this bill. Credit scoring has been around since the 1950's. It is a statistical method of assessing risk on a consumer. The credit score summarizes in a number the relative likelihood that an individual will repay a loan. That number or score is calculated from a scorecard, which consists of a list of credit related variables proven to be predictive of risk. FairIsaac and Co., Inc. initiated this scorecard. There are different scores for auto lending, mortgage lending and even bankruptcy. These scores are utilized by the three national credit bureau companies. Equifax uses the Beacon score, Trans Union the Empirica score and Experian uses the FairIsaac model. These three bureaus and their scoring models only reflect the information that is provided by lenders across the nation to the individual credit bureaus.

The credit underwriting process requires an understanding and evaluation of many different factors related to a credit application. Among these are the applicant's willingness to pay, ability to repay the debt, the amount of the down payment, and the value of the property to serve as adequate collateral. Because the needs of the market place are ever changing, today's loan officers are challenged to find ways to blend the traditional concept of loan underwriting with new evolving processes for measuring and evaluating the credit worthiness of a borrower in a timely manner. This requires a more comprehensive underwriting approach, one that is based on a thorough understanding of the different types of risk factors and how they relate to the various strengths and weaknesses in a credit application.

There are a number of tools that can assist loan officers in not only exercising the flexibility needed to evaluate the different types of applications but also in making better, quicker, and more consistent decisions. The three most important tools which enable a loan officer to make an informed decision for each credit applicant, are his or her common sense, good judgment, and an empirically based assessment of the applicant's credit history. As a loan officer of a rural Kansas bank, along with approximately four hundred other community banks in Kansas, we utilize the credit score as only one of many pieces of the credit underwriting process. We must never forget the five C's of credit underwriting: Character, Capacity, Capital, Collateral, and Conditions. These five C's of lending are the foundation of credit underwriting and are utilized everyday in the

Senate Financial Inst. & Insurance

Date: 2-19-01

Attachment No. 8

loan approval process. Credit history and scoring serve as only an additional source to aid the lender at arriving at the loan approval or denial.

Only the untrained or uninformed will jump to a conclusion that a credit score only will approve or deny a consumer in Kansas. This is so untrue. The sponsors of this bill are concerned that credit scores alone are causing an approval or denial of a Kansas consumer. It is only in the mortgage lending industry where Freddy Mac and Fanny Mae have set guidelines to utilize credit scoring as a major piece of the credit decision. The above national mortgage lenders are governed by Congress in order to standardize the mortgage lending business across the country. This bill seeks to affect all lending, whether it be consumer, commercial, ag, or mortgage throughout the state of Kansas; from Caney, Kansas to Stockton, Kansas. Please don't assume that one industry, i.e. . . . the mortgage industry, should dictate the bond that the community banks of Kansas have with their customer.

This scenario exists today where a merchant or a representative of a seller will pull a credit report on a prospective buyer. Not completing full underwriting of an application and based upon the credit score alone, they will advise the prospective buyer that he should be or would be approved. Upon the formal credit investigation of this application by a Kansas lender, a denial may occur because of a character, capacity, capital, collateral, or conditions issue, none of which have any impact on the consumer's credit score. This is why mandated disclosures of credit scores could be totally misleading to the consumer. There are Kansas lenders that may specialize in loaning to consumers, based upon the five C's of credit, which may offset a negative credit score or indicate a higher risk. This is an example of taking a greater risk and they price their products accordingly. There are those lenders, however, that do not take such a risk and deny someone because of the five C's, even though the consumers credit score may be positive. I know of many Kansas consumers, male or female that are the breadwinners of the household. Their spouse who may not work, but has the time to be credit active, may have a higher credit score than the actual breadwinner of the family. These are only a few examples of why mandatory disclosure of credit scores could totally mislead the consumer.

Finally, there are current Reg. B requirements, which require the consumer a written denial of an application, with a specific reason for denial. Attached is a copy of such notice. Nowhere on the denial is a score a reason for denial. Consumers may receive a copy of their credit file and can receive a copy of their score. This information is available through local credit bureaus across Kansas and also the Internet. With the current government oversight in place, rules and regulations are already managing this and protecting the consumer. Regulators ensure that the lenders of Kansas are following these laws. I believe this bill does nothing to improve current laws or regulations that are already in place. It only duplicates and serves to confuse the consumers of Kansas. Let's not let California based legislation influence how we protect the consumers of Kansas. The system is not broken. The laws and regulations in place currently serve the consumers and lenders of Kansas very well.

