
HOUSE BILL 1165

State of Washington

67th Legislature

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By Representatives Ryu, Vick, Santos, Hoff, and Harris-Talley

Read first time 01/12/21. Referred to Committee on Consumer Protection & Business.

1 AN ACT Relating to the Washington credit union act; and amending
2 RCW 31.12.005, 31.12.402, 31.12.404, 31.12.436, and 31.12.438.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 **Sec. 1.** RCW 31.12.005 and 2017 c 61 s 1 are each amended to read
5 as follows:

6 Unless the context clearly requires otherwise, as used in this
7 chapter:

8 (1) "Board" means the board of directors of a credit union.

9 (2) "Board officer" means an officer of the board elected under
10 RCW 31.12.265(1).

11 (3) "Branch" of a credit union, out-of-state credit union, or
12 foreign credit union means any facility that meets all of the
13 following criteria:

14 (a) The facility is a staffed physical facility;

15 (b) The facility is owned or leased in whole or part by the
16 credit union or its credit union service organization; and

17 (c) Deposits and withdrawals may be made at the facility.

18 (4) "Capital" means a credit union's reserves, undivided
19 earnings, and allowance for loan and lease losses, and other items
20 that may be included under RCW 31.12.413 or by rule or order of the
21 director.

- 1 (5) "Credit union" means a credit union organized and operating
2 under this chapter.
- 3 (6) "Credit union service organization" means an organization
4 that a credit union has invested in pursuant to RCW 31.12.436(1)(h),
5 or a credit union service organization invested in by an out-of-
6 state, federal, or foreign credit union.
- 7 (7) "Department" means the department of financial institutions.
- 8 (8) "Director" means the director of financial institutions.
- 9 (9) "Federal credit union" means a credit union organized and
10 operating under the laws of the United States.
- 11 (10) "Financial institution" means any commercial bank, trust
12 company, savings bank, or savings and loan association, whether state
13 or federally chartered, and any credit union, out-of-state credit
14 union, or federal credit union.
- 15 (11) "Foreign credit union" means a credit union organized and
16 operating under the laws of another country or other foreign
17 jurisdiction.
- 18 (12) "Insolvency" means:
- 19 (a) If, under United States generally accepted accounting
20 principles, the recorded value of the credit union's assets are less
21 than its obligations to its share account holders, depositors,
22 creditors, and others; or
- 23 (b) If it is likely that the credit union will be unable to pay
24 its obligations or meet its share account holders' and depositors'
25 demands in the normal course of business.
- 26 (13) "Loan" means any loan, overdraft line of credit, extension
27 of credit, or lease, in whole or in part.
- 28 (14) "Low-income member" means a member whose family income is
29 not more than eighty percent of the median family income for the
30 metropolitan statistical area where the member lives or for the
31 national metropolitan area where the member lives, whichever is
32 greater, or a member or potential member who earns not more than
33 eighty percent of the total median earnings for individuals for the
34 metropolitan statistical area where the member lives or for the
35 national metropolitan area where the member lives, whichever is
36 greater. For members living outside of a metropolitan statistical
37 area, the department must apply the statewide or national
38 nonmetropolitan area median family income or total median earnings
39 for individuals.
- 40 (15) "Material violation of law" means:

1 (a) If the credit union or person has violated a material
2 provision of:

3 (i) Law;

4 (ii) Any cease and desist order issued by the director;

5 (iii) Any condition imposed in writing by the director in
6 connection with the approval of any application or other request of
7 the credit union; or

8 (iv) Any supervisory agreement, or any other written agreement
9 entered into with the director;

10 (b) If the credit union or person has concealed any of the credit
11 union's books, papers, records, or assets, or refused to submit the
12 credit union's books, papers, records, or affairs for inspection to
13 any examiner of the state or, as appropriate, to any examiner of the
14 national credit union administration; or

15 (c) If a member of a credit union board of directors or
16 supervisory committee, or an officer of a credit union, has breached
17 his or her fiduciary duty to the credit union.

