WASHINGTON STATE CREDIT UNION ACT—MODERNIZATION, CLARIFICATION, AND SIMPLIFICATION

EFFECTIVE DATE: 1/1/98 - Except section 35 which becomes effective 7/1/98; and section 50 which becomes effective 1/1/99.

CERTIFICATE

I, Mike O’Connell, Secretary of the Senate of the State of Washington, do hereby certify that the attached is SUBSTITUTE SENATE BILL 5563 as passed by the Senate and the House of Representatives on the dates hereon set forth.

MIKE O’CONNELL
Secretary

GARY LOCKE
Governor of the State of Washington

SECRETARY OF STATE
State of Washington
AN ACT Relating to modernizing, clarifying, and simplifying the
Washington state credit union act; amending RCW 31.12.025, 31.12.035,
31.12.685, and 31.12.635; reenacting and amending RCW 31.12.005,
chapter 31.12 RCW; creating a new section; recodifying RCW 31.12.005,
BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. Sec. 1. The legislature finds that credit unions provide many valuable services to the consumers of this state and will be better prepared to continue providing these services if the Washington state credit union act is modernized, clarified, and reorganized.

Furthermore, the legislature finds that credit unions and credit union members will benefit by enacting provisions clearly specifying the director of financial institution’s authority to enforce statutory provisions.

Revisions to this act reflect the legislature’s intent to modernize, clarify, and reorganize the existing act, and specify the director’s enforcement authority. By enacting the revisions to this act, it is not the intent of the legislature to affect the scope of credit unions’ field of membership or tax status, or impact federal parity provisions.

Sec. 2. RCW 31.12.005 and 1994 c 256 s 68 and 1994 c 92 s 175 are each reenacted and amended to read as follows:

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

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

(2) "Board officer" means an officer of the board elected under RCW 31.12.265(1) (as recodified by this act).

(3) "Branch" means any ((office, other than the principal place of business, maintained by a credit union, alone or together with other credit unions, for the purpose of accepting deposits or making loans to its members. "Branch" does not include a facility that is limited to an electronic funds transferring machine or a similar service facility that does not involve the approval of loans.
(3) "Credit union" means a credit union organized and operating under this chapter.

(4) "Director" means the director of financial institutions.

(5) "Employees" means the principal operating officer and other operating personnel of a credit union.

(6) "Federal credit union" means a credit union organized and operating under the laws of the United States.

(7) "Officers" means the officers of the board of a credit union who are elected under RCW 31.12.265.

(8) "Shares" and "deposits" are synonymous and interchangeable. Shares and deposits of a credit union shall be subject to such terms and conditions as established by the board of the credit union.

(9) "Supervisory committee" means a committee having the powers and duties set forth in RCW 31.12.326 through 31.12.345. Supervisory committees are the statutory successors of auditing committees.

(4) "Business loan" means a loan for business, investment, commercial, or agricultural purposes.

(5) "Capital" means a credit union’s reserves, undivided earnings, and allowances for loan loss.

(6) "Consumer loan" means a loan for consumer, family, or household purposes.

(7) "Credit union" means a credit union organized and operating under this chapter.

(8) "Credit union service organization" means an organization that a credit union has invested in pursuant to RCW 31.12.425(8) (as recodified by this act), or a credit union service organization invested in by an out-of-state credit union or federal credit union.

(9) "Director" means the director of financial institutions.
(10) "Federal credit union" means a credit union organized and operating under the laws of the United States.

(11) "Financial institution" means any commercial bank, trust company, savings bank, or savings and loan association, whether state or federally chartered, and any credit union, out-of-state credit union, or federal credit union.

(12) "Foreign credit union" means a credit union organized and operating under the laws of another country or other jurisdiction.

(13) "Insolvency" means:
(a) If, under generally accepted accounting principles, the recorded value of the credit union’s assets are less than its obligations to its share account holders, depositors, creditors, and others; or
(b) If it is likely that the credit union will be unable to pay its obligations or meet its share account holders’ and depositors’ demands in the normal course of business.

(14) "Loan" means any loan, overdraft line of credit, extension of credit, or lease, in whole or in part.

(15) "Material violation of law" means:
(a) If the credit union or person has violated a material provision of:
   (i) Law;
   (ii) Any cease and desist order issued by the director;
   (iii) Any condition imposed in writing by the director in connection with the approval of any application or other request of the credit union; or
   (iv) Any written agreement entered into with the director;
(b) If the credit union or person has concealed any of the credit union’s books, papers, records, or assets, or refused to submit the credit union’s books, papers, records, or affairs for inspection to any examiner of the state or, as appropriate, to any examiner of the national credit union administration; or
(c) If the person has breached his or her fiduciary duty to the credit union.

