

# SB2257

Measure Title: RELATING TO CREDIT UNIONS.

Report Title: Credit Unions; Savings Promotion Raffles

Description: Authorizes credit unions to offer savings promotion raffles. Amends the Hawaii penal code to clarify that savings promotion raffles do not constitute gambling or a lottery.

Companion:

Package: None

Current Referral: CPN, JDL

Introducer(s): ESPERO, Chun Oakland, Kidani, Slom, Wakai

<b>Sort by Date</b>		<b>Status Text</b>
1/20/2012	S	Introduced.
1/23/2012	S	Passed First Reading.
1/23/2012	S	Referred to CPN, JDL.
1/31/2012	S	The committee(s) on CPN has scheduled a public hearing on 02-10-12 9:00AM in conference room 229.



NEIL ABERCROMBIE  
GOVERNOR

BRIAN SCHATZ  
LT. GOVERNOR

STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
335 MERCHANT STREET, ROOM 310  
P.O. Box 541  
HONOLULU, HAWAII 96809  
Phone Number: 586-2850  
Fax Number: 586-2856  
[www.hawaii.gov/dcca](http://www.hawaii.gov/dcca)

KEALI'S. LOPEZ  
DIRECTOR

TO THE  
SENATE COMMITTEE ON  
COMMERCE AND CONSUMER PROTECTION

THE TWENTY-SIXTH STATE LEGISLATURE  
REGULAR SESSION OF 2012

Friday, February 10, 2012  
9:00 a.m.

TESTIMONY ON S.B. 2257  
RELATING TO CREDIT UNIONS

TO THE HONORABLE ROSALYN H. BAKER, CHAIR,  
AND MEMBERS OF THE COMMITTEE:

My name is Iris Ikeda Catalani, Commissioner of Financial Institutions ("Commissioner"). I am providing comments on behalf of the Department of Commerce and Consumer Affairs ("Department") on Senate Bill No. 2257.

This measure would provide for the establishment of savings promotion raffles by a state or federally regulated credit union. We believe there are some unintended consequences that may occur with this new provision to the credit union law:

TESTIMONY ON SENATE BILL NO. 2257

February 10, 2012, 9:00 a.m.

Page 2

1. Consumer would enter the raffle by providing consideration (a deposit of a specified amount of money). In the federal regulatory scheme, not speaking on behalf of other federal regulators, an activity which mandates that a consumer provide consideration to enter a contest violates Section 125 of the FDI Act which prohibits any FDIC insured institutions from being involved in any type of lotteries and games of chance. (12 USC 25a) A game of chance is defined as any activity where a consumer must advance money for a chance to win a prize. If a consumer must have an account at the bank to be eligible to win, the consumer would be advancing money to enter the game of chance.
2. If consumers are allowed to open these accounts over the internet, the credit unions should be aware of Regulation GG (31 USC 5364) which prohibits funding of unlawful internet gambling for an operator of an unlawful internet gambling business. This section may be problematic for credit unions that use FDIC insured banks for various payment systems. FDIC insured banks may be more careful about opening these accounts or will monitor these accounts more diligently as this type of activity would be unlawful under Regulation GG.
3. Game of chance versus skill. The last unintended consequence is gleaned from an OCC Advisory Letter 923 (January 2002) which stated that a lottery and a race are two separate things: the lottery is the "arrangement," while the race is the means of determining the winner of the lottery. Under federal case law, one of the essential

elements of a lottery is that the winners are selected by chance. As between the participants in a race, the winner is determined by skill, not chance. Therefore, the race, itself, is not a lottery. Rather, a betting pool among nonparticipants on the outcome of the race would be a lottery." *FCC v. ABC*, 347 U.S. 284 (1954). Here the raffle would be a lottery since skill would not be involved to win the contest, only opening an account.

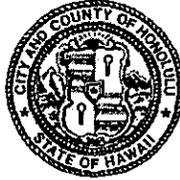
4. Disparity between FDIC insured financial institutions and credit unions. We searched the NCUA laws and regulations, and did not find any prohibition against national credit unions to participate or offer lotteries or sweepstakes. However, state law may prohibit credit unions from engaging this activity. If credit unions are allowed to offer these raffles, it may place FDIC insured financial institutions at a disadvantage if consumers migrate to federal credit unions. In the free flow of competition which the Department promotes for all businesses, appearing to provide an advantage over a particular financial institution may have a negative impact to another segment of financial institutions.
5. We would also like to inform the committee that there are no state regulated credit unions and thus the Department would not be able to examine these financial institutions.

Thank you for the opportunity to provide comments on Senate Bill 2257. I would be available to answer any questions.