18 (16) "Net worth" means a credit union's capital, less the
19 allowance for loan and lease losses.

20 (17) "Operating officer" means an employee of a credit union
21 designated as an officer pursuant to RCW 31.12.265(2).

22 (18) "Organization" means a corporation, partnership,
23 association, limited liability company, trust, or other organization
24 or entity.

25 (19) "Out-of-state credit union" means a credit union organized
26 and operating under the laws of another state or United States
27 territory or possession.

28 (20) "Person" means an organization or a natural person
29 including, but not limited to, a sole proprietorship.

30 (21) "Principally" or "primarily" means more than one-half.

31 (22) "Senior operating officer" includes:

32 (a) An operating officer who is a vice president or above; and

33 (b) Any employee who has policy-making authority.

34 (23) "Significantly undercapitalized" means a net worth to total
35 assets ratio of less than four percent.

36 (24) "Small credit union" means a credit union with up to ten
37 million dollars in total assets for the purposes of RCW 31.12.569.
38 In any rule providing relief for small credit unions in RCW
39 31.12.516, the director shall determine an appropriate definition for

1 the term based on the subject matter of the rule and shall include
2 such definition in such rule.

3 (25) "Unsafe or unsound condition" means, but is not limited to:

4 (a) If the credit union is insolvent;

5 (b) If the credit union has incurred or is likely to incur losses
6 that will deplete all or substantially all of its net worth;

7 (c) If the credit union is in imminent danger of losing its share
8 and deposit insurance or guarantee; or

9 (d) If the credit union is significantly undercapitalized.

10 (26) "Unsafe or unsound practice" means any action, or lack of
11 action, which is contrary to generally accepted standards of prudent
12 operation, the likely consequences of which, if continued, would be
13 abnormal risk of loss or danger to a credit union, its members, or an
14 organization insuring or guaranteeing its shares and deposits.

15 **Sec. 2.** RCW 31.12.402 and 2011 c 303 s 6 are each amended to
16 read as follows:

17 A credit union may:

18 (1) Issue shares to and receive deposits from its members in
19 accordance with RCW 31.12.416;

20 (2) Make loans to its members in accordance with RCW 31.12.426
21 and 31.12.428;

22 (3) Pay dividends and interest to its members in accordance with
23 RCW 31.12.418;

24 (4) Impose reasonable charges for the services it provides (~~to~~
25 ~~its members~~));

26 (5) Impose financing charges and reasonable late charges in the
27 event of default on loans, subject to applicable law, and recover
28 reasonable costs and expenses, including, but not limited to,
29 collection costs, and reasonable attorneys' fees incurred both before
30 and after judgment, incurred in the collection of sums due, if
31 provided for in the note or agreement signed by the borrower;

32 (6) Acquire, lease, hold, assign, pledge, sell, or otherwise
33 dispose of interests in personal property and in real property in
34 accordance with RCW 31.12.438;

35 (7) Deposit and invest funds in accordance with RCW 31.12.436;

36 (8) Borrow money, up to a maximum of fifty percent of its total
37 shares, deposits, and net worth;

38 (9) Discount or sell any of its assets, or purchase any or all of
39 the assets of another credit union, out-of-state credit union, or

1 federal credit union. However, a credit union may not discount or
2 sell all, or substantially all, of its assets without the approval of
3 the director;

4 (10) Accept deposits of deferred compensation of its members;

5 (11) Act as fiscal agent for and receive payments on shares and
6 deposits from the federal government or this state, and any agency or
7 political subdivision thereof;

8 (12) Engage in activities and programs as requested by the
9 federal government, this state, and any agency or political
10 subdivision thereof, when the activities or programs are not
11 inconsistent with this chapter;