Respectfully yours,

Dennis Hadley

8-2

NOTICE OF ACTION TAKEN

Date _____

SSN/TIN _____

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal Agency that administers compliance with this law concerning this creditor is:

KANSAS CITY REGIONAL DIRECTOR

Federal Deposit Insurance Corporation
2345 Grand Avenue, Suite 1500
Kansas City, MO 64108

Dear _____

Thank you for your Application for _____

Based upon your Application we must inform you that:

We are unable to make a decision on your Application because it is missing the following information: _____

Please furnish this information to us on or before _____ at the address listed above or we will be unable to give your Application further consideration.

We are unable to offer you credit on the terms that you requested, but can offer you credit on the following terms: _____

If this offer is acceptable to you, please notify us on or before _____ at the address listed above.

If checked, our principal reasons for denying your original request are indicated below.

We are regrettably unable to approve your request. Our principal reasons for this decision are indicated below.

Where applicable, the following are our principal reasons for taking adverse action:

- | | | |
|--|---|---|
| <input type="checkbox"/> Insufficient number of credit references provided. | <input type="checkbox"/> Length of employment. | <input type="checkbox"/> Delinquent past or present credit obligations with others. |
| <input type="checkbox"/> Unacceptable type of credit references provided. | <input type="checkbox"/> Length of residence. | <input type="checkbox"/> Garnishment, attachment, foreclosure, repossession, collection action or judgment. |
| <input type="checkbox"/> Unable to verify credit references. | <input type="checkbox"/> Temporary residence. | <input type="checkbox"/> Bankruptcy. |
| <input type="checkbox"/> Income insufficient for amount of credit requested. | <input type="checkbox"/> Unable to verify residence. | <input type="checkbox"/> Value or type of collateral not sufficient. |
| <input type="checkbox"/> Excessive obligations in relation to income. | <input type="checkbox"/> No credit file. | <input type="checkbox"/> Lack of established earnings record. |
| <input type="checkbox"/> Unable to verify income. | <input type="checkbox"/> Limited credit experience. | <input type="checkbox"/> Slow or past due in trade or loan payments. |
| <input type="checkbox"/> Temporary or irregular employment. | <input type="checkbox"/> Poor credit performance with us. | |
| <input type="checkbox"/> Unable to verify employment. | | |
| <input type="checkbox"/> Other, Specify: _____ | | |

If you have any questions regarding this notice, you should contact _____

Telephone _____

DISCLOSURE OF USE OF INFORMATION OBTAINED FROM AN OUTSIDE SOURCE:

- Our credit decision was based in whole or in part on information obtained from an affiliate or from an outside source other than a consumer reporting agency. Under the Fair Credit Reporting Act, you have the right to obtain a disclosure of the nature of this information if you submit a written request to us no later than 60 days after you receive this notice.
- Our credit decision was based in whole or in part on information obtained in a report from the consumer reporting agency listed below. However, the reporting agency did not make the decision and is unable to supply you with specific reasons for why we have denied credit to you. You have a right under the Fair Credit Reporting Act to know the information contained in your credit file at the consumer reporting agency. Under the Fair Credit Reporting Act, you have the right to obtain a free copy of this report if you submit a written request to the agency named below no later than 60 days after you receive this notice. Under the Fair Credit Reporting Act you also have the right to dispute with the consumer reporting agency the accuracy or completeness of any information in the report.

Name: _____ Telephone: _____

Address: _____

NOTICE OF RIGHT TO RECEIVE COPY OF APPRAISAL

You have the right to a copy of the appraisal report used in connection with your application for credit. If you wish a copy, please write to us at the mailing address we have provided. We must hear from you no later than 90 days after we notify you about the action taken on your credit application or you withdraw your application. In your letter, give us the following information: Loan or application number, if known, date of application, name(s) of loan applicant(s), property address, and your current mailing address.

8-3

SENATE BILL No. 123

By Committee on Financial Institutions and Insurance

1-24

9 AN ACT concerning insurance; relating to the licensure of insurance
10 producers; [amending K.S.A. 40-3702 and repealing the existing sec-
11 tion; also] repealing K.S.A. [40-239,] 40-240, 40-240f, 40-241a, 40-241b,
12 40-241c, 40-241d, 40-241e, 40-241f, 40-241g, 40-241i, 40-242, 40-245,
13 40-246, 40-3701, 40-3703, 40-3704, 40-3705, 40-3706, 40-3707, 40-
14 3708, 40-3709, 40-3710, 40-3711, 40-3712, 40-3713 and 40-3714.

40-3702,

15
16 *Be it enacted by the Legislature of the State of Kansas:*

17 New Section 1. (a) Sections 1 through 18, and amendments thereto,
18 shall constitute and be known as the uniform insurance producers li-
19 censing act.