POLICE DEPARTMENT  
**CITY AND COUNTY OF HONOLULU**

801 SOUTH BERETANIA STREET • HONOLULU, HAWAII 96813  
TELEPHONE: (808) 529-3111 • INTERNET: www.honolulu-pd.org

PETER B. CARLISLE  
MAYOR



LOUIS M. KEALOHA  
CHIEF

DAVE M. KAJIHIRO  
MARIE A. McCAULEY  
DEPUTY CHIEFS

OUR REFERENCE JM-TA

February 10, 2012

The Honorable Rosalyn H. Baker, Chair  
and Members  
Committee on Commerce and  
Consumer Protection  
The Senate  
State Capitol  
Honolulu, Hawaii 96813

Dear Chair Baker and Members:

SUBJECT: Senate Bill No. 2257, Relating to Credit Unions

I am John McEntire, Major of the Narcotics/Vice Division of the Honolulu Police Department, City and County of Honolulu.

The Honolulu Police Department opposes Senate Bill No. 2257, Relating to Credit Unions.

In keeping with our commitment to sustain and enrich communities, we are strongly opposed to all forms of gambling.

Gambling schemes such as lotteries cause problems such as bankruptcy, theft, embezzlement, suicide, child abuse and neglect, divorce, incarceration, and homelessness. Furthermore, studies have demonstrated that gambling schemes such as lotteries are essentially a regressive tax on lower-income people, those who can least afford to participate.

By holding steadfast against legalized gambling, the Honolulu Police Department keeps its pledge to work in partnership to enhance and strengthen our communities by enforcing state and county statutes and newly enacted laws.

The Honolulu Police Department urges you to oppose Senate Bill No. 2257, Relating to Credit Unions.

*Serving and Protecting With Aloha*

The Honorable Rosalyn H. Baker, Chair  
and Members

Page 2

February 10, 2012

Thank you for the opportunity to testify.

Sincerely,

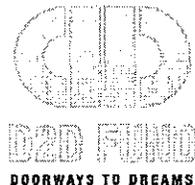


JOHN McENTIRE, Major  
Narcotics/Vice Division

APPROVED:



LOUIS M. KEALOHA  
Chief of Police



**Hearing Before: Senate Committee on Commerce and Consumer Protection  
SB 2257 – Relating to Credit Unions; Credit Unions – Savings Promotion Raffles.**

**Position: Favorable**

February 8, 2012

Honorable Chair Rosalyn Baker and members of the Senate Committee on Commerce and Consumer Protection:

The Doorways to Dreams Fund (D2D Fund – [www.d2dfund.org](http://www.d2dfund.org)) is a national non-profit that strengthens the financial opportunity and security of low- and moderate-income consumers by innovating, incubating and stimulating new financial products and policies. With over ten years experience in this area, D2D Fund has worked with federal, state, and local governments, large financial institutions, national and local corporations, and a range of non-profit providers to achieve our goals.

Given the current recession, savings are more important to the financial security of American families than ever. Recent research from Dartmouth and Harvard suggests that half of Americans cannot come up with \$2,000 in thirty days and are not well prepared to deal with emergencies. This is particularly true for low- and moderate-income families who have fewer safe and affordable financial options to fall back on when they encounter a drop in income or a large unexpected expense. Research and pilot tests conducted by D2D Fund and its colleagues has found that prize-linked savings/savings promotion raffle accounts (PLS) are a safe and powerful incentive to get more families saving. In the United Kingdom over 20 million people hold a similar product, and in Michigan 17,000 PLS accounts were opened in 2010 with over \$28 million saved in local credit unions.

Prize-linked savings accounts are an internationally-tested, successful concept in which consumers earn chances to win by saving in insured financial institutions or through government offered products. The accounts:

- ✓ Make savings fun.
- ✓ Provide an incentive for people to save more.
- ✓ Help financially vulnerable families become more financially secure.
- ✓ Create a no-lose proposition for savers. Everyone who saves maintains their deposits, plus whatever interest they accrue, whether or not they win additional prizes.

As a result of the success in Michigan, several states have passed savings promotion raffle/prize-linked savings legislation and are in the process of developing and launching a product. Between 2010 and 2011 Maine, Maryland, Rhode Island, Washington, North Carolina, and Nebraska all

passed state laws. In January 2012, ten credit unions in Nebraska launched a savings promotion raffle product and have seen great interest already.

Allowing Hawaii credit unions the ability to offer these programs could ultimately help more families across the state start saving for their futures and produce a more secure and strong state overall. While D2D Fund is focused on promoting saving for low- to moderate- income residents, a key benefit to prize-linked savings is that it will be accessible to all residents of Hawaii, regardless of income. **Additionally, unlike most other policies for promoting savings, allowing prize-linked savings deposits would not require any public subsidies, tax credits or other public expenditures.**

We urge a favorable consideration on SB 2257.