(16) "Membership share" means an initial share required to be purchased in order to establish and maintain membership in a credit union.

(17) "Net capital" means a credit union’s capital, less the allowance for loan loss.
(18) "Operating officer" means an officer of a credit union designated under RCW 31.12.265(2) (as recodified by this act).
(19) "Organization" means a corporation, partnership, association, limited liability company, trust, or other organization or entity.
(20) "Out-of-state credit union" means a credit union organized and operating under the laws of another state or United States territory.
(21) "Person" means an organization or a natural person including, but not limited to, a sole proprietorship.
(22) "Principally" or "primarily" means more than one-half.
(23) "Unsafe or unsound condition" means, but is not limited to:
(a) If the credit union is insolvent;
(b) If the credit union has incurred or is likely to incur losses that will deplete all or substantially all of its capital; or
(c) If the credit union is in imminent danger of losing its share and deposit insurance or guarantee.
(24) "Unsafe or unsound practice" means any action, or lack of action, which is contrary to generally accepted standards of prudent operation, the likely consequences of which, if continued, would be abnormal risk of loss or danger to a credit union, its members, or an organization insuring or guaranteeing its shares and deposits.

Sec. 3. RCW 31.12.015 and 1994 c 256 s 69 and 1994 c 92 s 176 are each reenacted and amended to read as follows:
A credit union is a cooperative society organized under this chapter as a nonprofit corporation for the purposes of promoting thrift among its members and creating a source of credit for them at fair and reasonable rates of interest.

The director is the state’s credit union regulatory authority whose purpose is to protect ((the)) members’ financial interests, the integrity of credit unions as cooperative institutions, and the interests of the general public, and to ensure that ((state-chartered)) credit unions remain viable and competitive in this state.

Sec. 4. RCW 31.12.025 and 1994 c 256 s 70 are each amended to read as follows:
(1) A credit union shall include ((in its name)) the words "credit union" in its name.
(2) No person((, partnership, association, corporation, or other organization)) may ((transact)) conduct business or engage in any other
activity under a name or title containing the words "credit union", or represent itself as a credit union, unless it is:

(a) A credit union, out-of-state credit union, or a foreign credit union;

(b) An organization ((comprised of corporations organized under state or federal credit union laws)) whose membership or ownership is limited to credit unions, out-of-state credit unions, federal credit unions, or their trade organizations;

(c) A ((sole proprietorship, partnership, or corporation)) person that is primarily in the business of managing one or more credit unions, out-of-state credit unions, or federal credit unions; or

(d) ((An organization specifically authorized under the laws of this state or under federal law to use the words "credit union" in its name-)) A credit union service organization.

Sec. 5. RCW 31.12.035 and 1994 c 92 s 177 are each amended to read as follows:

Seven or more natural persons who reside in this state may apply to the director for permission to organize a credit union. ((The director shall approve the application if it is in compliance with this chapter.)) The application must include copies of the proposed articles of incorporation and bylaws, and such other information as may be required by the director. The director shall approve or deny a complete application within sixty days of receipt.

Sec. 6. RCW 31.12.055 and 1994 c 256 s 71 and 1994 c 92 s 179 are each reenacted and amended to read as follows:

(1) Persons applying for the organization of a credit union shall execute articles of incorporation stating:

(a) The initial name and location of the ((proposed)) credit union and its location;

(b) That the duration of the credit union is perpetual;

(c) That the purpose of the credit union is to engage in the business of a credit union and any other lawful activities permitted to a credit union by applicable law((s and rules));

(d) The number of its directors, which ((shall)) must not be less than five ((nor)) or greater than fifteen, and the names(() of the persons who are to serve as the initial directors;
(e) The names, occupations, and addresses of the subscribers to the articles of incorporation, and a statement of the number of shares which each has agreed to take) incorporators;

(f) The initial par value, if any, of the shares of the credit union;

(g) Any provision the applicants elect to so set forth which is permitted by RCW 23B.17.030; and

(h) The extent, if any, to which personal liability of directors is limited;

(i) Any other provision which is not inconsistent with this chapter.

(2) Applicants shall submit the articles of incorporation in triplicate to the director.

