

Approved:
Date: 2-19-02

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 7, 2002 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 L. Wright, Administrator, Kansas Department of Credit Unions

Others attending: See attached list.

Confirmation Hearing

The Committee heard testimony from Jerel L. Wright regarding his reappointment as Credit Union Administrator for the Kansas Department of Credit Unions. Mr. Wright presented the Committee with a summary of his qualifications, educational and professional experiences. He also outlined for the Committee the Department's history, function, responsibilities, and the examination process of each credit union in the state as shown in his written testimony. (Attachment 1) During Committee discussion Mr. Wright noted that the Credit Union is still regulated and is in compliance with the Gramm-Leach-Bliley Act (GLBA).

Senator Teichman made a motion that the Committee recommend Jerel L. Wright to the full Senate for reappointment as Credit Union Administrator for the Kansas Department of Credit Unions, seconded by Senator Salmans. The motion carried.

During Committee discussion it was suggested that Mr. Wright report back to the Committee on the status of the Boeing Credit Union in Wichita.

Report on Conversion/Demutualization

Dr. Bill Wolff, Kansas Legislative Research Department, gave a report to the Committee on the conversion process that allows a mutual insurance company to convert to a domestic stock company. He noted that in the conversion process, it is not always possible to anticipate all of the circumstances and considerations that may arise. Therefore, the Insurance Commissioner is given broad authority over the process and procedures, and the act is to be liberally construed and not interpreted to limit the power of the Commissioner by other provisions of law. (Attachment 2)

Dr. Wolff pointed out that additional information on the process as well as hearings can be obtained on the Kansas Insurance Department's website at www.ksinsurance.gov.

Adjournment

The meeting was adjourned at 10:30 a.m. The next meeting is scheduled for February 12, 2002.

SENATE FINANCIAL INSTITUTIONS & INSURANCE
COMMITTEE GUEST LIST

DATE: 2-7-02

NAME	REPRESENTING
Terrel Wright	Ks Dept of Credit Unions
Chip Wheelen	Osteopathic Association
Brod Amoot	BCBS
Bill Pitsenberge	BCBS
Chris Swickard	SBC
Jin Liu	DOB
Susan Kannan	Kansas Health Institute
M. J. [unclear]	KCUA
Bill Lenny	KCUA
Karnie [unclear]	KAMP

Before the

**SENATE FINANCIAL INSTITUTIONS
AND INSURANCE COMMITTEE**

February 7, 2002

By

**Jerel Wright
Administrator**

Kansas Dept of Credit Unions

Senate Financial Inst. & Insurance

Date: 2-7-02

Attachment No. 1

JEREL L. WRIGHT

SUMMARY OF QUALIFICATIONS

1997 - 2002 Kansas Department of Credit Unions Topeka, Kansas
Credit Union Administrator
Supervision and examination of all state-chartered credit unions.

EDUCATION

1975 - 1977 Neosho County Comm Jr. College Chanute, Kansas
Associate Arts

1977 - 1979 Washburn University of Topeka Topeka, Kansas
Bachelor of Business Administration

1980 - 1983 Washburn University School of Law Topeka, Kansas
Juris Doctorate

PROFESSIONAL EXPERIENCE

1978 - 1983 Kansas Credit Union Topeka, Kansas
Delinquency Control Officer

1983 - 1994 Kansas Credit Union Association Topeka, Kansas
Governmental Affairs Director

1994 - 1997 Yellow Financial Credit Union Overland Park, Kansas
Compliance Officer/Loan Manager/Facilities Manager

1997 - 2002 Kansas Department of Credit Unions Topeka, Kansas
Credit Union Administrator

ACCREDITATIONS

Admitted to practice before the Kansas Bar in 1987.

Kansas Department of Credit Unions

History

The Kansas Department of Credit Unions (KDCU) is the state credit union financial regulatory agency authorized by the 1968 Kansas Legislature to provide for management, control, regulation and general supervision of state-chartered, Kansas's credit unions. Regulation of credit unions was performed under the supervision of the Kansas Bank Commissioner beginning in 1929 when Kansas's law authorized the organization of credit unions and continued until 1968, when the authority to regulate credit unions was transferred to the Kansas Credit Union Administrator.