Respectfully submitted,

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

Tim Flacke  
Executive Director, Doorways to Dreams Fund



TEL:  
808-524-5161  
FAX:  
808-521-4120  
ADDRESS:  
1000 Bishop Street, Suite 301B  
Honolulu, HI 96813-4203

Presentation to the Committee on Commerce and Consumer Protection  
Friday, February 10, 2012 at 9:00 a.m.  
Testimony on SB 2257 Relating to Credit Unions

### Offering Comments

TO: Senator Rosalyn H. Baker, Chair  
Senator Brian T. Taniguchi, Vice Chair  
Members of the Committee

I am Gary Fujitani, Executive Director of the Hawaii Bankers Association (HBA), offering comments on SB 2257. HBA is the trade organization that represents FDIC insured depository institutions operating branches in Hawaii.

The bill authorizes credit unions to offer savings promotion raffles and amends the Hawaii penal code to clarify that savings promotion raffles do not constitute gambling or a lottery.

The Federal Depository Insurance Act prohibits FDIC insured financial institutions from dealing in a "lottery". Therefore, depending on the success of any credit union saving promotion raffles, Hawaii FDIC insured depository banks could be at a competitive disadvantage since we would be unable to offer a competing product.

Our concern would especially be for our smaller Hawaii financial institutions, which in many cases compete for the same customers as credit unions. We have a total of nine Hawaii headquartered banks. Three credit unions are larger than the 6<sup>th</sup> and 7<sup>th</sup> Hawaii banks based on total assets and 15 credit unions are larger than our two smallest banks.

Thank you for this opportunity to offer comments.

A handwritten signature in black ink, appearing to read 'Gary Y. Fujitani', with a horizontal line extending to the right.

Gary Y. Fujitani  
Executive Director



1654 South King Street  
Honolulu, Hawaii 96826-2097  
Telephone: (808) 941.0556  
Fax: (808) 945.0019  
Web site: [www.hcul.org](http://www.hcul.org)  
Email: [info@hcul.org](mailto:info@hcul.org)



Testimony to the Senate Committee on Commerce and Consumer Protection  
February 10, 2012 at 9:00 a.m.

Testimony in Opposition to SB 2257, Relating to Credit Unions

To: The Honorable Rosalyn Baker, Chair  
The Honorable Brian Taniguchi, Vice-Chair  
Members of the Committee on Commerce and Consumer Protection

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 81 Hawaii credit unions, representing approximately 811,000 credit union members across the state. We are opposed to SB 2257, Relating to Credit Unions.

While we appreciate the efforts of the legislature to provide the opportunity to offer prize-linked savings programs to our credit unions and credit union members, we feel that the correlation to gambling is simply not in line with our philosophy in Hawaii. While the programs have had success within credit unions in other states, we understand the moral argument against legalized gambling in any form here in Hawaii.

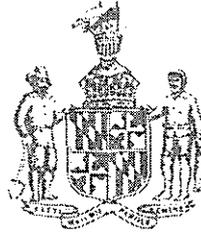
Further, this is an economically challenging time for Hawaii's credit unions. As with many small businesses and financial institutions, credit unions have not been immune to the financial crisis. A program such as this might have difficulty getting off the ground at a time where offering new programs is challenging to achieve. The philosophy of credit unions has always been to serve those of modest means, and we feel that this is best achieved through loans, good rates, and high returns.

Thank you for the opportunity to provide comments.

DELEGATE JOHN A. OLSZEWSKI, JR.  
*6th Legislative District*  
Baltimore County

Economic Matters Committee

*Chair*  
Baltimore County Delegation



THE MARYLAND HOUSE OF DELEGATES  
ANNAPOLIS, MARYLAND 21401

*Annapolis Office*  
The Maryland House of Delegates  
6 Bladen Street, Room 305  
Annapolis, Maryland 21401  
410-841-3458 · 301-858-3458  
800-492-7122 Ext. 3458  
Fax: 410-841-3123  
John.Olszewski@house.state.md.us

*District Office*  
410-282-1733

February 9, 2012

**In SUPPORT of SB 2257 Prize Linked Savings**

With the recent economic downturn, we all have begun to reflect upon ways to be better stewards of our financial resources. In the midst of this, building savings- especially for moderate and low-income families is as important as ever.

The Save to Win model can encourage people to save that might otherwise struggle to do so because it provides an additional incentive- the chance to win a sizable jackpot. Indeed, the highest rate of participation came from the credit union in one of the most economically depressed parts of Detroit, and over half of the participants in this new program were not regular savers.

Prize-linked savings is so compelling, however, because it is a win-win proposition. Even if one's share in one of these promotions fails to win a jackpot, an individual cannot lose money. In fact, it is guaranteed to make money, as one's principle never depletes and the interest constantly accrues.