Sec. 7. RCW 31.12.065 and 1994 c 256 s 72 and 1994 c 92 s 180 are each reenacted and amended to read as follows:

(1) Persons applying for the organization of a credit union shall adopt bylaws that prescribe the manner in which the business of the credit union shall be conducted. The bylaws shall include:

(a) The name of the credit union;

(b) The field of membership of the credit union;

(c) Reasonable qualifications for membership in the credit union, including, but not limited to, the minimum number of shares, and the payment of a membership fee, if any, required for membership (status), and the procedures for expelling a member (who has failed to maintain the minimum number of shares);

(d) The number of directors and supervisory committee members, and the length of terms they serve and the permissible term length of any interim director or supervisory committee member;

(e) Any qualification for eligibility to serve on the credit union’s board, or supervisory committee;

(f) The number of credit union employees that may serve on the board, if any;

(g) The frequency of regular meetings of the board and the supervisory committee, and the manner in which members of the board or supervisory committee are to be notified of meetings;
The powers and duties of the board officers (elected by the board);

The timing of the annual membership meeting (and);

The manner in which members may call a special membership meeting;

The manner in which members are to be notified of membership meetings (including special membership meetings);

The number of members constituting a quorum at a membership meeting (and

Other matters considered appropriate by the applicants to be included in the bylaws)

Provisions, if any, for the indemnification of directors, supervisory committee members, officers, employees, and others by the credit union, if not included in the articles of incorporation; and

Any other provision which is not inconsistent with this chapter.

Applicants shall submit the bylaws in duplicate to the director (if requested).

Sec. 8. RCW 31.12.075 and 1994 c 92 s 181 are each amended to read as follows:

(1) When the proposed articles of incorporation and bylaws complying with the requirements of RCW 31.12.055 and 31.12.065 (as recodified by this act) have been filed with the director, the director shall:

(a) Determine whether the articles of incorporation and bylaws are consistent with this chapter; and

(b) Determine the feasibility of the credit union, taking into account surrounding facts and circumstances influencing the successful operation of the credit union.

(The director may establish by rule, as a prerequisite to approval of a proposed credit union, specific criteria consistent with the purposes and policies of this chapter.)

(2) If the director is satisfied with the determinations made under subsection (1)(a) and (b) of this section, the director shall endorse each of the articles of incorporation "approved" (and), indicate the date the approval was granted, and return two sets of articles and one set of bylaws to the applicants.
(3) If the director is not satisfied with the determinations made under subsection (1)(a) and (b) of this section, the director shall endorse each of the articles of incorporation "((refused)) denied," indicate the date of, and reasons for, the ((refusal)) denial, and return two copies of the articles of incorporation with one copy of the bylaws to the person from whom they were received. The director shall at the time of returning the copies of the articles of incorporation and bylaws, also provide notice to the applicant of the applicant’s right to appeal the ((refusal)) denial under chapter 34.05 RCW. The ((refusal)) denial is conclusive unless the applicant requests a hearing under chapter 34.05 RCW.

((4) The director shall accept or refuse the articles of incorporation within sixty days of receipt.)

Sec. 9. RCW 31.12.085 and 1994 c 92 s 182 are each amended to read as follows:

(1) Upon ((the)) approval ((of the director)) under RCW 31.12.075(2) (as recodified by this act), the ((applicants)) director shall ((file)) deliver a copy of the articles of incorporation ((with)) to the secretary of state for filing. Upon receipt of the approved articles of incorporation and a twenty dollar filing fee ((to be)) provided by the applicants, the secretary of state shall file ((and record)) the articles of incorporation. ((The applicants shall in writing promptly notify the director of the exact date of the filing.))

(2) Upon ((the)) filing ((and recording of)) the approved articles of incorporation ((with)) by the secretary of state, the persons named in the articles of incorporation and their successors may ((operate)) conduct business as a credit union, ((which shall have)) having the powers ((and be subject to the)) duties, and obligations ((of)) set forth in this chapter. A credit union ((shall)) may not conduct business until the articles have been ((recorded)) filed by the secretary of state.

(3) A credit union shall organize and begin conducting business within six months of the date that its articles of incorporation are filed ((and recorded with)) by the secretary of state or its charter ((shall become)) is void((, unless)). However, the director ((for cause)) may grant((s)) an extension of the six-month period. The director ((shall)) may not grant a single extension exceeding three
months, but may grant as many extensions to a credit union as circumstances require.

Sec. 10. RCW 31.12.105 and 1994 c 92 s 184 are each amended to read as follows:

((The)) A credit union’s articles of incorporation ((of a credit union)) may be amended((,)) by the board with the approval of the director((, by a resolution of the board. Amendments to the articles of incorporation shall be filed with the director and)). Complete applications for amendments to the articles must be approved or denied by the director within sixty days of receipt. Upon approval, the director shall promptly deliver the amendments, including any necessary filing fees paid by the applicant, to the secretary of state for filing. Amendments to a credit union’s articles of incorporation must conform with RCW 31.12.055 (as recodified by this act).

