

STATE OF KANSAS



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GOVERNOR JEFF COLYER, M.D.
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

February 16, 2018

The Honorable Jeff Longbine, Chairperson
Senate Committee on Financial Institutions and Insurance
Statehouse, Room 341-E
Topeka, Kansas 66612

Dear Senator Longbine:

SUBJECT: Fiscal Note for SB 402 by Senate Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning SB 402 is respectfully submitted to your committee.

SB 402 would establish the Kansas Veterans Loan Act. The Act would add a new section to the Kansas Uniform Consumer Credit Code (UCCC) and would make changes regarding consumer loan transactions made with veterans. Consumer loan transactions are defined within the bill. Loans made available to veterans would be subject to a number of restrictions including the minimum term of the loan. The bill would specify that lenders can only have one loan outstanding to any one veteran and require lenders to disclose periodic payments, total repayment and total loan costs. The bill would also specify the annual percentage rate inclusive of monthly fees, loan duration and notice of the borrower's right to revoke Automated Clearing House (ACH) payment authorization and right to rescind. The right and process to rescind, without cost, is outlined in the bill.

The bill would cap the annual interest rate on any given consumer loan to veterans at 36.0 percent. Monthly fees and charges for those loans would be 5.0 percent of the original loan principal or \$20, whichever is less. Fees and charges could not be added to the original contracted loan amount for the purposes of calculating interest owed. Monthly payments made by veterans on contracted loans would not exceed 5.0 percent of the veteran's verified gross monthly income or 6.0 percent of the veteran's verified net monthly income. Prepayments made by veterans would not be subject to fees or penalties and would require interest and fees be pro rata refundable. Veterans would also be able to waive any provision of the Act.

The administrator of the UCCC would be required to publish an annual report containing information regarding borrowers and loans as described in the bill. In addition to the annual report,

the UCCC administrator would be required to publish and widely distribute, within 30 days of the effective date of the Act, geographically indexed printed materials designed to inform veterans of locations where loans under the Act are available. The UCCC administrator would also create a toll-free 24-hour telephone number that could be called to obtain such a list. The UCCC administrator would be required to issue a statement that it is unlawful for any lender to coerce a veteran to agree to any other loan terms, regardless of whether or not those terms appear to be better terms, within 30 days of the effective date of the Act. The published materials would also state that any lender extending credit to a veteran, without informing the veteran of such veteran’s eligibility for loans under the Act, could be liable for damages. The Office of the State Bank Commissioner would be required to maintain a list of lenders and their locations on the Office’s website. To carry out the provisions of the bill, the Kansas Veterans Loan Act Fee Fund would be created and the Fund would be administered by the Office of the State Bank Commissioner.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	--	(\$24,400)
Expenditure	--	--	--	\$141,700
FTE Pos.	--	--	--	2.00

The Office of the State Bank Commissioner estimates enactment of SB 402 would increase agency expenditures by \$141,700 from all funding sources in FY 2019 and beyond. Increased expenditures include hiring 2.00 FTE to examine entities for compliance with the bill, to compile the annual report and other publications required by the bill. Base salaries would include \$45,000 for each position and \$18,650 for each position for fringe benefits. Additional expenditures would include \$2,000 for equipment and office space. Travel costs are estimated at \$8,400. In order to establish and maintain a 24-hour telephone line, expenditures would need to increase by \$2,000. An additional \$2,000 would be required to print and publish materials required in the bill. All expenditures would become a part of the agency’s base operating budget and would be carried over year to year.

The Office also estimates enactment of the bill would reduce agency fee receipts by \$24,400 in FY 2019 and beyond. Based on similar legislation and rate caps in place in other states, the Office estimates enactment of SB 402 would reduce the volume of payday loan transaction by up to 10.0 percent. If payday loan transactions decrease by up to 10.0 percent, the Office would lose commensurate fee receipts which are volume based. The loss in fee revenue would be ongoing and create a new baseline from which the agency would use to estimate annual revenues.

The Office of the Attorney General estimates enactment of SB 402 would likely draw a legal challenge from the lending industry, a veteran or veterans’ group, or from a non-veteran group. If that were to happen, the Office would defend against the lawsuit which would increase expenditures. It is estimated that any legal challenge would likely go through the appellate process in order to obtain a definitive ruling on the case and validity of the law. Getting to an appellate

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decision could take two to four years. The cost of litigation cannot be estimated. However, after the conclusion of any litigation, the Office would not anticipate any increased expenditures related to the enactment of SB 402. Any fiscal effect associated with SB 402 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Campbell", written in a cursive style.

Larry L. Campbell
Chief Budget Officer

cc: Willie Prescott, Office of the Attorney General
Miki Bowman, Banking
Jerel Wright, Credit Unions
Mark Heim, Veterans Affairs