KDCU is fully funded as a fee fund agency operating solely on the revenue produced through fees collected from state-chartered credit unions examined and regulated by the agency. All fees received by the agency are remitted to the state treasurer with twenty percent credited to the state general fund and the balance credited to the credit union fee fund.

Kansas Department of Credit Unions

Today the Department has 13 employees consisting of a full-time Administrator, a Financial Examiner Administrator, five Financial Examiner Principals, three Financial Examiner Seniors, one Financial Examiner, a Secretary III and an Office Specialist. KDCU supervises and examines 105 natural person credit unions with assets in excess of \$2 billion and two corporate credit unions with assets in excess of \$30 billion. Kansas also has 28 federal-chartered credit unions with assets totaling \$335 million.

State-chartered credit union share deposits are federally insured through the National Credit Union Share Insurance Fund, an arm of the National Credit Union Administration (NCUA).

Agency Function

KDCU is charged by law to examine every Kansas state-chartered credit union at least once every 18 months to ensure financial stability and compliance with state and federal laws and regulations. The National Association of State Credit Union Supervisors accredits the Department, recognizing the Department's examination standards as equivalent to the standards established by the NCUA, the federal credit union regulator. The Department grants new charters and mergers, provides for liquidation procedures when necessary and handles consumer complaints.

The Department reduced the period between examinations in 2001. In Year 2001, examinations were completed well within the 18-month cycle

Kansas Department of Credit Unions

with an average examination cycle of 13.67 months. Credit unions with a 3 or 4 CAMEL rating and scheduled for an examination received the examination within 12 months from their last exam.

The Department continues a major initiative regarding net worth. A regulation titled Prompt Corrective Action became applicable to all credit unions on December 31, 2000. The regulation requires all credit union to maintain a net worth of 7%.

Administrator Responsibilities

The administrator is bound with the responsibilities of management, control, regulation and general supervision of credit unions. This includes requiring every credit union to submit to an examination by the Department, consistent with the authority of the NCUA.

The Administrator:

- May require an independent audit to be performed under standards established by the agency.
- May approve the merger, the sale or purchase of assets or the voluntary and involuntary dissolution of a credit union.
- May issue orders for corrective action for violations of law.
- Shall become the conservator for any credit union deemed insolvent and may appoint a liquidation agent.

Kansas Department of Credit Unions

- May suspend from office and prohibit from further participation in any manner in the conduct of the affairs of a credit union any director, officer, committee member or employee who has committed any violation of a law, rules and regulations or of a cease and desist order or who has engaged in or participated in any unsafe or unsound practice in connection with a credit union or who has committed or engaged in any act, omission or practice in connection with the credit union which constitutes a breach of that person's fiduciary duty as such director, officer, committee member or employee, when the administrator has determined that such action or actions have resulted or will result in substantial financial loss or other damage that seriously prejudices the interest of the members.
- May recommend the removal of directors, supervisory or credit committees or submit findings of dishonest, reckless or incompetent performance of duties to the board of directors, supervisory or credit committee or to the credit union members at a general meeting of the shareholders.
- May suspend the charter, merge, liquidate, or take possession of any credit union which fails to federally insure share deposits, which loses coverage or allows such coverage to lapse.
- May authorize any credit union to engage in any activity in which such credit union could engage were they operating as a federal credit union.
- May require a credit union to establish net worth accounts as set by law.

Kansas Department of Credit Unions

- May establish rules and regulations governing the powers of corporate credit unions.
- May establish rules and regulations governing loans to credit union members, directors and members of the supervisory or credit committees.
- May approve the purchase, lease or rental of real estate and improvements by credit unions.
- May disclose or approve the disclosure of any confidential information secured or produced by the administrator in making an investigation or examination of a credit union.
- May approve a credit union's place of business or change in place of business.
- May approve a conversion of a state-chartered credit union to a federal charter.
- May authorize a credit union organized in another state or under the federal credit union act to do business in Kansas.
- Has general charge of the work of the Credit Union Council and shall keep a permanent record of all meetings and proceedings of the council at the office of the administrator.
- Has administrative supervision of all agency employees.