Sec. 11. RCW 31.12.115 and 1994 c 256 s 73 and 1994 c 92 s 185 are each reenacted and amended to read as follows:

((Except to the extent approval of the director may be required by rule, the bylaws of)) (1) A credit union’s field of membership bylaws may be amended by the board ((of directors at any regular meeting or at a special meeting called for that purpose. An amendment of the bylaws requires the affirmative vote of two-thirds of the total members of the board. At least seven days before a meeting at which an amendment to the bylaws is to be voted upon, a copy of the proposed amendment, together with a written notice of the meeting as provided in the bylaws, shall be served upon each member of the board either personally or by mail to the director’s last known post office address)) with approval of the director. All complete applications to amend a credit union’s field of membership bylaws must be approved or denied by the director within sixty days of receipt.

(2) Bylaw amendments, other than those requiring the approval of the director under subsection (1) of this section, may be approved at any regular board meeting, or any special board meeting called for the purpose of amending the credit union’s bylaws.

(3) Amendments to a credit union’s bylaws must conform with RCW 31.12.065 (as recodified by this act).
Sec. 12. RCW 31.12.185 and 1987 c 338 s 2 are each amended to read as follows:

(1) (The regular) A credit union’s annual membership meeting ((of a credit union)) shall be held ((annually,)) at such time and place as the bylaws prescribe, and shall be conducted according to the ((customary)) rules of ((parliamentary)) procedure approved by the board.

(2) Notice of ((regular)) the annual membership meetings of a credit union shall be given as provided in the bylaws of the credit union.

((3) No member may have more than one vote regardless of the number of shares held by the member. A fraternal organization, voluntary association, partnership, or corporation having a membership in a credit union may cast one vote by its authorized agent, who shall be an officer of the organization, association, partnership, or corporation. Voting by mail ballot may be authorized by the board as prescribed in the bylaws.))

Sec. 13. RCW 31.12.195 and 1994 c 256 s 77 and 1994 c 92 s 188 are each reenacted and amended to read as follows:

(1) A special membership meeting of a credit union may be called by a majority of the board, a majority vote of the supervisory committee, or upon written application of at least ten percent or two thousand((, whichever is less, of the voting)) of the members of a credit union, whichever is less.

(2) A request for a special membership meeting of a credit union shall be in writing and shall state specifically the purpose or purposes for which the meeting is called. At this meeting, only those agenda items detailed in the written request may be considered. If the special membership meeting is being called for the removal of ((a)) one or more directors, the ((notice)) request shall state the name of the director or directors whose removal is sought.

((2)) (3) Upon receipt of a request for a special membership meeting, the secretary of the credit union shall designate the time and place at which the special membership meeting will be held. The designated place of the meeting ((shall)) must be a reasonable location within the county in which the principal ((office)) place of business of the credit union is located, unless provided otherwise by the bylaws. The designated time of the membership meeting ((shall)) must
be no sooner than twenty ((nor)), and no later than thirty days after
the request is received by the secretary.

The secretary shall give notice of the meeting within ten days of
receipt of the request ((give notice of the meeting, including)) or
within such other reasonable time period as may be provided by the
bylaws. The notice must include the purpose or purposes for which the
meeting is called, as provided in the bylaws. ((A wilful violation of
this section constitutes a violation of this chapter and constitutes
grounds sufficient for the suspension and removal of the secretary
under RCW 31.12.575.)) If the special membership meeting is being
called for the removal of one or more directors, the notice must state
the name of the director or directors whose removal is sought.

(4) Except as provided in this subsection, the ((chairman
or president)) chairperson of the board shall preside over special
membership meetings. If the purpose of the special meeting includes
the proposed removal of the ((chairman or president from the board))
chairperson, the next highest ranking board officer ((of the board))
whose removal is not sought shall preside over the special meeting. If
the removal of all ((of the)) board officers ((of the board)) is
sought, the ((chairman)) chairperson of the supervisory committee shall
preside over the special meeting. ((After every special meeting, the
chairman of the supervisory committee shall report to the director the
results of the special meeting and whether the special meeting was
conducted in a fair manner in accordance with the bylaws of the credit
union and with customary rules of parliamentary procedure.))

(5) Special membership meetings shall be conducted according to the
rules of procedure approved by the board.

Sec. 14. RCW 31.12.225 and 1984 c 31 s 24 are each amended to read
as follows:

(1) The business and affairs of a credit union shall be managed by
a board of not less than five ((nor)) and not greater than fifteen
directors.