20 (b) Except as provided in section 6 and subsection (b) of section 14,
21 and amendments thereto, this act shall not apply to any excess and surplus
22 lines agents and brokers licensed pursuant to K.S.A. 40-246b and amend-
23 ments thereto.

24 New Sec. 2. As used in this act: (a) "Approved subject" or "approved
25 course" means any educational presentation involving insurance funda-
26 mentals, insurance law, insurance policies and coverage, insurance needs,
27 insurance risk management, insurance agency management or other ar-
28 eas, which is offered in a class, seminar, computer based training, inter-
29 active internet training or other similar form of instruction, and which
30 has been approved by the commissioner under this act as expanding skills
31 and knowledge obtained prior to initial licensure under this act or devel-
32 oping new and relevant skills and knowledge in preparation for such
33 licensure.

34 (b) "Biennial due date" means the date of birth of any licensed in-
35 surance producer who is required to complete C.E.C.'s and report the
36 completion of such C.E.C.'s to the commissioner pursuant to this act,
37 except that such due date shall not be earlier than two years from the
38 date of the insurance producer's initial licensure under this act. The bi-
39 ennial due date for a registered business entity shall be the date of initial
40 licensure under this act.

(c) "Biennium" means the period starting with the insurance pro-
ducer's biennial due date in 2001 and each two-year period thereafter for
43 any insurance producer who was born in an odd-numbered year. For any

Senate Financial Inst. & Insurance
Date: 2-19-01
Attachment No. 9

1 insurance producer who was born in an even-numbered year, the term
2 shall mean the period starting with the insurance producer's biennial due
3 date in 2002 and each two-year period thereafter. The biennium for a
4 registered business entity shall be the two-year period following such
5 business entity's initial licensure or renewal of such license.

6 (d) "Business entity" means any corporation, association, partnership,
7 limited liability company, limited liability partnership or other legal entity.

(f) 8 [(e)] "C.E.C." means continuing education credit containing at least
9 50 minutes of instruction in each clock hour. The term C.E.C. also in-
10 cludes any value, expressed in a whole number of units, assigned by the
11 commissioner to an approved subject.

(g) 12 [(f)] "Commissioner" means the commissioner of insurance as defined
13 in K.S.A. 40-102 and amendments thereto. The term commissioner shall
14 also include any authorized representative or designee of the
15 commissioner.

(h) 16 [(g)] "Department" means the insurance department established by
17 K.S.A. 40-102 and amendments thereto.

(i) 18 [(h)] "Home state" means the District of Columbia and any state or
19 territory of the United States in which an insurance producer maintains
20 such producer's principal place of residence or principal place of business
21 and is licensed to act as an insurance producer.

(j) 22 [(i)] "Inactive producer" means any licensed producer who presents
23 evidence satisfactory to the commissioner which demonstrates that such
24 producer will not do any act toward transacting the business of insurance
25 for not less than two but not more than four years from the date such
26 evidence is received by the commissioner.

(k) 27 [(j)] "Insurance" means any of the lines of authority specified in K.S.A.
28 40-241 and amendments thereto.

(l) 29 [(k)] "Insurance producer" and "producer" means any person required
30 to be licensed under the provisions of chapter 40 of the Kansas Statutes
31 Annotated, and amendments thereto, to sell, solicit or negotiate insur-
32 ance. For the purposes of this act, whenever the terms "agent" or "bro-
33 ker" appear in chapter 40 of the Kansas Statutes Annotated, and amend-
34 ments thereto, each term shall mean insurance producer unless the
35 context requires otherwise.

(m) 36 [(l)] "Insurer" and "insurance company" shall have the meaning as-
37 cribed to the term insurance company by K.S.A. 40-222c and amend-
38 ments thereto;

(o) 39 [(m)] "License" means a document issued by this state's insurance
40 commissioner authorizing a person to act as an insurance producer for
the lines of authority specified in such document.

