

SENATE BILL REPORT

SB 6579

As Reported By Senate Committee On:
Financial Institutions & Housing, February 1, 1996

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

Brief Description: Insuring credit unions.

Sponsors: Senators Prentice, Hale, Fraser, Sellar, Roach, Snyder, Sutherland and Winsley.

Brief History:

Committee Activity: Financial Institutions & Housing: 1/19/96, 2/1/96 [DPS].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

Majority Report: That Substitute Senate Bill No. 6579 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair; Hale, Roach, Sellar, Smith and Sutherland.

Staff: David Cheal (786-7576)

Background: In Washington, there are approximately 210 credit unions. Of this number, 103 are federally chartered and 106 are state chartered credit unions. Of the state chartered credit unions, approximately 30 insure deposits (shares) under the federal share insurance program and approximately 75 insure their deposits through membership in a mutual guarantee program called the Washington Credit Union Share Guaranty Association (WCUSGA).

Federally chartered credit unions are legally required to insure their shares through the National Credit Union Share Insurance Fund (NCUSIF). State chartered credit unions have a choice between the NCUSIF and WCUSGA. NCUSIF requires member credit unions to maintain a deposit equal to 1 percent of insured deposits. Each year, the amount of that deposit is adjusted to account for any increase or decrease in the credit union's insured deposits. The NCUSIF invests these deposits and the earnings of the fund in government securities. The revenue from the investments pays for operating expenses, any insured 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 coverage, the 1 percent is returned to the credit union.

In 1975, the Legislature created WCUSGA, which is a nonprofit association that guarantees payment to credit union shareholders of losses to their share and deposit accounts because of liquidation, and 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 Director of the Department of Financial Institutions is given authority to examine the financial affairs of WCUSGA at any time. The examination authority does not include supervisory authority.

The association is funded by each member credit union holding a contingency reserve of 1 percent of its outstanding guaranteed deposits. The funds are maintained and invested by each individual member credit union and are subject to an assessment by the association in the event of a member credit union liquidation. A member credit union's potential liability is a maximum of 1 percent of guaranteed deposits in any given year. A portion of the 1 percent contingency reserve is paid to the association in actual cash to cover operating expenses and obligations that require immediate payment. The remainder of the 1 percent contingency reserve is payable following an assessment within a 90-day period.

Summary of Substitute Bill: Procedures and standards are provided for the transition of all WCUSGA members to the federal share insurance program, and the statutes authorizing the existence of the association are repealed.

Members must file a completed application for federal insurance, an application to merge into a credit union covered by federal insurance, or a notice of liquidation by either September 1, 1996 or December 31, 1996. The date the members are required to act depends on their current composite capital adequacy, asset quality, management, earnings, and liquidity rating by the department. Once the member completes conversion to federal insurance, the association's guarantee of that credit union terminates.

Members that obtain share insurance under the federal program or merge with other credit unions must continue their contingency reserve with WCUSGA, and continue to be liable for assessments, until December 31, 1998.

All credit unions must be insured by the federal share insurance program by December 31, 1998. After December 31, 1998, credit unions must be either insured under the federal program or an equivalent share insurance program. An equivalent program is defined as one that (1) holds reserves proportionately equal to the federal program, (2) holds adequate reserves and other sources of funds, such as reinsurance, and (3) has share insurance contracts that reflect a national geographic diversity.

Before any credit union can insure in an equivalent program, the Director of the Department of Financial Institutions must make a finding that the alternative program meets the standards set forth in the bill. This finding must follow a public hearing and report on the basis for the finding to appropriate standing committees of the Legislature. Any such finding must be made before December 1 in any year and shall not take effect until the end of the regular legislative session of the following year.

The Director of the Department of Financial Institutions must determine annually whether any allowed alternative share insurance program meets the standards prescribed by the bill. If a determination is made that the standards are not met, the director must order credit unions to convert to federal share insurance.

The Director of the Department of Financial Institutions is given authority to enforce the application and conversion procedures established in the bill.

WCUSGA is given additional assessment authority to assist any members that may not qualify for federal insurance because of inadequate capital.

The statute creating the association is repealed effective December 31, 2000.

Substitute Bill Compared to Original Bill: The standards for allowable alternative share insurance programs are relaxed. Annual certification of the adequacy of any allowed alternative share insurance program by the director is required.

Minor technical corrections are made.

Appropriation: None.

Fiscal Note: Requested on January 18, 1996.

Effective Date: Sections 1 through 4 take effect immediately. Sections 5, 6 and Section 9 take effect ninety days after adjournment of session in which the bill is passed. Section 7 takes effect December 31, 2000.

Testimony For: Since it seems clear that the Washington Credit Union Share Guaranty Association will dissolve, procedures and timelines for an orderly transition to federal share insurance are needed.

If any share insurance program other than federal is to be allowed, the standards should be substantially equal to the federal program.

Testimony Against: A safe orderly transition to federal insurance is essential, but a realistic possibility of private share insurance sometime in the future should be preserved.

Testified: Ray Lunderm, Joel Edwards, WCUSGA (pro); Rep. Beeksma (pro); Gary Gardner, Boeing Credit Union (pro).