

HOUSE BILL REPORT

HB 2739

As Reported By House Committee On:
Financial Institutions & Insurance

Title: An act relating to the dissolution of the Washington credit union share guaranty association.

Brief Description: Dissolving the credit union share guaranty association.

Sponsors: Representatives L. Thomas, Pelesky, Benton, Huff, Dyer, D. Sommers, Dellwo, Blanton, Grant, Kessler, Hankins and Scheuerman.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 1/31/96, 2/1/96 [DPS].

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives L. Thomas, Chairman; Smith, Vice Chairman; Wolfe, Ranking Minority Member; Scheuerman, Assistant Ranking Minority Member; Benton; Campbell; Dellwo; Dyer; Grant; Huff; Kessler; Pelesky and D. Sommers.

Minority Report: Without recommendation. Signed by 2 members: Representatives Beeksmas, Vice Chairman; and Keiser.

Staff: Charlie Gavigan (786-7340).

Background: Federally-chartered credit unions must belong to the National Credit Union Share Insurance Fund (NCUSIF); state-chartered credit unions in Washington have a choice between NCUSIF and the Washington Credit Union Share Guaranty Association (WCUSGA).

NCUSIF requires member credit unions to maintain a deposit with NCUSIF which equals 1 percent of insured deposits. Each year, the amount of that deposit is adjusted to account for any increase or decrease in a credit union's insured deposits. NCUSIF invests these deposits and the earnings of the fund in government securities. The revenue from these investments pays for operating expenses, any insurance losses, and adds to the retained earnings of the fund. When interest income fails to

cover these expenses, NCUSIF may charge an annual premium of up to 1/12 of 1 percent of insured deposits.

In 1975, the Legislature created WCUSGA, which is a nonprofit association that (1) guarantees payment to credit union shareholders of losses to their share and deposit accounts because of liquidation; and (2) provides services to promote the stability of state-chartered credit unions. WCUSGA is administered by a board of directors from member credit unions.

The association is funded by a statutory formula requiring that each member credit union maintain a contingency reserve of 0.5 percent of the outstanding guaranteed deposits at the credit union. The funds are maintained and invested by each individual credit union and are subject to an assessment by the association should there be a liquidation of a member credit union. WCUSGA is also authorized by statute to assess an additional 0.5 percent per year. Thus, a credit union's potential liability is a maximum of 1 percent of guaranteed deposits in any given year. Typically, WCUSGA members maintain 1 percent of deposits in reserve at each credit union.

In January 1996, WCUSGA voted to dissolve within three years.

Summary of Substitute Bill: The Washington Credit Union Share Guaranty Association (WCUSGA) is repealed on December 31, 2000. WCUSGA members must either: (1) apply to NCUSIF for insurance under this federal program; (2) apply to merge with a credit union that is insured through NCUSIF; or (3) send a notice of liquidation to the director of the Department of Financial Institutions. Member credit unions with a CAMEL rating of 3, 4, or 5 must take one of the above actions by September 1, 1996; members with a CAMEL rating of 1 or 2 must act by December 1, 1996. WCUSGA's guarantee terminates upon the member's conversion to NCUSIF. If a member credit union fails to convert to the federal program after obtaining NCUSIF approval after January 1, 1998, it constitutes an unsafe and unsound practice, allowing the director to take action. If a member credit union has not joined NCUSIF, merged with a NCUSIF credit union, or liquidated by December 31, 1998, the director may liquidate the credit union.

Credit unions must be insured by NCUSIF on or before December 31, 1998. After this date, a credit union can be insured through non-federal deposit insurance only if the director of the Department of Financial Institutions finds that the non-federal insurer meets specified requirements. This finding must sit through the next legislative session before it is effective. These standards require the non-federal insurer to hold reserves proportionately equal to NCUSIF, maintain adequate reserves, and reflect a national geographic diversity. The director must review annually non-federal insurers protecting credit union deposits in Washington, if any, to ensure the non-federal deposit insurer continues to meet the required standards. If

it does not, provisions require corrective action, or participating credit unions must return to NCUSIF.

Substitute Bill Compared to Original Bill: The substitute bill requires WCUSGA member credit unions to convert to the federal program (NCUSIF) by December 31, 1998, and allows a private or non-federal deposit option after that date only if specific requirements are satisfied. These requirements include specific standards that a non-federal insurer must meet, a finding by the director of the Department of Financial Institutions that the standards are met, and this finding sit through a legislative session. Also, technical changes and clarifications are made by the substitute.

Appropriation: None.

Fiscal Note: Requested on January 31, 1996.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed, except Sections 1 through 4 take effect immediately, and section 7 takes effect December 31, 2000.

Testimony For: WCUSGA has voted to dissolve. It is critical that an orderly process be developed to transition member credit unions to other deposit insurance. Credit unions should have the choice of federal deposit insurance or private deposit insurance, if a viable private insurer exists now or in the future.

Testimony Against: WCUSGA has voted to dissolve. It is critical that an orderly process be developed to transition member credit unions to federal deposit insurance. Credit unions should be insured by federal deposit insurance; private deposit insurance cannot adequately protect depositors.

Testified: John Bley and Parker Cann, Department of Financial Institutions; Ray Lundin, Joel Edwards, and Kathleen Collins, Washington Credit Union Share Guarantee Association (supports); Alan Hess, Professor of Finance, University of Washington; Gary Gardner, Boeing Employees Credit Union; and Stanley O. McNaughton, Washington School Employees Credit Union.