12 (13) Hold membership in credit unions, out-of-state credit
13 unions, or federal credit unions and in organizations controlled by
14 or fostering the interests of credit unions, including, but not
15 limited to, a central liquidity facility organized under state or
16 federal law;

17 (14) Pay additional dividends and interest to members, or an
18 interest rate refund to borrowers;

19 (15) Enter into lease agreements, lease contracts, and
20 lease-purchase agreements with members;

21 (16) Act as insurance agent or broker for the sale to members of:

22 (a) Group life, accident, health, and credit life and disability
23 insurance; and

24 (b) Other insurance that other types of Washington state-
25 chartered financial institutions are permitted to sell, on the same
26 terms and conditions that these institutions are permitted to sell
27 such insurance;

28 (17) Impose a reasonable service charge for the administration
29 and processing of accounts that remain dormant for a period of time
30 specified by the credit union;

31 (18) Establish and operate on-premises or off-premises electronic
32 facilities;

33 (19) Enter into formal or informal agreements with another credit
34 union for the purpose of fostering the development of the other
35 credit union;

36 (20) Work with community leaders to develop and prioritize
37 efforts to improve the areas where their members reside by making
38 investments in the community through contributions to organizations
39 that primarily serve either a charitable, social, welfare, or

1 educational purpose, or are exempt from taxation pursuant to section
2 501(c)(3) of the internal revenue code;

3 (21) Limit the personal liability of its directors in accordance
4 with provisions of its articles of incorporation that conform with
5 RCW 23B.08.320;

6 (22) Indemnify its directors, supervisory committee members,
7 officers, employees, and others in accordance with provisions of its
8 articles of incorporation or bylaws that conform with RCW 23B.08.500
9 through 23B.08.600;

10 (23) Conduct a promotional contest of chance as authorized in RCW
11 9.46.0356(1)(b), as long as the conditions of RCW 9.46.0356(5) and
12 (~~30.22.260~~) 30A.22.260 are complied with to the satisfaction of the
13 director; (~~and~~)

14 (24) Cash checks, money orders, and other payment instruments for
15 members and persons who are eligible for membership in the credit
16 union; and

17 (25) Exercise such incidental powers as are necessary or
18 convenient to enable it to conduct the business of a credit union.

19 **Sec. 3.** RCW 31.12.404 and 2019 c 19 s 5 are each amended to read
20 as follows:

21 (1) Notwithstanding any other provision of law, and in addition
22 to all powers and authorities, express or implied, that a credit
23 union has under the laws of this state, a credit union has the powers
24 and authorities that a federal credit union had on December 31, 1993,
25 or a subsequent date (~~not later than July 28, 2019~~) by the
26 effective date of this section.

27 (2) Notwithstanding any other provision of law, and in addition
28 to the powers and authorities, express or implied, that a credit
29 union has under subsection (1) of this section, a credit union has
30 the powers and authorities that a federal credit union has subsequent
31 to (~~July 28, 2019~~) the effective date of this section, if the
32 director finds that the exercise of the power and authority serves
33 the convenience and advantage of members of credit unions, and
34 maintains the fairness of competition and parity between credit
35 unions and federal credit unions. However, a credit union must comply
36 with RCW 31.12.408.

37 (3) Notwithstanding any other provision of law, and in addition
38 to the powers and authorities, express or implied, that a credit
39 union has under subsections (1) and (2) of this section, a credit

1 union may exercise the powers and authorities that it would have if
2 it were an out-of-state credit union. Any such power or authority is
3 subject to regulation by the director. In exercising such power or
4 authority, a credit union:

5 (a) Must comply with RCW 31.12.408;

6 (b) Is not granted the field of membership powers or authorities
7 of any out-of-state credit union; and

8 (c) Must be able to exercise such power or authority consistent
9 with the purposes of this chapter.