Kansas Department of Credit Unions

Examination Process

Each Kansas credit union is examined at least once every 18 months. The needs and condition of a particular credit union determine the length of time between examinations.

Our on-site examination format is based on a system called AIRE (Automated Integrated Regulatory Examination System), which is used by both the state and federal credit union regulators. The system provides for continuity between the state and federal examinations. KDCU financial examiners are recognized as having requisite examination skills qualifying the Department for accreditation regarding the use of examination system.

NCUA defers the examination of Kansas's state-chartered credit unions entirely to KDCU because the Department staff demonstrates the ability to conduct examinations equal in scope to any examination by the federal insurer. Federal insurance examiners participate together in examinations when KDCU and federal insurance fund representatives determine the need for a joint examination.

The examination format consists of a review of the credit union's core financial condition along with a regulatory compliance audit. KDCU issues a CAMEL rating for every credit union. A CAMEL rating encompasses the review of Capital, Asset Quality, Management, Earnings, and Asset-

Kansas Department of Credit Unions

Liability Management. Each review includes a comparison of the credit union's financial ratios to standards desired by regulators, in addition to peer group statistics.

The examination incorporates an examiner's findings into a Document of Resolution, which identifies the areas to be addressed by the credit union's board of directors. All resolution items are tracked by KDCU for completion with follow-up contacts scheduled to review the credit union's progress.

As part of the regulatory process, KDCU requires every credit union to remit semi-annual or quarterly financial reports (call report) to update the Department and the federal insurer.

Kansas Department of Credit Unions

Credit Union Council

The Council serves as an advisor to the administrator on issues and needs of credit unions. The Council reviews proposed legislation and regulations under consideration by the agency.

Each of the seven members of the Council is appointed by the Governor for a term of three years and may serve for two consecutive three-year terms. Five of the seven members shall be officers of state-chartered credit unions and four of these five Council members must be from different congressional districts. Two of the members are appointed as public members of the Council.

No more than four of the Council members may be from the same political party. The Council holds one regular council meeting during each quarter of the year and may hold other meetings, as the Council considers necessary.

Senate Confirmation Information Summary
Prepared and Submitted by the Office of Governor Bill Graves

Appointee: Jerel L. Wright

Position: Credit Union Administrator

Appointment Date: Upon confirmation by Senate Expiration Date 11/30/2005 / Term Length 4 years

Statutory Authority: KSA 17-2233 Party Affiliation: Republican

- Statutory geographic representation requirements (*indicate any that apply*):
- Congressional District: _____
 - County: _____
 - Size requirement (*if any*): _____
 - Other, specify: _____

➤ Statutory party affiliation requirement: No more than _____ members from the same political party.

➤ Statutory industry or occupation requirements _____

Salary \$62,215.54 Predecessor: himself – reappointed

Board Composition Prior to Confirmation of New Appointee:

(SEE ATTACHED LIST)

No more than four members of the council shall be from the same political party.

(b) Council meetings shall be on call of a majority of the council or the chairperson. The council shall hold one regular meeting during each quarter of the year, upon such dates and at such places as designated by the council, and may hold such other meetings as the council considers necessary. The majority of the council shall constitute a quorum for doing business. The council may adopt such rules as advisable for the conduct of its business and, until otherwise changed or modified, the council shall abide by Robert's rules of order in the conduct of its business.

History: L. 1968, ch. 160, § 18; L. 1978, ch. 308, § 45; L. 1981, ch. 299, § 45; L. 1982, ch. 347, § 11; L. 1992, ch. 262, § 2; July 1.

Revisor's Note:

Section was amended twice in 1992 session, see also 17-2232.