(2) The directors ((shall)) must be elected at the credit union’s
annual membership meeting((s)). ((The directors, as well as the
principal operating officer and committee members of the credit union,
shall be sworn to the faithful performance of their duties. The
directors)) They shall hold their offices((, unless sooner removed as

SSB 5563.SL p. 12
provided in this chapter,)) until their successors are qualified
((under RCW 31.12.235)) and elected or appointed.

(3) Directors shall be elected to terms of between one and three
years, as provided in the bylaws. If the terms are longer than one
year, the ((terms shall)) directors must be divided into classes, and
an equal number of ((terms)) directors, as near as possible, ((shall))
must be elected each year.

(4) Any vacancies on the board must be filled by interim directors
appointed by the board, unless the interim director would serve a term
of fewer than ninety days. Interim directors will serve out the
unexpired term of the former director, unless provided otherwise in the
credit union’s bylaws.

(5) The board will meet as often as necessary, but not less
frequently than once each month.

Sec. 15. RCW 31.12.235 and 1994 c 256 s 78 are each amended to
read as follows:

(1) A director ((shall be)) must be a natural person and a member
of the credit union. If a director ceases to be a member of the credit
union, the director shall no longer serve as a director.

(2) Unless reasonably excused by the board, a director shall no
longer serve as a director if the director is absent from more than
thirty-three percent of the regular board meetings in any twelve-month
period ((is absent from more than thirty-three percent of the regular
board meetings required by this chapter)).

(3) ((The remainder of the term of a director’s office that becomes
vacant under subsection (1) or (2) of this section shall be served by
an interim director appointed by the board.)) A director must meet any
qualification requirements set forth in the credit union’s bylaws. If
a director fails to meet these requirements, the director shall no
longer serve as a director.

(4) The officers and employees of the credit union may serve as
directors of the credit union, but only as permitted by the credit
union’s bylaws.

Sec. 16. RCW 31.12.246 and 1984 c 31 s 26 are each amended to read
as follows:

The members of a credit union may remove a director of the credit
union at a special membership meeting held in accordance with RCW
31.12.195 (as recodified by this act) and called for that purpose. If
the members remove a director, the members may at the same special
membership meeting elect an interim director to complete the remainder
of the former director’s term of office or ((may elect to)) authorize
the board to appoint an interim director as provided in RCW
((31.12.235)) 31.12.225 (as recodified by this act).

Sec. 17. RCW 31.12.255 and 1994 c 256 s 79 are each amended to
read as follows:

((The board shall have the general direction of the affairs of the
credit union. The board shall meet as often as necessary, but not less
than once each month.)) The business and affairs of a credit union
shall be managed by the board of the credit union. The duties of the
board include, but are not limited to, the duties enumerated in this
section. The duties listed in subsection (1) of this section may not
be delegated by the credit union’s board of directors. The duties
listed in subsection (2) of this section may be delegated to a
committee, officer, or employee, with appropriate reporting to the
board.

(1) The board shall:

((1) Act upon applications for membership with the credit union;
(2) Expel members for cause as provided in this chapter;
(3) Borrow and invest money on behalf of the credit union as
provided by this chapter;
(4) Determine the maximum amount of shares and deposits that a
member may hold in the credit union;
(5) Declare dividends on shares and set the rate of interest on
deposits;
(6) Determine the amount which may be loaned to a member and the
finance charges, including interest, to be charged on the loans;
(7) Prescribe the conditions and terms under which a loan officer
or credit committee may approve loans;
(8) Set the minimum number of shares, if any, required for active
member status;
(9) Fill vacancies on all committees except the supervisory
committee;
(10) Set the par value of shares, if any, of the credit union;)}
(11) Set the fees, if any, to be charged by the credit union to its members for the right to be a member of the credit union and for services rendered by the credit union;
(12) Approve the charge-off of credit union losses; or
(13) Perform such other acts as are required by this chapter. The board may authorize a committee, officer, or employee to take the actions referenced in subsections (1), (3), (5), and (6) of this section.)
(a) Set the par value of shares, if any, of the credit union;
(b) Set the minimum number of shares, if any, required for membership;
(c) Establish the loan policies under which loans may be approved, including policies on any automated loan approval programs;
(d) Establish the conditions under which a member may be expelled for cause;
(e) Fill vacancies on all committees except the supervisory committee;
(f) Approve an annual operating budget or financial plan for the credit union;
(g) Designate those persons or positions authorized to execute or certify documents or records on behalf of the credit union;
(h) Review the supervisory committee’s annual report; and
(i) Perform such other duties as the members may direct.
(2) In addition, the board shall:
(a) Act upon applications for membership in the credit union;
(b) Determine the maximum amount of shares and deposits that a member may hold in the credit union;
(c) Declare dividends on shares and set the rate of interest on deposits;
(d) Set the fees, if any, to be charged by the credit union to its members for the right to be a member of the credit union and for services rendered by the credit union;
(e) Determine the amount which may be loaned to a member together with the terms and conditions of loans;
(f) Establish policies under which the credit union may borrow and invest; and
(g) Approve the charge-off of credit union losses.
Sec. 18. RCW 31.12.265 and 1994 c 256 s 80 are each amended to read as follows:

(1) The board at its first meeting after the annual membership meeting (of the members) shall elect (a chairman or president, and one or more vice chairmen or vice presidents, a secretary, a treasurer, and other officers that may be) board officers from among its members, as provided in the credit union’s bylaws. The board will elect as many board officers as it deems necessary for transacting the business of the board of the credit union. The board officers (of the board of the credit union) shall hold office until their successors are qualified and elected, unless sooner removed as provided (by) in this chapter. (The offices of secretary and treasurer may be held by the same person.) All board officers (of the board of a credit union shall) must be elected members of the board. However, the office of board treasurer and (the) board secretary may be held by the same person and need not be elected members of the board. (The board may designate such employees, including a principal operating officer who shall not share the title chosen for the chairman or president of the board and who need not be a member of the board, as are necessary for the operation of the credit union.)

(2) The board may designate as many operating officers as it deems necessary for conducting the business of the credit union, including, but not limited to, a principal operating officer. Individuals serving as operating officers may also serve as board officers in accordance with subsection (1) of this section and subject to RCW 31.12.235(4) (as recodified by this act).

NEW SECTION. Sec. 19. A new section is added to chapter 31.12 RCW to read as follows:

Directors and board officers are deemed to stand in a fiduciary relationship to the credit union, and must discharge the duties of their respective positions:

(1) In good faith;

(2) With the care an ordinarily prudent person in a like position would exercise under similar circumstances; and

(3) In a manner the director or board officer reasonably believes to be in the best interests of the credit union.
Sec. 20. RCW 31.12.275 and 1984 c 31 s 29 are each amended to read as follows:

The board may, for cause, remove (an) a board officer from office or a committee member from a committee, other than the supervisory committee. For the purpose of this section "cause" includes demonstrated financial irresponsibility, a breach of fiduciary duty to the credit union, or activities which, in the judgment of the board, are detrimental to the credit union.

Sec. 21. RCW 31.12.285 and 1984 c 31 s 30 are each amended to read as follows:

The board may (by a two-thirds vote) suspend for cause a member of the board or a member of the supervisory committee until a membership meeting is held. The membership meeting (shall) must be held within thirty days after the suspension. The members attending the meeting shall vote whether to remove a suspended party. For purposes of this section, "cause" includes demonstrated financial irresponsibility, a breach of fiduciary duty to the credit union, or activities which, in the judgment of the board, threaten the safety and soundness of the credit union.

Sec. 22. RCW 31.12.326 and 1984 c 31 s 34 are each amended to read as follows:

1. A supervisory committee of at least three members (shall) must be elected at the annual membership meeting of the credit union. Members of the supervisory committee shall serve a term of three years, unless sooner removed under this chapter or until (a) their successors (commences the performance of the member’s duties) are qualified and elected or appointed. The members of the supervisory committee shall be divided into classes so that as equal a number as is possible is elected each year.

2. If a member of the supervisory committee ceases to be a member of the credit union, the member’s office (shall) becomes vacant. (The supervisory committee shall fill vacancies in its membership until successors are elected, except that) Any vacancy on the committee must be filled by an interim member appointed by the committee, unless the interim member would serve a term of fewer than ninety days. Interim members may serve out the unexpired term of the former member, unless provided otherwise by the credit union’s bylaws.
However, if all positions on the committee are vacant at the same time, the board may ((fill the vacancies)) appoint interim members to serve until the next annual membership meeting.

(3) No operating officer or employee of a credit union may serve on the credit union’s supervisory committee ((of that credit union)). No more than one director may be a member of the supervisory committee at the same time, unless provided otherwise by the credit union’s bylaws. No member of the supervisory committee may serve on the credit committee or investment committee of the credit union while serving on the supervisory committee.