(p) 41 [(n)] "Limited line credit insurance" includes credit life, credit disa-
42 bility, credit property, credit unemployment, involuntary unemployment,
43

Sec. 19. ~~K.S.A. 40-3702 is hereby amended to read as follows: 40-3702. As used in this act: (a), "Broker" means any individual who acts or aids in any manner in negotiating contracts of insurance, or in placing risks or in soliciting or effecting contracts of insurance as an agent for an insured other than himself or herself such individual and not as an agent of an insurance company or any other type of insurance carrier. The term "broker" shall not include a person working as an officer for an insurance carrier, or in a clerical, administrative or service capacity for an insurance carrier, licensed agent or broker, provided that the such person does no solicit contracts of insurance. The term "broker" shall not include an attorney-at-law in the performance of his or her such attorney's duties an insured who places or negotiates the placement of his or her such insured's own insurance, or any employee of an insured engaged in plac- ing or negotiating for placement of insurance for his or her such em- ployee's employer. (e)~~

"Insurance agent" or "agent shall have the meaning ascribed to the term insurance agent in K.S.A. 40-239, and amendments thereto, unless the context requires otherwise. (m)

1 mortgage life, mortgage guaranty, mortgage disability, automobile dealer
 2 gap insurance and any other form of insurance offered in connection with
 3 an extension of credit that is limited to partially or wholly extinguishing
 4 that credit obligation that the insurance commissioner determines should
 5 be designated a form of limited line credit insurance

(f) 6 [(o)] "Limited line credit insurance producer" means a person who
 7 sells, solicits or negotiates one or more forms of limited line credit insur-
 8 ance coverage to individuals through a master, corporate, group or indi-
 9 vidual policy.

(n) 10 [(p)] "NAIC" means the national association of insurance
 11 commissioners.

(s) 12 [(q)] "Negotiate" means the act of conferring directly with or offering
 13 advice directly to any purchaser or prospective purchaser of a particular
 14 contract of insurance concerning any of the substantive benefits, terms
 15 or conditions of such contract, provided that the person engaged in such
 16 act either sells insurance or obtains insurance from insurers for
 17 purchasers.

(t) 18 [(r)] "Person" means an individual or a business entity.

(u) 19 [(s)] "Sell" means to exchange a contract of insurance by any means,
 20 for money or its equivalent, on behalf of an insurance company.

(v) 21 [(t)] "Solicit" shall include any attempt to sell insurance or asking or
 22 urging a person to apply for any particular kind of insurance from any
 23 particular insurance company.

24 New Sec. 3. (a) Unless denied licensure pursuant to section 9 and
 25 amendments thereto, any person who meets the requirements of section
 26 5, and amendments thereto, shall be issued an insurance producer li-
 27 cense. An insurance producer may receive qualifications for a license in
 28 one or more of the following lines of authority:

29 (1) Life—insurance coverage on human lives including benefits of
 30 endowment and annuities, and may include benefits in the event of death
 31 or dismemberment by accident and benefits for disability income.

32 (2) Accident and health or sickness—insurance coverage for sickness,
 33 bodily injury or accidental death and may include benefits for disability
 34 income.

35 (3) Property—insurance coverage for the direct or consequential loss
 36 or damage to property of every kind.

37 (4) Casualty—insurance coverage against legal liability, including that
 38 for death, injury or disability or damage to real or personal property.

39 (5) Variable life and variable annuity products—insurance coverage
 40 provided under variable life insurance contracts, variable annuities or any
 41 other life insurance or annuity product that reflects the investment ex-
 42 perience of a separate account.

43 (6) Personal lines—personal property and casualty insurance coverage

known that the violative act could give rise to disciplinary action under subsection (a). If such person knew or reasonably should have known the violative act could give rise to any disciplinary proceeding authorized by subsection (a), the commissioner may impose a penalty up to a maximum of \$1,000 for each violation but not to exceed \$5,000 for the same violation occurring within any six consecutive calendar months from the date of the imposition of the original administrative penalty.

[(i). When the license of any producer is suspended, revoked or refused renewal, the broker's license of such person also shall be suspended, revoked or refused renewal.]

New Sec. 10. (a) No insurance company or insurance producer shall pay a commission, service fee, brokerage or other valuable consideration to a person for selling, soliciting or negotiating insurance in this state if that person is required to be licensed under this act and is not so licensed.

(b) No person shall accept a commission, service fee, brokerage or other valuable consideration for selling, soliciting or negotiating insurance in this state if that person is required to be licensed under this act and is not so licensed.

(c) Renewal or other deferred commissions may be paid to a person for selling, soliciting or negotiating insurance in this state if:

(1) Such person was required to be licensed under this act at the time the sale, solicitation or negotiation of insurance occurred; and

(2) such person was licensed as required by this act when the sale, solicitation or negotiation of insurance occurred.

(d) An insurance producer may place a kind or kinds of business, for which such insurance producer is licensed pursuant to this act, with an insurer for which such insurance producer is not an agent, by placing such business through an agent of such insurer.

(e) An insurance producer may divide or share in commissions with other producers licensed to write the same kind or kinds of insurance provided the solicitation of such business shall be subject to subsection (d).