17-2233. Credit union administrator; appointment, duties, salary, expenses and term. The credit union administrator shall be appointed by the governor, subject to confirmation by the senate as provided in K.S.A. 75-4315b, and amendments thereto, and shall be a person with at least three years' actual, practical experience in the operation and management of a credit union. The administrator shall not be a member of the council. The governor shall fix the compensation of the administrator. In addition, the administrator shall be entitled to receive the actual and necessary expenses incurred in the performance of the administrator's duties. The administrator shall be in the unclassified service under the Kansas civil service act. The administrator shall be appointed for a term of four years. The administrator shall attend the meetings of the council and shall have the general charge of the work of the council and the general supervision of credit unions. The administrator shall keep a permanent record of all meetings and proceedings of the council at the office of the administrator.

History: L. 1968, ch. 160, § 19; L. 1978, ch. 308, § 46; L. 1980, ch. 250, § 1; L. 1981, ch. 299, § 46; L. 1982, ch. 347, § 12; L. 1992, ch. 225, § 16; July 1.

17-2234. Department of credit unions; supervision; employees; attorney. There is hereby established the state department of credit unions, which shall be under the administrative supervision of the administrator as

directed by law. The administrator may appoint or employ an attorney to assist the department in its functions under this act, and in accordance with the civil service law, such special assistants, deputies or examiners, and other employees, as may be necessary for the purpose of administering and enforcing the provisions of this act.

History: L. 1968, ch. 160, § 20; L. 1973, ch. 95, § 2; L. 1978, ch. 308, § 47; L. 1981, ch. 299, § 47; L. 1992, ch. 225, § 17; July 1.

17-2236. Bonds of administrator, examiners and employees; disposition of moneys; credit union fee fund. Before entering their respective duties, the administrator, each credit union examiner, and any other employee within the credit union department as determined in accordance with the provisions of K.S.A. 75-4104, and amendments thereto, shall give a bond set at a minimum of \$25,000 per individual conditioned upon the faithful and impartial discharge of their respective duties and the proper accounting for all funds which may come into their hands. Such bonds shall be executed by a surety company authorized to do business in this state. Such bonds shall be approved by the committee on surety bonds and insurance and filed, with the approval of such committee endorsed thereon together with the oaths of office of such officers and employees, with the secretary of state. Premium on such bonds shall be paid from the credit union fee fund. Suits may be maintained on such bonds in the name of the state for the use of the party or parties injured by a breach thereof.

The administrator shall remit all moneys received by or for the administrator from fees, charges or penalties to the state treasurer at least monthly. Upon receipt of any such remittance the state treasurer shall deposit the entire amount thereof in the state treasury. Twenty percent of each such deposit shall be credited to the state general fund and the balance shall be credited to the credit union fee fund. All expenditures from such fund shall be made in accordance with appropriation acts upon warrants of the director of accounts and reports issued pursuant to vouchers approved by the administrator or by a person or persons designated by the administrator. The compensation of members and employees, office costs and other actual and necessary expenses of the department and expenses incurred in the ad-

APPOINTMENTS QUESTIONNAIRE

Office of Governor Bill Graves

Please complete and return this form to the Governor's Appointments Office. Attach additional sheets if necessary.

Name: Jerel L. Wright

Home Address: 9776 Jupi Court

City, State, Zip: Meriden, KS 66512

Business Address: 400 South Kansas Ave, Suite B

City, State, Zip: Topeka, KS 66603

Home Phone: 785-876-0155 Business Phone: 785-296-3021

Date of Birth: 10-11-1957 Place of Birth: Fort Scott, KS

Party Affiliation: Rep. KBI Check: NA In Process Complete

BACKGROUND

1. List high school, college, or other education institutions attended along with the date attended and degree conferred.

