

SENATE BILL REPORT

SB 5861

As Reported By Senate Committee On:
Financial Institutions & Housing, February 28, 1995

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

Brief Description: Regulating membership in the Washington credit union share guaranty association.

Sponsors: Senators Prentice, Heavey, Pelz and C. Anderson.

Brief History:

Committee Activity: Financial Institutions & Housing: 2/23/95, 2/28/95 [DP].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Sellar, Smith and Sutherland.

Staff: Catherine Mele (786-7470); Dave Cheal (786-7576)

Background: In Washington there are 210 state and federally chartered credit unions. Of this number 103 are federally chartered institutions which belong to the National Credit Union Share Insurance Fund (NCUSIF). There are 107 state chartered credit unions. Of the 107 state chartered credit unions, 30 belong to the federal insurance program and 77 belong to the Washington Credit Union Share Guaranty Association (WCUSGA).

Federally chartered credit unions must belong to the NCUSIF while state chartered credit unions have a choice between the NCUSIF and WCUSGA. NCUSIF requires member credit unions to maintain a deposit with the 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. The 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. If a credit union terminates its status, the 1 percent is returned to the credit union.

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 managed by a board of directors and officers elected from the credit union membership. The board may consist of no more than five directors who may hold terms of no more than three years.

WCUSGA annually prepares a report discussing the financial affairs and transactions of the association. In addition, the Director of the Department of Financial Institutions is given authority to examine the financial affairs of WCUSGA at such times as the director deems appropriate. In lieu of conducting an examination, the director may accept a report from a competent accountant. Although there are provisions in the statute for examination and reporting, there is no provision for supervisory authority under the statute.

The association is funded by each member credit union holding a contingency reserve of 1 percent of the outstanding guaranteed deposits. 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. Thus, a credit union's potential liability is a maximum of 1 percent of guaranteed deposits in any given year.

Summary of Bill: By July 1, 1997, all state chartered credit unions are required to join the federal share insurance program or a similar deposit insurance program approved by the director.

The Washington Credit Union Share Guaranty Association Act of 1975 is repealed.

Appropriation: None.

Fiscal Note: Requested on February 15, 1995.

Effective Date: Section 1 contains an emergency clause and takes effect immediately. Sections 2 and 3 take effect July 1, 1997.

Testimony For: Sixty percent of the total assets of WCUSGA are in the largest credit union. If the largest credit union fails, WCUSGA cannot uphold the fund. WCUSGA is similar to the Rhode Island insurance program which failed. We have a healthy and strong credit union industry, but the guaranty fund might not survive if the largest credit union fails. Addressing the issue at this time, while the credit union industry is secure, would be in the best interest of members. The United States government insurance program is better because it is backed by the full faith and credit of the United States government. By statute, there is a limit to what member institutions can be forced to contribute. WCUSGA does not even hold the 1 percent of deposits of its members that the statute says is available to it. In the event of failure, WCUSGA has to access members and rely on their obligation and promise to pay. The promise to pay is much different than actually having the money.

Testimony Against: Credit union member/depositors funds are safe because WCUSGA and participating credit unions are strong and conservative. Credit unions participate in WCUSGA by choice. Virtually all of the credit unions could qualify for federal insurance based on financial strength. The federal alternative strengthens the dual-chartering system. All members participating in WCUSGA continue to inform customers regarding their deposit insurance coverage. Members do understand that their shares and deposits are cooperatively guaranteed through WCUSGA. WCUSGA and its members are financially sound. There is low asset risk and high capital. Low asset risk means an extremely small chance of failure, and there are sufficient reserves to handle major financial disruptions. Regional, well-capitalized, private insurance associations have the greatest incentives and abilities to monitor and discipline members. WCUSGA is a model for other states to follow.

Testified: David Goldstein (pro); **CON:** David Adams, WA Credit Union League; Tom Lundbom, Twin County CU; Bev Harrington Skagit Valley CU; Stan McNaughton, WA School Employees CU; Bill Brandt, WA State Employee CU; Dr. Alan Hess, University of Washington.