Sec. 23. RCW 31.12.335 and 1994 c 256 s 82 and 1994 c 92 s 192 are each reenacted and amended to read as follows:

The supervisory committee of a credit union shall:

(1) Meet as often as necessary and at least quarterly;

(2) Keep fully informed as to the financial condition of the credit union and the decisions of the credit union’s board;

(3) ((Cause to be made)) Annually perform or arrange for a complete ((examination)) audit of ((the)) internal controls, loans, investments, cash, ((the credit union)) general ledger accounts, including, but not limited to, income and expense, and the members’ share and deposit accounts ((in accordance with rules adopted by the director)); and

(4) Report its findings and recommendations to the board and make an annual report to ((the)) members at ((the)) each annual membership meeting.

At least one supervisory committee member may attend each regular board meeting.

Sec. 24. RCW 31.12.345 and 1984 c 31 s 36 are each amended to read as follows:

(1) The supervisory committee may, by unanimous vote ((the supervisory committee of a credit union may suspend for cause an officer of the credit union)), for cause, suspend a member of ((a committee)) the board, ((or a member of the board)) until a membership meeting is held. The membership meeting ((shall)) must be held within thirty days after the suspension. The members attending that meeting shall vote whether to remove the suspended party or parties. The supervisory committee may, by unanimous vote, for cause, suspend members of other committees until a membership meeting is held. The
meeting must be held within thirty days after the suspension. The members attending that meeting shall vote whether to remove the suspended party or parties.

(2) For purposes of this section, "cause" includes demonstrated financial irresponsibility, a breach of fiduciary duty to the credit union, or activities which, in the judgment of the supervisory committee, threaten the safety and soundness of the credit union.

Sec. 25. RCW 31.12.365 and 1984 c 31 s 38 are each amended to read as follows:

(1) Directors and members of committees shall not receive compensation for their service (except to the extent that an officer serving as principal operating officer may receive compensation) as directors and committee members. However, this subsection does not prohibit directors or committee members from receiving incidental services available to employees generally, and gifts of minimal value.

(2) Directors and members of committees may receive reimbursement for reasonable expenses incurred (in the performance of their duties) on behalf of themselves and their spouses in the performance of the directors' and committee members' duties.

(3) Loans to directors and committee members (shall) may not be made under ((no)) more favorable terms and conditions ((and terms)) than those ((under which loans to general)) made to members ((are made)) generally.

Sec. 26. RCW 31.12.306 and 1994 c 92 s 191 are each amended to read as follows:

(1) Each director, officer, committee member, and employee of a credit union (shall) must be bonded in an amount and (with surety and) in accordance with conditions established by the director.

(2) When the bond coverage under subsection (1) of this section is suspended or terminated, the board of the affected credit union shall notify the director in writing within five days of (having received) receipt of the notice of (the) suspension or termination.

Sec. 27. RCW 31.12.145 and 1984 c 31 s 16 are each amended to read as follows:

(1) A credit union may admit to membership those persons qualified for membership as set forth in its bylaws ((upon the payment of a
membership fee, if any, or the purchase of one or more shares, as provided in the bylaws). ((A fraternal))

(2) An organization((, partnership, or corporation having a usual place of business in this state and)) whose membership, ownership, or employees are comprised principally of persons who are eligible for membership in the credit union may become a member of the credit union.

Sec. 28. RCW 31.12.155 and 1994 c 256 s 76 are each amended to read as follows:

((A minor under age eighteen does not have the right to vote as a member.)) (1) No member may have more than one vote regardless of the number of shares held by the member. An organization having membership in a credit union may cast one vote through its agent duly authorized in writing.

(2) Members may vote, as prescribed in the credit union’s bylaws, by mail ballot, absentee ballot, or other method. However, no member may vote by proxy.

(3) A member who is not at least eighteen years of age is not eligible to vote as a member unless otherwise provided in the credit union’s bylaws.

Sec. 29. RCW 31.12.295 and 1984 c 31 s 31 are each amended to read as follows:

(1) ((The board may, by a two-thirds vote, expel a member for cause. The board shall notify the member)) Members expelled from the credit union will be notified of the expulsion and the reasons upon which it is based. The credit union will, upon request of the expelled member, allow the member to challenge the expulsion and seek reinstatement as a member.