<i>Education Institution</i>	<i>Dates</i>	<i>Degree</i>
<u>Chanute High School</u>	<u>1972-1975</u>	<u>H.S. Diploma</u>
<u>Neosho County Comm. Jr College</u>	<u>1975-1977</u>	<u>Associate Arts</u>
<u>Washburn University of Topeka</u>	<u>1977-1979</u>	<u>BBA</u>
<u>Washburn Univ. School of Law.</u>	<u>1980-1983</u>	<u>J.D.</u>

2. List memberships in business, trade and professional organizations for the past 10 years.

<i>Organization</i>	<i>Dates</i>
<u>National Assn of State Credit Union Supervisors (NASCUS)</u>	<u>1997-2001</u>

3. List any public offices you have been elected or appointed to, along with the dates of service.

<i>Office Held</i>	<i>Dates</i>
<u>Credit Union Administrator - appointed</u>	<u>Dec 1997 - to present</u>

4. List any positions held with a foreign, federal or local government entity along with the dates of service.

<i>Position</i>	<i>Government Entity</i>	<i>Dates</i>
N/A		

5. List any lobbying activities you have been involved in during the past five years. This includes activities as a registered lobbyist activities for which you were compensated.

<i>Group</i>	<i>Compensation (yes/no)</i>	<i>Dates</i>
N/A		

6. List experience or interest which qualify you for the position to which you have been appointed.

3 1/2 years as manager of Compliance Operations @
Yellow Financial Credit Union Overland Park, Ks 1994-1997.
4 years as CU Administrator

7. Summarize business and professional experience.

23 years in the Credit Union Industry → 9 years
working at credit unions, 10 years working at credit
union trade association, 4 years working at regulatory agencies

8. List any service in the United State military. Include dates of service, branch, date and type of discharge.

<i>Branch</i>	<i>Discharge</i>	<i>Dates</i>
N/A		

9. Provide details of any arrest, charge or questioning by a federal, state or other law enforcement authority for violation of any federal, state, county or municipal law, regulation or ordinance (excluding traffic violations for which a fine of \$100 or less was imposed).

N/A

10. List and provide details of any interests that may present a conflict of interest for this position.

N/A

I, Jerel Wright, declare that this questionnaire is true, correct and complete to the best of my knowledge.

Jerel L. Wright
Signature

11/15/2001
Date

*Return completed questionnaire to Judy Krueger, Secretary of Appointments, State Capitol, Rm 226-S, Topeka, Kansas 66612.
If you have questions, please call 913/296-4052.*



FILED
APR 18 2001
RON THORNBURGH
SECRETARY OF STATE

KANSAS GOVERNMENTAL ETHICS COMMISSION

STATEMENT OF SUBSTANTIAL INTERESTS FORM

INSTRUCTIONS. This statement (pages 1 through 4) must be completed by individuals who are required to do so by law. Any individual who intentionally fails to file as required by law, or intentionally files a false statement, is subject to prosecution for a class B misdemeanor.

Please read the "Guide" and "Definition" section provided with this form for additional assistance in completing sections "C" through "G". If you have questions or wish assistance, please contact the Commission office at 109 West 9th, Topeka, KS or call 785-296-4219.

A. IDENTIFICATION: PLEASE TYPE OR PRINT

W R I G H T J E R E L L.
Last Name First Name MI

W R I G H T D A N A J.
Spouse's Name

2 0 0 S M I L L E R A P T C
Number & Street Name, Apartment Number, Rural Route, or P.O. Box Number

M E R I D E N K S 6 6 5 1 2
City, State, Zip Code

7 8 5 - 4 8 4 - 2 1 6 6
Home Phone Number (include area code)

7 8 5 - 2 9 6 - 3 0 2 1
Business Phone Number (include acode)

B. THIS FORM IS REQUIRED TO BE FILED BECAUSE YOU ARE:

(check one or more of the following)

- 1. State Elected Official (Governor, Lt. Governor, Attorney General, Commissioner of Insurance, State Treasurer, Secretary of State, State Senator, State Representative, Member of State Board of Education or District Attorney);
2. Appointed Member of a State Board, Council, Commission or Authority;
3. Appointed State Position is Subject to Senate Confirmation;
4. Employee of a State Agency or University;
5. General Counsel for a State Agency;
6. Candidate for State Office.

KANSAS DEPARTMENT OF CREDIT UNIONS
List Name of Agency, Board, University or Elected Position (You may use abbreviations but not acronyms)

ADMINISTRATOR
Position

Division if applicable (May use acronymns)

* The last four digits of your social security number will aid in identifying you from others with the same name on the computer list. This information is optional.