10 (4) Before exercising any power or authority afforded under
11 subsection (3) of this section, a credit union must first notify the
12 director of its intent to do so. This notice must be sent to the
13 director by United States mail or by electronic means if the director
14 accepts electronic delivery. If the director takes no action on the
15 request within thirty days of delivery of the notice, the right to
16 exercise the power or authority is deemed granted, subject to the
17 restrictions in subsection (3)(a) and (b) of this section. In order
18 to grant the request, the director must find that:

19 (a) The request complies with subsection (3)(a), (b), and (c) of
20 this section; and

21 (b) The exercise of such power or authority serves the
22 convenience and advantage of members of credit unions and maintains
23 the fairness of competition and parity between credit unions and out-
24 of-state credit unions.

25 (5) The restrictions, limitations, and requirements applicable to
26 specific powers or authorities of federal or out-of-state credit
27 unions apply to credit unions exercising those powers or authorities
28 permitted under this section but only insofar as the restrictions,
29 limitations, and requirements relate to the specific exercise of the
30 powers or authorities granted credit unions solely under this
31 section.

32 (6) As used in this section, "powers and authorities" include,
33 but are not limited to, powers and authorities in corporate
34 governance matters.

35 **Sec. 4.** RCW 31.12.436 and 2019 c 19 s 6 are each amended to read
36 as follows:

37 (1) A credit union may invest its funds in any of the following,
38 as long as the investments are deemed prudent by the board:

1 (a) Loans held by credit unions, out-of-state credit unions, or
2 federal credit unions; loans to members held by other lenders; and
3 loans to nonmembers held by other lenders, with the approval of the
4 director;

5 (b) Bonds, securities, or other investments that are fully
6 guaranteed as to principal and interest by the United States
7 government, and general obligations of this state and its political
8 subdivisions;

9 (c) Obligations issued by corporations designated under 31 U.S.C.
10 Sec. 9101, or obligations, participations or other instruments issued
11 and guaranteed by the federal national mortgage association, federal
12 home loan mortgage corporation, government national mortgage
13 association, or other government-sponsored enterprise;

14 (d) Participations or obligations which have been subjected by
15 one or more government agencies to a trust or trusts for which an
16 executive department, agency, or instrumentality of the United States
17 has been named to act as trustee;

18 (e) Share or deposit accounts of other financial institutions,
19 the accounts of which are federally insured or insured or guaranteed
20 by another insurer or guarantor approved by the director. The shares
21 and deposits made by a credit union under this subsection (1)(e) may
22 exceed the insurance or guarantee limits established by the
23 organization insuring or guaranteeing the institution into which the
24 shares or deposits are made;

25 (f) Common trust or mutual funds whose investment portfolios
26 consist of securities issued or guaranteed by the federal government
27 or an agency of the government;

28 (g) Up to five percent of the capital of the credit union, in
29 debt or equity issued by an organization owned by the Northwest
30 credit union association or its successor credit union association;

31 (h) Shares, stocks, loans, or other obligations of organizations
32 whose primary purpose is to strengthen, advance, or provide services
33 to the credit union industry or credit union members. A credit union
34 may invest in or make loans to organizations under this subsection
35 (1)(h) in an aggregate amount not to exceed ten percent of its
36 assets. This limit does not apply to investments in, and loans to, an
37 organization:

38 (i) That is wholly owned by one or more credit unions or federal
39 or out-of-state credit unions; and

1 (ii) Whose activities are limited exclusively to those authorized
2 by this chapter for a credit union;

3 (i) Loans to credit unions, out-of-state credit unions, or
4 federal credit unions. However, the aggregate of loans issued under
5 this subsection (1)(i) is limited to twenty-five percent of the total
6 shares and deposits of the credit union making the loans;

7 (j) Key person insurance policies and investment products related
8 to employee benefits, the proceeds of which inure exclusively to the
9 benefit of the credit union;

10 (k) A registered investment company or collective investment
11 fund, as long as the prospectus of the company or fund restricts the
12 investment portfolio to investments and investment transactions that
13 are permissible for credit unions;

14 (l) For credit unions that are approved public depositaries, any
15 securities listed in RCW 39.58.050 as eligible collateral for public
16 deposits;

17 (m) Investments of the type in which the state treasurer may
18 invest state funds pursuant to RCW 43.84.080; or

19 (n) Other investments approved by the director by rule or upon
20 written application.

