

# HOUSE BILL REPORT

## SSB 6298

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### As Reported by House Committee On: Financial Institutions & Insurance

**Title:** An act relating to the deposit of public funds with credit unions.

**Brief Description:** Authorizing limited deposits of public funds with credit unions.

**Sponsors:** Senate Committee on Financial Institutions, Housing & Insurance (originally sponsored by Senators Berkey, Rockefeller and Kline).

#### **Brief History:**

##### **Committee Activity:**

Financial Institutions & Insurance: 2/17/10 [DP].

#### **Brief Summary of Substitute Bill**

- Allows state-chartered credit unions to accept public deposits with certain limitations.

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass. Signed by 8 members: Representatives Kirby, Chair; Kelley, Vice Chair; Parker, Assistant Ranking Minority Member; Hurst, McCoy, Nelson, Santos and Simpson.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Bailey, Ranking Minority Member; Rodne.

**Staff:** Alison Hellberg (786-7152).

#### **Background:**

Public funds may only be deposited in banks and thrift institutions that have been designated as public depositories by the Public Deposit Protection Commission (Commission). "Public funds" are those moneys belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees, and includes moneys held in trust.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

A "public depository" is defined as a financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has been approved by the Commission to hold public deposits, and which has segregated for the benefit of the Commission eligible collateral having a value of not less than its maximum liability. Credit unions may not be approved as public depositories.

To be approved as a public depository, a bank or thrift institution must meet minimum requirements of the Commission and must pledge securities as collateral to protect public funds on deposit in all public depositories (not just for that particular institution). If deposit insurance and collateral pledged by a failed institution are insufficient to reimburse all public depositors, the other public depositories are each assessed a proportionate share of the shortfall.

Credit unions doing business in Washington can be chartered by the state or federal government. The Department of Financial Institutions regulates state-chartered credit unions. The National Credit Union Share Insurance Fund insures deposits in credit unions up to \$250,000 through December 31, 2013.

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**Summary of Bill:**

Solely for the purpose of receiving public deposits, a state-chartered credit union may be a public depository and is subject to Commission reporting requirements. A credit union is not a public depository for any other purpose, including inclusion in the public depository pool.

The public deposits that a credit union accepts may total the lesser of the federal deposit insurance limits or \$100,000. The maximum deposit applies to all funds attributable to any one depositor of public funds in any one credit union.

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**Appropriation:** None.

**Fiscal Note:** Requested on February 17, 2010.

**Effective Date:** The bill takes effect July 1, 2011.

**Staff Summary of Public Testimony:**

(In support) Many public entities want to be able to deposit public funds into credit unions. Some do, and when they get audited, they are required to remove the public deposits even though they are satisfied with the service of the credit union. This particularly impacts credit unions that have public employees as members. Another issue is that in many rural communities there is not a public depository. This is a parity issue. Other states allow credit unions to accept public deposits and have not had problems. Credit unions are stable. The delayed effective date will give enough time to all involved to adjust to the change.

(Opposed) The issue is not whether credit unions are stable. The issue is that this is the last vestige of the common bond in terms of the reason credit unions were created in the first place. A credit union is its members. And with this bill, governments would be added as members of credit unions. Banks are opposed to putting tax dollars, that credit unions are largely exempt from paying, into credit unions. With this bill, credit unions would not be taxed, but still get these benefits. This bill also puts community banks at a great disadvantage. They are not exempt from paying many taxes like credit unions are, and they depend on public deposits as an important source of capital. If this bill is passed, the \$100,000 cap is essential.

**Persons Testifying:** (In support) Mark Minickiello, Washington Credit Union League; and Al Ralston, Boeing Employees Credit Union.

(Opposed) Brad Tower, Community Bankers of Washington; and Denny Eliason, Washington Bankers Association.

**Persons Signed In To Testify But Not Testifying:** None.