HOUSE BILL REPORT
HB 1582

As Reported by House Committee On:
Business & Financial Services

Title: An act relating to credit unions' corporate governance, investments, and capital.

Brief Description: Addressing credit unions' corporate governance, investments, and capital.

Sponsors: Representatives Ryu, Warnick, Santos, Kirby and Moscoso.

Brief History:
Committee Activity:
Business & Financial Services: 2/7/13, 2/13/13 [DPS].

Brief Summary of Substitute Bill

- Modifies credit union governance provisions related to meetings, removal of directors, compensation of directors and supervisory committee members, and merger approval.
- Permits a credit union to invest its funds in a registered investment company or collective investment fund, and modifies provisions related to investment in real property.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives Kirby, Chair; Ryu, Vice Chair; Parker, Ranking Minority Member; Vick, Assistant Ranking Minority Member; Blake, Chandler, Habib, Hawkins, Hudgins, Hurst, Kochmar, MacEwen, O'Ban, Santos and Stanford.

Staff: Alexa Silver (786-7190).

Background:

Credit unions doing business in Washington may be chartered by the state or federal government. The National Credit Union Administration regulates federally chartered credit unions. The Department of Financial Institutions (Department) regulates state-chartered

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credit unions. Credit unions must be insured under the National Credit Union Share Insurance Fund (NCUSIF) or an equivalent share insurance program.

State credit unions are governed by a board of directors. A supervisory committee monitors both the financial condition of the credit union and the decisions of the board. The credit union's bylaws must prescribe the manner in which the business of the credit union will be conducted, including the frequency of regular meetings and the manner in which members may call a special membership meeting. State law also provides the following with respect to credit union corporate governance:

- Special membership meetings: A special membership meeting must be held no sooner than 20 and no later than 30 days after a request for a meeting is received. Notice must be given within 10 days of the receipt of the request or within another reasonable period of time provided by the bylaws.
- Board meetings: A board must hold regular meetings at least once a month.
- Special meetings at the request of the Director: The Director of the Department (Director) may request a special meeting of the board of directors. The request is handled the same as a request for a special membership meeting.
- Supervisory committee members and directors: A director who is absent from four of the board's regular meetings in a 12-month period without being reasonably excused may no longer serve as a director. The board may suspend for cause a member of the board or the supervisory committee until a membership meeting is held. The membership meeting must be held within 30 days after the suspension. Directors and members of the supervisory committee may not receive compensation for their service, but may receive gifts of minimal value, insurance coverage available to employees, and reimbursement for reasonable expenses incurred in the performance of their duties.
- Mergers: For a credit union to be merged with another credit union, the merger must be approved by a two-thirds majority vote of each credit union's board and a two-thirds majority vote of the members of the merging credit union.

A credit union may invest its funds in certain specified investments, so long as the investment is deemed prudent by the credit union's board of directors. A credit union may also invest in real property primarily for its own use in conducting business if the credit union's net worth is at least 5 percent of the total of its share and deposit accounts, the board of directors approves the investment, and the aggregate of all investments in property does not exceed 7.5 percent of the total of its share and deposit accounts. If the property is acquired for future expansion, the credit union must use the property within three years after making the investment.

Summary of Substitute Bill:

Credit union corporate governance provisions are modified as follows:

- Special membership meetings: When a special membership meeting is requested, it must be held no later than 90 days after the request is received. The secretary of the credit union must give notice at least 30 days before the meeting or within another reasonable time provided by the bylaws.

- Board meetings: A credit union board must hold at least six regular meetings a year, with at least one held each quarter. The Director may order more frequent meetings if the Director finds it necessary to address matters noted in an examination. The Director may adopt rules to interpret these requirements.
- Special meetings at the request of the Director: If the Director requests a special meeting of the board, the secretary must designate a time and place for the meeting within 30 days of receiving the request.
- Supervisory committee members and directors: If a director is absent from more than one in four regular board meetings in a 12-month period without being reasonably excused, he or she may no longer serve as a director. The board may, for cause, suspend a member of the board or the supervisory committee until a special membership meeting called for that purpose is held. The meeting must be held within 60 days after the suspension. A credit union may pay its directors and supervisory committee members reasonable compensation for their service. The Director may adopt rules to interpret this provision related to compensation.
- Mergers: A merger must be approved by a majority vote of each credit union's board and a two-thirds majority vote of the members of the merging credit union.

A credit union may invest its funds in a registered investment company or collective investment fund, so long as the company or fund's prospectus restricts the investment portfolio to investments and transactions permissible for credit unions. The Director may require a credit union to develop a plan for divestiture of an investment that was lawful when made but later becomes impermissible because of a change in circumstances or the law if the Director finds the investment will have an adverse effect on the credit union's safety and soundness.

A credit union may invest in real property for the use of a credit union service organization in conducting business. If property is acquired for future expansion, a credit union must partially occupy the premises within three years if the premises are improved or within six years if the premises are unimproved. The Director may adopt rules to interpret this provision.

Substitute Bill Compared to Original Bill:

The substitute bill removes permission for a credit union to offer and issue accounts or instruments that are not shares or deposits, are not insured by the NCUSIF, and are included in the credit union's net worth. It also removes these accounts and instruments from the definition of "capital."

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Credit unions are not-for-profit financial cooperatives that are fundamental to the economic fabric of the communities they serve. To remain healthy, they need tools to serve their communities. A committee went through the entire Washington Credit Union Act piece by piece and talked about the challenges and obstacles facing credit unions today. This bill will help modernize the state law and address practical issues, as well. The bill streamlines internal governance issues. Credit unions pay a quarterly fee, which will allow the Department to absorb the cost of rulemaking. This bill was negotiated closely with the Department.

(Neutral) In the experience of banks, having a strong board and board involvement creates necessary checks and balances. Banks are supportive of credit unions having the ability to attract more qualified individuals. On the other hand, the bill reduces the involvement of the board by reducing the number of board meetings. The bill provides regulatory tools to ensure that credit unions operate safely and soundly. Credit union acts in eight states allow directors to be compensated, and the Internal Revenue Service has rules on excessive compensation for nonprofits. Banks are not required to meet more than quarterly. Most credit unions would continue to meet monthly. It can be difficult to get a quorum during the summer.

(Opposed) None.

Persons Testifying: (In support) Representative Ryu, prime sponsor; Troy Stang, Northwest Credit Union Association; Christina Lethlean, GESA Credit Union; and Harold Scoggins, Forleigh Wado Witt Law Firm.

(Neutral) Brad Tower, Community Banks of Washington; and Linda Jekel, Department of Financial Institutions.

Persons Signed In To Testify But Not Testifying: None.