We strongly support the Senator's push to introduce prize-linked savings in the state of Hawaii and we have worked diligently to bring the same incentives to Maryland.

Regards,

Delegate John Olszewski Jr.

To: The Honorable Rosalyn H. Baker, Chair,  
Brian T. Taniguchi, Vice-Chair, and  
Members of the Senate Committee on  
Commerce and Consumer Protection

Hearing Date: February 10, 2012 at 9:00 a.m.  
From: Sheryll Bonilla

SB 2257 Relating to Credit Unions

---

SB 2257, without any tax dollars, and without any risk or cost to the participant, would help the most financially vulnerable persons to start saving and save regularly to build their own safety cushions.

The bill comes from a two year pilot program in Michigan featured in an NCSL webinar on "Policies to Encourage Savings." The pilot in Michigan was so successful in helping low income persons and non-savers that Maryland, Rhode Island, Nebraska, Washington, North Carolina, and Maine enacted similar laws, and it is being considered in Alabama, Florida, Iowa, Mississippi, New Mexico, and Oregon.

The "Save to Win" program was successful in helping the financially vulnerable to save because it used a non-traditional approach that caught the attention of this sector of the population. It is a win-win concept. By opening a savings account and making small deposits to that account, the new saver gets a chance to win a prize. It could be movie tickets for the family, a \$50 or \$100 added to their savings account, or a \$500 certificate of deposit. There is no risk and no loss for the saver. They keep all of the money they put in to their savings account and they get a chance to win more money that the credit union deposits into their savings. The funding for these prizes comes out of the credit union's marketing budget, so it is up to the credit union to decide what prizes they want to offer for savers to make deposits. It takes no tax dollars.

In Michigan the highest rate of participation was with the credit union in the most economically depressed part of Detroit, showing its success in reaching out to the most financially vulnerable and helping them acquire the motivation and discipline to build their own safety net. There is no risk and no loss to the saver - savers keep all of their money. Save to Win is a powerful incentive to encourage savings. The results:

	<b>2009 (8 credit unions)</b>	<b>2010 (36 credit unions)</b>
New accounts	11,700	16,200
Total saved	\$8.6 million	\$27.9 million
Average account balance	\$734	\$1,268
Not regular savers before program	56%	45%
Asset poor, \$5000 or less in financial assets	39%	32%
Household income less than \$40,000	44%	39%
Single parents with one or more children	14%	12%

Save to Win provides a safe and powerful incentive for people without assets to begin to build their own safety cushions so they have something to fall back on. Traditional marketing approaches have not reached out to this portion of the population. Save to Win has been proven, both on the mainland and in Great Britain (20 million savers), to reach out to these non-savers and motivate them to save. The Consumer Federation of America found that 38% of those with incomes below \$25,000 think that the only way they can acquire several hundred dollars is by winning the lottery. This was how the concept of Save to Win came about. The results in Michigan surely show that this innovative and safe approach works.

I hope that the Committee will look favorably on this bill. Thank you for your consideration.

Hawaii Senate Commerce and Consumer Protection Committee  
Senator Rosalyn H. Baker, Chair

Honorable Chair and members of the Senate Commerce and Consumer Protection Committee,

I was delighted to hear that you are considering Senate Bill 2257 to allow credit unions to offer savings promotion raffles. I introduced similar legislation during the Washington State 2011 legislative session and we were able to pass it with the help of the Northwest Credit Union Association and the Washington Asset Building Coalition.

I sponsored legislation in Washington State because the concept has been successful in other states and countries, families need to save more money, and participants can't lose. It also provides an innovative way for families to save for the future without costing the state anything. It is a tool that promotes financial education and provides an economic lift for low income families. It helps build positive assets.

I also want to be clear about what this is not. It is not a game of risk with winners and losers. The worst that can happen through participating is at the end of the year participants have saved more money. This legislation gives people who are unlikely to save- or are only able to save small amounts at a time- a chance to have a savings account. And one that earns more interest.

It also makes savings fun because there is a chance to win prizes. The prize could be small-enough to take the family out for a movie- or a chance at a life changing grand prize. In the end, it costs customers nothing.

Although the credit unions in Washington State have yet to begin offering a savings promotion raffle (or prize-linked savings as we called it) I know there is much interest in both the credit unions and the asset building community for such a product and I expect one will be offered soon.

One note—the bill I sponsored allowed any financial institution to offer a prize-linked savings product, not just credit unions. Unfortunately at this time banks are not allowed to offer such products because of a federal rule. The way our law is written it will allow banks to participate once that federal prohibition is lifted.

I support your thoughtful consideration of Senate Bill 2257.

Derek Kilmer  
State Senator  
26<sup>th</sup> District, Washington State