

Approved: 3-20-01  
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 March 14, 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:

Jerel Wright, Administrator, Kansas Department of Credit Unions

Others attending: See attached list.

**Hearing on HB 2252 - Credit union, rules and regulations, reserves**

Jerel Wright, Administrator, Kansas Department of Credit Unions, testified in support of **HB 2252** which would require state-chartered credit unions to comply with the reserve requirements adopted by the National Credit Union Administration. Mr. Wright noted the bill would also authorize the Credit Union Administrator to adopt rules and regulations to be followed in allowing a foreign credit union to do business in Kansas. (Attachment 1)

Mr. Wright offered an amendment to delete language in subsection (b) on page 2, lines 21 to 24, and reinsert language on page 2, lines 8 to 16 of **HB 2252** as shown in a balloon of the bill. (Attachment 2)

There were no opponents to the bill.

Senator Teichman made a motion to adopt the amendments as shown in the balloon of the bill, seconded by Senator Feleciano. The motion carried.

Senator Feleciano made a motion that the Committee recommend **HB 2252 as amended** favorable for passage, seconded by Senator Teichman. The motion carried.

**Announcements**

The Chair announced the agenda for the following day and week.

**Adjournment**

The meeting was adjourned at 10:00 a.m. The next meeting of the Committee is scheduled for March 15, 2001.





## Kansas Department of Credit Unions

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Bill Graves,  
Governor

Jerel Wright,  
Administrator

### Testimony on House Bill 2252

From Jerel Wright

March 14, 2001

Chairman Praeger and members of the committee:

House Bill 2252 amends two sections of Kansas credit union law, K.S.A. 17-2217 and K.S.A. 17-2223a.

Section 1 amends K.S.A. 17-2217: Reserve income; payments into reserve fund.

On December 31, 2000, a new reserve requirement became effective for all federally - insured credit unions. The National Credit Union Administration enacted minimum capital (reserves) for all credit unions throughout the U.S., including all state chartered, federally insured Kansas credit unions.

Previous federal law required federally chartered credit unions to reserve at levels consistent with our current state law. Under our current law, state chartered credit unions could be required to reserve at higher levels than federally chartered credit unions.

This amendment provides parity for all state-chartered credit unions by requiring compliance with federal law.

Section 2 amends K.S.A 17-2223a: Administrator's approval required before foreign credit union does business in state; examination; hearing.

The adoption of this amendment will provide the credit union administrator with the authority to adopt rules and regulations.

Currently, Kansas law allows the administrator to authorize a foreign credit union to do business in Kansas. Under rule and regulation authority, the department would establish specific conditions and standards necessary for a foreign credit union to operate within the borders of Kansas.

Senate Financial Inst. & Insurance

Date: 3-14-01

Attachment No. 1

## HOUSE BILL No. 2252

By Committee on Financial Institutions

2-1

9 AN ACT relating to credit unions; concerning the regulation thereof;  
10 amending K.S.A. 17-2217 and K.S.A. 2000 Supp. 17-2223a and re-  
11 pealing the existing sections.  
12

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

14 Section 1. K.S.A. 17-2217 is hereby amended to read as follows: 17-  
15 2217. All entrance fees, transfer fees and charges shall, after the payment  
16 of the organization expenses, be known as reserve income, and shall be  
17 added to the reserve fund of the credit union. At the close of the fiscal  
18 year or each dividend paying period there shall be set apart to the reserve  
19 fund, such sums as are provided for in this section.

20 ~~(a) For any credit union covered by share insurance authorized under~~  
21 ~~the provisions of this act and in operation less than four years or having~~  
22 ~~assets of less than \$500,000, the gross earnings of the credit union shall~~  
23 ~~be determined. From this amount, there shall be set aside, as a regular~~  
24 ~~reserve against losses on loans and against such other losses, sums in~~  
25 ~~accordance with the following schedule: Ten percent of the gross income~~  
26 ~~until the regular reserve shall equal 7½% of the total of outstanding loans~~  
27 ~~and risk assets, then 5% of gross income until the regular reserve shall~~  
28 ~~equal 10% of the total of outstanding loans and risk assets.~~

29 ~~Whenever the regular reserve falls below 10% or 7½% of the total of~~  
30 ~~outstanding loans and risk assets, as the case may be, it shall be replen-~~  
31 ~~ished by regular contribution in such amounts as may be needed to main-~~  
32 ~~tain the reserve goals of 7½% or 10%. In addition to such regular reserve,~~  
33 ~~special reserves to protect the interests of members shall be established~~  
34 ~~when found by the administrator, in any special case, to be necessary for~~  
35 ~~that purpose.~~