6 1 9 6

C. **OWNERSHIP INTERESTS:** List any corporation, partnership, proprietorship, trust, joint venture and every other business interest, including land used for income, and specific stocks, mutual funds or retirement accounts in which either you or your spouse has owned within the preceding 12 months a legal or equitable interest exceeding \$5,000 or 5%, whichever is less. If you or your spouse own more than 5% of a business, you must disclose the percentage held. Please insert additional page if necessary to complete this section.

If you have nothing to report in Section "C", check here .

BUSINESS NAME AND ADDRESS	TYPE OF BUSINESS	DESCRIPTION OF INTERESTS HELD	HELD BY WHOM	PERCENT OF OWNERSHIP INTERESTS
1.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
2.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
3.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
4.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
5.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
6.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
7.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
8.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
9.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	
10.			<input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly	

D. **GIFTS OR HONORARIA:** List any person or business from whom you or your spouse either individually or collectively, have received gifts or honoraria having an aggregate value of \$500 or more in the preceding 12 months.

If you have nothing to report in Section "D", check here .

NAME OF PERSON OR BUSINESS FROM WHOM GIFT RECEIVED	ADDRESS	RECEIVED BY:
1.		
2.		
3.		

1-17

E. RECEIPT OF COMPENSATION: List all places of employment in the last calendar year, and any other businesses from which you or your spouse received \$2,000 or more in compensation (salary, thing of value, or economic benefit conferred on in return for services rendered, or to be rendered), which was reportabl as taxable income on your federal income tax returns.

1. YOUR PLACE(S) OF EMPLOYMENT OR OTHER BUSINESS IN THE PRECEDING CALENDAR YEAR. IF SAME AS SECTION "B", CHECK HERE .
If you have nothing to report in Section "E"1, check here .

	NAME OF BUSINESS	ADDRESS	TYPE OF BUSINESS
1.			
2.			

2. SPOUSE'S PLACE(S) OF EMPLOYMENT OR OTHER BUSINESS IN THE PRECEDING CALENDAR YEAR.
If you have nothing to report in Section "E"2, check here .

	NAME OF BUSINESS	ADDRESS	TYPE OF BUSINESS
1.	Blue Valley Schools	Stillwell, Ks	U. S. District
2.			

F. OFFICER OR DIRECTOR OF AN ORGANIZATION OR BUSINESS: List any organization or business in which you or your spouse hold a position of officer, director, associate, partner or proprietor at the time of filing, irrespective of the amount of compensation received for holding such position. Please insert additional page if necessary to complete this section.
If you have nothing to report in Section "F", check here .

	BUSINESS NAME AND ADDRESS	POSITION HELD	HELD BY WHOM
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			

G. RECEIPT OF FEES AND COMMISSIONS: List each client or customer who pays fees or commissions to a business or combination of businesses from which fees or commissions you or your spouse received an aggregate of \$2,000 or more in the preceding calendar year. The phrase "client or customer" relates only to businesses or combination of businesses. In the case of a partnership, it is the partner's proportionate share of the business, and hence of the fee, which is significant, without regard to expenses of the partnership. An individual who receives a salary as opposed to portions of fees or commissions is generally not required to report under this provision. Please insert additional page if necessary to complete this section.

If you have nothing to report in Section "G", check here .

	NAME OF CLIENT / CUSTOMER	ADDRESS	RECEIVED BY
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			

H. DECLARATION:

I, Jared Wright, declare that this statement of substantial interests (including any accompanying pages and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete statement of all of my substantial interests and other matters required by law. I understand that the intentional failure to file this statement as required by law or intentionally filing a false statement is a class B misdemeanor.

4/17/2001
Date

Jared R. Wright
Signature of Person Making Statement

NUMBER OF ADDITIONAL PAGES 0.

Return your completed statement to the Secretary of State, Memorial Hall, First Floor, 120 SW 10th Ave., Topeka, Kansas 66612-1594.