21 (2) To aid in achieving its business or operational objectives, a
22 credit union may invest in equity interests in corporations or other
23 limited liability entities, whether or not the principal business of
24 such other corporation or entity is related to the credit union's
25 business. An "equity interest" is an interest such as stock in a
26 corporation or membership in a limited liability company or a limited
27 partnership interest in which the credit union's liability is limited
28 to the amount of its investment and the credit union does not take on
29 general liability.

30 (a) The entity in which the credit union invests must be engaged
31 in or planning or developing activity that is incidental to or
32 complementary to the credit union's operations. Activity is
33 incidental or complementary to the credit union's operations if it
34 would be performed for or provided to the credit union, or if it
35 would be performed for or provided to the credit union's members in
36 relationship to products, services, or activities that the credit
37 union performs for or provides to its members. Such activity may not
38 pose a risk to the safety and soundness of the credit union or the
39 credit union industry. The entity may be engaged in other activity

1 that is not incidental to or complementary to the credit union's
2 operations.

3 (b) A credit union may not invest in:

4 (i) A federal depository institution or state depository
5 institution as those terms are defined in the federal deposit
6 insurance act, 12 U.S.C. Sec. 1813; or

7 (ii) A bank holding company or savings bank holding company as
8 those terms are defined in the federal bank holding company act, 12
9 U.S.C. Sec. 1841.

10 (c) The aggregate amount of funds invested under this subsection
11 (2) shall not exceed 50 percent of the net worth of the credit union,
12 and when combined with the amount of funds invested in organizations
13 described in subsection (1)(h) of this section, shall not exceed 10
14 percent of the assets of the credit union, whichever is less.

15 (d) A credit union may engage in an activity permitted under this
16 section only with the prior authorization of the director and subject
17 to such requirements, restrictions, or other conditions as the
18 director may adopt by rule, order, directive, standard, policy,
19 memorandum, or other written communication with regard to the
20 activity. In approving or denying a proposed activity, the director
21 shall consider the financial and management strength of the credit
22 union and the relationship of the activity to the credit union's
23 operations.

24 (3) If a credit union has lawfully made an investment that later
25 becomes impermissible because of a change in circumstances or law,
26 and the director finds that this investment will have an adverse
27 effect on the safety and soundness of the credit union, then the
28 director may require that the credit union develop a reasonable plan
29 for the divestiture of the investment.

30 **Sec. 5.** RCW 31.12.438 and 2013 c 34 s 9 are each amended to read
31 as follows:

32 (1) A credit union may invest in real property or leasehold
33 interests (~~(primarily for its own use or the use of a credit union~~
34 ~~service organization in conducting business,)) including, but not
35 limited to, structures and fixtures attached to real property for use
36 in conducting its business or the business of a credit union service
37 organization, subject to the following limitations:~~

38 (a) The credit union's net worth equals at least five percent of
39 the total of its share and deposit accounts;

1 (b) The board approves the investment; and
2 (c) The aggregate of all such investments does not exceed seven
3 and one-half percent of the total of its share and deposit accounts.
4 (2) (~~If the real property or leasehold interest is acquired for~~
5 ~~future expansion, the credit union must partially occupy the premises~~
6 ~~within three years after the credit union makes the investment, if~~
7 ~~the premises are improved at the time of acquisition, or within six~~
8 ~~years after the credit union makes the investment, if the premises~~
9 ~~are unimproved at the time of acquisition.~~
10 (3)) The director may, upon written application, waive any of
11 the limitations listed in subsection (1) (~~or (2)~~) of this section,
12 and the director may adopt rules to interpret this section.

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