

February 22, 2019

The Honorable Jim Kelly, Chairperson
House Committee on Financial Institutions and Pensions
Statehouse, Room 581-W
Topeka, Kansas 66612

Dear Representative Kelly:

SUBJECT: Fiscal Note for HB 2254 by Representative Hodge

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2254 is respectfully submitted to your committee.

HB 2254 would require every state-chartered bank to provide subprime loans totaling at least 5.0 percent of the bank's capital. The bill would define a subprime loan as a loan made to a borrower that either has no credit score or has a credit score lower than 620. In addition, the bill would exempt banks from any penalties under the State Banking Code for providing subprime loans.

According to the Office of the State Bank Commissioner, enactment of HB 2254 would require its financial examiners to verify compliance of the provisions of the bill, which could require it to hire additional staff due to an increased workload. The agency states that if the examinations take longer than those currently being conducted or if the number of financial examiners required to handle the additional workload increases it could result in additional expenditures for travel, hotel and per diem expenses for on-site examinations. In addition, the agency indicates the bill could result in additional expenditures to train examiners on compliance with the provisions of the bill.

The agency states that, while many state banks currently provide subprime lending, requiring subprime lending may result in banks receiving lower bank ratings or becoming a problem bank, which would require the agency to examine the bank more frequently and conduct additional on-site visitations. Such additional examination efforts could result in additional expenditures for the agency to hire more staff.

Federal guidance indicates that banks engaging in a subprime lending program should have separate subprime lending practices and procedures due to the higher risk of default and subsequent loan losses. Federal guidance recommends that banks define and follow several policies for subprime lending programs, including separating such programs from other lending programs and establishing collections procedures. The agency states that banks without experience running subprime lending programs may have difficulty in establishing such programs, which could impact a bank's safety and soundness ratings, especially in the management category.

Finally, the agency indicates that in order to comply with the provisions of the bill, banks may have to maintain higher capital reserves to offset possible losses. The agency states that such indirect effects on banks may have a nominal effect on a bank's safety and soundness rating, which could result in a bank receiving a "less-than-satisfactory" rating and being considered a problem bank that requires additional examinations. However, the fiscal effect cannot be estimated because the number of additional financial examiners that may have to be hired to enforce the provisions of the bill or more frequently examine the potential increase in problem banks is unknown. Any fiscal effect associated with HB 2254 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,

A handwritten signature in cursive script that reads "L. L. Campbell". The signature is written in black ink and is positioned above the printed name and title.

Larry L. Campbell
Director of the Budget

cc: Tim Kemp, Banking