

HOUSE BILL REPORT

SB 5913

As Reported by House Committee On:
Business & Financial Services

Title: An act relating to increasing the permissible deposit of public funds with credit unions and authorizing the deposit of public funds at federally chartered credit unions.

Brief Description: Increasing the permissible deposit of public funds with credit unions.

Sponsors: Senators Prentice, Hobbs and Benton.

Brief History:

Committee Activity:

Business & Financial Services: 2/16/12 [DP].

Brief Summary of Bill

- Allows credit unions to accept deposits of public funds up to the amount insured by the National Credit Union Share Insurance Fund.
- Allows federally chartered credit unions to accept deposits of public funds.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: Do pass. Signed by 10 members: Representatives Kirby, Chair; Kelley, Vice Chair; Bailey, Ranking Minority Member; Buys, Assistant Ranking Minority Member; Blake, Hudgins, Hurst, Pedersen, Rivers and Ryu.

Minority Report: Do not pass. Signed by 2 members: Representatives Condotta and Kretz.

Staff: Alexa Silver (786-7190).

Background:

Public funds may only be deposited in financial institutions that have been designated as public depositories by the Public Deposit Protection Commission (Commission), which is comprised of the Governor, the Lieutenant Governor, and the State Treasurer. The Commission is responsible for protecting all public funds deposited in public depositories.

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.

"Public funds" are those moneys belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees, including moneys held in trust. A "public depository" is 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.

To be approved as a public depository, a financial institution must meet minimum requirements of the Commission and 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.

Public depositories submit a written report to the Commission that indicates the total amount of public funds deposited, the uninsured amount of public funds deposited, the depository's net worth, and the amount and nature of segregated collateral.

The Commission has broad authority to make and enforce regulations, require information from and set requirements for public depositories, require additional or different types of collateral, allocate sums due to public depositors in case of loss, and to enforce sanctions for noncompliance.

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 (NCUSIF) insures deposits in credit unions up to \$250,000.

Legislation enacted in 2010 allows state-chartered credit unions to accept public deposits. Credit unions may accept the lesser of the NCUSIF limit or \$100,000. The maximum deposit applies to all funds attributable to any one depositor of public funds in any one credit union. Credit unions are subject to Commission reporting requirements, but are not part of the public depository pool.

Summary of Bill:

Credit unions may accept public deposits up to the amount insured by the NCUSIF. In addition to state-chartered credit unions, federally chartered credit unions may also accept public deposits. Credit unions that accept public deposits are subject to the Commission's authority in addition to Commission reporting requirements.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill allows all credit unions to accept public funds as long as they are fully insured. Credit unions would not be part of the Commission pool. The bill also includes oversight by the State Treasurer, who administers all the public funds.

(Opposed) It is appreciated that the bill limits the acceptance of public deposits to the national cap, which will be protective of public funds, and that the limits are applied in the aggregate. However, there are broader concerns regarding this legislation, because credit unions compete against banks on a largely untaxed basis. Banks pay a significant amount in state taxes alone, and that amount will double in three years because of a bill enacted in 2010. Credit unions pay no federal income tax and less than 2 percent of what banks pay in state taxes. Every time the offerings to credit unions are broadened and banks lose market share to non tax paying entities, it not only hurts state banks, but it also affects the state treasury.

Persons Testifying: (In support) Mark Minickiello, Northwest Credit Union Association.

(Opposed) Danny Eliason, Washington Bankers Association.

Persons Signed In To Testify But Not Testifying: None.