(f) Any insurance producer may pay or assign a commission, service fee, brokerage or any other valuable consideration to an insurance agency or any financial holding company which does not sell, solicit or negotiate insurance in this state unless such payment or assignment violates any provision of K.S.A. 40-2404 and amendments thereto.

New Sec. 11. A licensed insurance producer may receive compensation for or on account of negotiating contracts of insurance or placing or soliciting or effecting contracts of insurance. Nothing in this chapter shall bridge or restrict freedom of contract of insurance carriers or agents with reference to the amount of commissions or fees to be paid to such insurance producers and such payments are expressly au-

1 New Sec. 15. (a) Notwithstanding the provisions of sections 3 and 6,
2 and amendments thereto, any person who is currently licensed as an in-
3 surance agent on the day before the effective date of this act and whose
4 biennial due date occurred during the 24 calendar months immediately
5 preceding the effective date of this act shall be deemed to be licensed as
6 an insurance producer under this act unless such person's license has
7 been suspended, revoked or refused renewal prior to the effective date
8 of this act.

9 (b) Any person licensed as an insurance producer under the provi-
10 sions of subsection (a) shall renew such license in accordance with the
11 provisions of this act on or before the first occurrence of such person's
12 biennial due date after the effective date of this act.

13 New Sec. 16. In accordance with the provisions of the rules and reg-
14 ulations filing act, K.S.A. 77-415 *et seq.* and amendments thereto, the
15 commissioner may adopt, amend and revoke rules and regulations gov-
16 erning the administration and enforcement of this act, including but not
17 limited to:

18 (a) Criteria for approval of continuing education materials and as-
19 signing C.E.C. values for such materials;

20 (b) any form required to implement this act, subject to the condition
21 that any application form shall substantially comply with any requirements
22 imposed by the NAIC;

23 (c) any application for examination or licensure under this act;

24 (d) any examination for licensing under this act;

25 (e) any report which may be required by this act; and

26 (f) such other rules and regulations as the commissioner may deem
27 necessary to carry out the provisions of this act.

28 New Sec. 17. The commissioner shall remit all moneys received by
29 or for the commissioner under the provisions of this act to the state trea-
30 surer at least monthly. Upon receipt of each such remittance, the state
31 treasurer shall deposit the entire amount thereof in the state treasury and
32 such amount shall be credited to the insurance department service reg-
33 ulation fund.

34 New Sec. 18. The commissioner may enter into any contracts or pur-
35 chase any services necessary to implement the provisions of this act.

36 [Sec. 19. K.S.A. 40-3702 is hereby amended to read as follows: 40-
37 3702. As used in this act: ~~(a)~~, "broker" means any individual who acts or
38 aids in any manner in negotiating contracts of insurance, or in placing
39 risks or in soliciting or effecting contracts of insurance as an agent for an
40 insured other than ~~himself or herself~~ *such individual* and not as an agent
41 of an insurance company or any other type of insurance carrier. The term
42 "broker" shall not include a person working as an officer for an insurance
43 carrier, or in a clerical, administrative or service capacity for an insurance

9-6

1 carrier, licensed agent or broker, provided that ~~the~~ *such* person does not
2 solicit contracts of insurance. The term "broker" shall not include an
3 attorney-at-law in the performance of ~~his or her~~ *such attorney's* duties,
4 an insured who places or negotiates the placement of ~~his or her~~ *such*
5 *insured's* own insurance, or any employee of an insured engaged in plac-
6 ing or negotiating for placement of insurance for ~~his or her~~ *such em-*
7 *ployee's* employer.]

8 (b) ~~"Casualty insurance broker's license" means a license issued pur-~~
9 ~~suant to the provisions of this act for the brokerage of property and ca-~~
10 ~~sualty insurance.~~

11 ~~—(c) "Commissioner" means the commissioner of insurance.~~

12 ~~—(d) "Life insurance broker's license" means a license issued pursuant~~
13 ~~to the provisions of this act for the brokerage of life and accident and~~
14 ~~health insurance.~~

19 15 Sec. [20] K.S.A. [40-239] 40-240, 40-240f, 40-241a, 40-241b, 40-241c,
16 40-241d, 40-241e, 40-241f, 40-241g, 40-241i, 40-242, 40-245, 40-246, 40-
17 3701, 40-3702, 40-3703, 40-3704, 40-3705, 40-3706, 40-3707, 40-3708,
18 40-3709, 40-3710, 40-3711, 40-3712, 40-3713 and 40-3714 are hereby
19 repealed.

20 20 Sec. [2]. This act shall take effect and be in force from and after its
21 publication in the statute book.