

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

The meeting was called to order by Chairman Ray Cox at 3:30 P.M. on February 1, 2006 in Room 527-S of the Capitol.

All members were present except:

Oletha Faust-Goudeau- excused

Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department

Bruce Kinzie, Revisor of Statutes Office

Patti Magathan, Committee Secretary

Conferees appearing before the committee:

Cynthia Smith, Sisters of Charity

Dale McAllister, Security Benefit Corporation

Ron Gaches - Gaches, Braden, Barbee & Associates, representing Kansas Association of Financial Services and Kansas Association of Mortgage Brokers

Others attending:

See attached list.

Chairman Cox opened the agenda with a bill introduction at the request of the Bank Commissioner to change one word in Uniform Consumer Credit Code 16A-3-308A. In paragraph (4) the word recession is changed to rescission. Without objection, the bill was introduced.

Chairman Cox then opened hearing on **HB 2669 Withholding of wages, allowing automatic enrollment in 403 (b) retirement plan.**

First to testify was **Ms. Cynthia Smith**, Advocacy Counsel for the Sisters of Charity Health Center, who testified as a proponent. She explained that this bill would allow providers of 403 (b) retirement plans to enroll new employees in the plan automatically. Employees would be given the option not to enroll in the plan, and an amendment has been added to the bill to include the word "voluntary." Enrollment is not currently an automatic process and involves extra paperwork for the employer and the employee. According to research by Hewitt Associates, automatic enrollment is becoming more commonly utilized by companies offering 401 (k) plans. Federal Law governs other retirement plans that are using automatic enrollment, but does not cover 403 (b) plans. **(Attachment 1)**

Questions followed her testimony. Ms. Smith explained that the proposed change does not have any bearing on the rules and regulations of specific company 403 (b) plans in terms of beneficiaries, investment direction, investment amounts, or matching funds. The intent of this law is to streamline the enrollment process.

Mr. Dale McAllister, representing Security Benefit Corporation, testified as a proponent. He expressed his company's support of this bill and their desire to expand the bill into other employer retirement programs such as 401 (k) and 457 plans. He cited data indicating that 2005 was a negative savings year meaning that people are spending more than they make. Automatic enrollment would stimulate participation and promote financial security of the Kansas workforce. Automatic enrollment is being advocated at the federal level. **(Attachment 2)**

Chairman Cox asked if Ms. Smith and Mr. McAllister would negotiate a mutually agreeable motion and report back to the committee at a later date. They agreed.

Chairman Cox closed the hearings on **HB 2669** and opened hearing on **HB 2735 - UCCC, definition of appraised value, independent valuation model.**

Ron Gaches, representing both the Kansas Association of Financial Services and the Kansas Association of Mortgage Brokers, testified as a proponent and explained that the proposed law adds to the definition of appraised value in current law to permit alternative valuation methods (A.V.M.). This law would apply only on a refinance or a second mortgage and would not apply on a first mortgage. Benefits of this law would be

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savings in both cost and time, and would safeguard against certain types of fraud. **(Attachments 3 and 4)**

There were several questions related to statistical models and vendors of statistical models. Representative Brunk asked if any particular models were acceptable to the administration. Kevin Glendening of the Office of the State Banking Commissioner said that he understands that models are proprietary. His interpretation is that his agency would not be in a position to endorse models, but would endorse vendors. They would want to retain the authority to reject a product and/or vendor; however, they remain neutral on this proposed law.

Representative Goico asked if this method is accepted in other states. Mr. Gaches replied that Kansas is one of only four states that don't have this provision in existing law.

Representative Brown asked if the models as a whole are more accurate in metropolitan areas rather than rural areas. Mr. John Pendergast, of HSBC, said that the models have proven more accurate in metropolitan areas, and they anticipate that they will be used primarily in metro areas. Mr. Gaches added that in time they foresee that the models will improve for smaller communities. They are also updated regularly to account for market fluctuations.

Representative George asked if either the lender or the borrower would have the option of using a traditional appraisal if so desired. Mr. Pendergast replied in the affirmative.

Representative Humerickhouse stated that this law would relate to UCCC and would not apply to banks. He questioned if that would be acceptable to the banking community. Mr. Gaches replied that the Kansas Bankers have elected to continue with their present model and have chosen not to include an A.V.M. in their model at this time.

Representative Cox said that there needs to be a clarification on wording regarding the Banking Commissioner's role in endorsing A.V.M. products and vendors. Hearings will be continued on Wednesday, February 8.

Representative Grant made a motion to approve the minutes of January 25. Chairman Cox asked for objections. There were none. Minutes were approved as written.

Meeting was adjourned at 4:45 P.M. Next meeting will be February 8, 2006.