JEREL L. WRIGHT

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1997 - 2001 Kansas Department of Credit Unions Topeka, Kansas
Credit Union Administrator
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Governmental Affairs Director

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Compliance Officer/Loan Manager/Facilities Manager

1997 - 2001 Kansas Department of Credit Unions Topeka, Kansas
Credit Union Administrator

ACCREDITATIONS

Admitted to practice before the Kansas Bar in 1987.

January 29, 2002

To: Senate Committee on Financial Institutions and Insurance
From: William G. Wolff, Associate Director
Re: Conversion/Demutualization

Kansas law allows a mutual insurance company to convert to a domestic stock company.

- **What is a mutual insurance company?** A mutual insurance company is one formed as a cooperative. Its capital is originally contributed by its policyholders. It is owned by shareholders—its policyholders. The equity of a mutual belongs to the policyholders as a group; no single policyholder has a claim to the equity unless there is a dissolution of the company.
- **Why would a mutual insurance company want to change its structure?** The most frequently stated reason is that, to compete in today's marketplace and serve customers, companies must access financial resources. Since growth requires capital, mutual companies are at a disadvantage because they offer limited options for raising capital.

In the conversion process it is not always possible to anticipate all of the circumstances and considerations that may arise. Therefore, the Insurance Commissioner is given broad authority over the process and procedures and the act is to be liberally construed and not interpreted to limit the power of the Commissioner by other provisions of law.

Kansas law provides for four different plans of conversion:

- A plan in which policyholders exchange their membership interests for cash, securities, policy credits, dividends, subscription rights, or other considerations;
- A plan in which policyholders exchange their membership interests solely for subscription rights;
- A plan in which policyholders exchange their membership interests for membership in a mutual holding company; and

Senate Financial Inst. & Insurance
Date: 2-7-02
Attachment No. 2

- A plan in which policyholders exchange their membership interests for an option to purchase a proportionate amount of stock in the converted company.

The conversion process begins:

- When two-thirds of the board of director's members adopt a resolution which states the reasons for the conversion.
- When a plan of conversion is developed and approved by two-thirds of the members of the board of directors.
- The approved plan is submitted to the Insurance Commissioner for examination and comment.
- The plan is approved by two-thirds of the policyholders at a meeting called for that purpose and receipt by them of a copy of the plan and any information the Commissioner believes necessary for policyholders to understand the plan,
 - "policyholder" means policyholder of the mutual insurance company on the day the plan of conversion is initially approved by the board of directors of the mutual company.

Consideration by the Commissioner:

- Includes the conduct of a public hearing following proper notice to the policyholders.
- A finding that:
 - the plan of conversion is fair and equitable to policyholders (by law the plans is fair and equitable if the consideration is at least the amount of statutory surplus attributable to contributions of policyholders);
 - the plan of conversion complies with the state law;
 - the plan does not unjustly enrich any director, officer, agent, or employee of the insurer.
- The new stock company meets minimum requirements to be issued a certificate of authority by the Commissioner to transact business in the state and would not be hazardous to existing or future policyholders or the public.

- The Commissioner may request any additional information necessary to enable the Commissioner to make the findings required by law for the approval of the plan.
- The Commissioner is authorized to retain experts to assist in the discharge of the Commissioner's responsibilities under the act, including determination of a valuation of the company, and charging the insurer the actual amount of expenses incurred by the state.

Limitations on ownership of the new stock company; prohibitions on benefitting from the conversion:

- For five years following the conversion, no person, including individuals, corporations, or affiliated groups, may own, directly or indirectly more than 5 percent of the voting stock of the converted company (some exceptions approved by the Commissioner).
- Directors, officers, agents, or employees are prohibited from receiving fees, commissions, or any valuable consideration for aiding, promoting, or assisting in the conversion (normal salary exempted as are fees to attorneys, accountants, etc.).

Miscellaneous provisions:

- Commissioner issues certificate of authority to the converted company within 30 days of filing of the approved plan.
- Directors and officers continue to serve until new directors and officers are elected.
- Challenges to the validity of the conversion can be commenced more than 30 days after the final act of conversion.
- Commissioner has authority to adopt rules and regulations necessary to carry out the provisions of the act.