

# HOUSE BILL REPORT

## SSB 6579

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### As Reported By House Committee On:

Financial Institutions & Insurance

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

**Brief Description:** Insuring credit unions.

**Sponsors:** Senate Committee on Financial Institutions & Housing (originally sponsored by Senators Prentice, Hale, Fraser, Sellar, Roach, Snyder, Sutherland and Winsley).

### Brief History:

#### Committee Activity:

Financial Institutions & Insurance: 2/15/96 [DP].

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## HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass. Signed by 14 members: Representatives L. Thomas, Chairman; Beeksma, Vice Chairman; Smith, Vice Chairman; Wolfe, Ranking Minority Member; Scheuerman, Assistant Ranking Minority Member; Benton; Campbell; Dellwo; Grant; Huff; Keiser; Kessler; Pelesky and D. Sommers.

**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 a member credit union 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 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 (DFI). 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 insurance if the director of DFI 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 any non-federal insurers protecting credit union deposits in Washington to ensure the non-federal credit union continues to meet the required standards. If it does not, provisions require corrective action or participating credit unions must return to NCUSIF.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect immediately, except Section 7 which takes effect December 31, 2000.

**Testimony For:** WCUSGA has voted to dissolve. It is important that an orderly process be developed to move 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.

**Testimony Against:** None.

**Testified:** Bob Kane, Lonnie Hampton, and Joel Edwards, Washington Credit Union Share Guaranty Association (supports).