36 ~~(b) A credit union covered by share insurance authorized under the~~  
37 ~~provisions of this act and in operation for more than four years and having~~  
38 ~~assets of \$500,000 or more shall set aside 10% of the gross income until~~  
39 ~~the regular reserve shall equal 4% of the total of outstanding loans and~~  
40 ~~risk assets, then 5% of gross income until the regular reserve shall equal~~  
41 ~~6% of the total of outstanding loans and risk assets.~~

42 ~~Whenever the regular reserve falls below the stated per centum of the~~  
43 ~~total outstanding loans and risk assets, it shall be replenished by regular~~

*J.P.*

1 contributions in such amounts as may be required to maintain the reserve  
2 goals. In addition to such regular reserve, special reserves to protect the  
3 interests of the members shall be established when found by the admin-  
4 istrator, in any special case, to be necessary for that purpose. The admin-  
5 istrator may also decrease the reserve requirements set forth in this sub-  
6 section and subsection (a) when in the administrator's opinion such a  
7 decrease is necessary or desirable.

8 ~~—(c) A corporate credit union, in lieu of other reserve requirements;~~  
9 ~~at a minimum, shall set aside an amount equal to the average daily net~~  
10 ~~assets of the corporate credit union, as defined by the administrator, mul-~~  
11 ~~tiplied by .0005 and then multiplied by the number of days in the transfer~~  
12 ~~period divided by 365, until the total amount of the corporate credit~~  
13 ~~union's reserves, undivided earnings and membership shares equal 4% of~~  
14 ~~the net assets of the corporate credit union. The administrator may de-~~  
15 ~~crease the amounts required to be set aside by this subsection when in~~  
16 ~~the administrator's opinion such decrease is necessary or desirable.~~

17 (a) A credit union shall comply with the reserve requirements of the  
18 national credit union administration rules and regulations, 12 C.F.R. 702  
19 in effect on the effective date of this act, or any later version as adopted  
20 by the administrator in rules and regulations.

21 (b) A corporate credit union shall comply with the reserve require-  
22 ments of the national credit union administration rules and regulations,  
23 12 C.F.R. 704 in effect on the effective date of this act, or any later version  
24 as adopted by the administrator in rules and regulations.

25 ~~(c)~~ (c) The reserve fund shall belong to the credit union and shall be  
26 held to meet losses on loans. Other losses may be charged to the reserve  
27 fund with prior approval of the credit union administrator. The reserve  
28 fund shall not be distributed to the members except upon dissolution of  
29 the credit union.

30 Sec. 2. K.S.A. 2000 Supp. 17-2223a is hereby amended to read as  
31 follows: 17-2223a. (a) *Subject to the rules and regulations of the admin-*  
32 *istrator, no credit union, except credit unions organized under the laws*  
33 *of the state of Kansas or the "federal credit union act," 12 U.S.C. 1751*  
34 *et seq., and amendments thereto, shall do business in this state until it*  
35 *has received the approval of the credit union administrator.*

36 (b) The administrator may require any such credit union to submit  
37 at least every 18 months an examination report made by or under the  
38 authority of the national credit union administration or its successor or  
39 successors, by any such other appropriate federal or state agency or by  
40 an independent auditor or certified public accountant. Such report shall  
41 meet the standards which the administrator has established.

42 (c) If after a hearing or an opportunity for a hearing has been given  
43 such credit union in accordance with the provisions of the Kansas admin-

Proposed Amendment to HB 2252

On Page 2, line 21, 22, 24 and 24, after (b),

Strike

A credit union shall comply with e reserve requirements of the national credit union administration rules and regulations, 12 C.F.R. 704 in effect on the date of this act, or any later version as adopted by the administrator in rules and regulations.

On Page 2, line 21, after (b)

Reinsert

A corporate credit union, in lieu of other reserve requirements, at a minimum, shall set aside an amount equal to the average daily net assets of the corporate credit union, as defined by the administrator, multiplied by .0005 and then multiplied by the number of days in the transfer period divided by 365, until the total amount of the corporate credit union's reserves, undivided earnings and membership shares equal 4% of the net assets of the corporate credit union. The administrator may decrease the amounts required to be set aside by this subsection when in the administrator's opinion such decrease is necessary or desirable.

23

1            rative procedure act, the administrator determines that such credit un-  
2            ion has violated any provision of this act, the administrator may revoke  
3            such credit union's authority to do business in this state.

4            Sec. 3. K.S.A. 17-2217 and K.S.A. 2000 Supp. 17-2223a are hereby  
5            repealed.

6            Sec. 4. This act shall take effect and be in force from and after its  
7            publication in the Kansas register.