(2) The amounts ((paid)) in ((on shares or deposited by a member who has been expelled shall)) an expelled member’s share and deposit accounts must be promptly paid to the ((member)) person following expulsion, and after deducting amounts due from the member(s) to the credit union, including, but not limited to, any applicable penalties for early withdrawal. Expulsion ((shall)) will not operate to relieve ((a member)) the person from outstanding liabilities owed to the credit union.
Sec. 30. RCW 31.12.125 and 1994 c 256 s 74 and 1994 c 92 s 186 are each reenacted and amended to read as follows:

A credit union may:

(1) Issue shares to and receive deposits from its members (as provided in this chapter) in accordance with RCW 31.12.385 (as recodified by this act);

(2) Make loans to its members (as provided in this chapter) in accordance with RCW 31.12.317 and 31.12.406 (as recodified by this act);

(3) Pay dividends or interest to its members in accordance with RCW 31.12.485 (as recodified by this act);

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

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

(6) Acquire, lease, hold, assign, pledge, (hypothecate) sell, or otherwise dispose of (a possessory) interests in personal property and (subject to RCW 31.12.435) in real property (so long as the property is necessary or incidental to the operation of the credit union) in accordance with RCW 31.12.435 (as recodified by this act);

(7) Deposit and invest funds (in excess of the amount approved for loans to members as provided in this chapter) in accordance with RCW 31.12.425 (as recodified by this act);

(8) Borrow money, up to a maximum of fifty percent of its (paid-in and unimpaired) total shares, deposits, and net capital (and surplus);

(9) Discount or sell any of its assets, or purchase any or all of the assets of another credit union, out-of-state credit union, or federal credit union. However, a credit union may not discount or sell (more than ten percent) all, or substantially all, of its assets without the (prior written) approval of the director;

(10) Accept deposits of deferred compensation of its members (under the terms and conditions of RCW 28A.400.240 and 41.04.250(2));
(11) Act as fiscal agent for and receive payments on shares and deposits from the federal government or this state, and any agency or political subdivision thereof;

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

(13) Hold membership in ((other)) credit unions ((organized under this chapter or other laws)), out-of-state credit unions, or federal credit unions and in ((associations)) organizations controlled by or fostering the interests of credit unions, including, but not limited to, a central liquidity facility organized under state or federal law; ((and))

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

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

(16) Procure for, or sell to its members group life, accident, health, and credit life and disability insurance;

(17) Impose a reasonable service charge for the administration and processing of accounts that remain dormant for a period of time specified by the board;

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

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

(20) Work with community leaders to develop and prioritize efforts to improve the areas where their members reside by making investments in the community through contributions to organizations that primarily serve either a charitable, social, welfare, or educational purpose, or are exempt from taxation pursuant to section 501(c)(3) of the Internal Revenue Code;

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

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

(23) Exercise such incidental powers as are necessary or (requisite) convenient to enable it to ((carry on effectively)) conduct the business ((for which it is incorporated)) of a credit union.

Sec. 31. RCW 31.12.136 and 1994 c 256 s 75 and 1994 c 92 s 187 are each reenacted and amended to read as follows:

(1) Notwithstanding any other provision of law, a credit union may exercise any of the powers and authorities conferred as of December 31, 1993, upon ((a)) federal credit unions ((doing business in this state)).

(2) Notwithstanding any other provision of law, and in addition to the powers and authorities conferred under subsection (1) of this section, the director may, by rule, authorize credit unions to exercise any of the powers and authorities conferred at the time of the adoption of the rule upon ((a)) federal credit unions ((doing business in this state)) if the director finds that the exercise of the power and authority serves the convenience and advantage of ((depositors and borrowers)) members of ((state-chartered)) credit unions, and maintains the fairness of competition and parity between ((state-chartered)) credit unions and federal((-chartered)) credit unions.

(3) The restrictions, limitations, and requirements applicable to specific powers or authorities of federal credit unions ((shall)) apply to credit unions exercising those powers or authorities permitted under this section but only insofar as the restrictions, limitations, and requirements relate to ((exercising)) the specific exercise of the powers or authorities granted credit unions solely under this section.

(4) As used in this section, "powers and authorities" include without limitation, powers and authorities in corporate governance matters.

Sec. 32. RCW 31.12.385 and 1994 c 256 s 83 and 1994 c 92 s 194 are each reenacted and amended to read as follows:

(1) Shares ((purchased)) held and deposits made in a credit union by ((an individual)) a natural person are governed by chapter 30.22 RCW. ((A member may purchase shares and make deposits in a credit...)}
union in an amount that does not exceed such amounts as may be
established by the board from time to time.))

(2) A credit union may require ((from a member)) ninety days notice
of (the) a member’s intention to withdraw shares or deposits. The
notice requirement may be extended with the written consent of the
director.

(3) A credit union will have a lien on all shares and deposits,
including, but not limited to, dividends, interest, and any other
earnings and accumulations thereon, of any share account holder or
depositor, to the extent of any obligation owed to the credit union by
the share account holder or depositor.

Sec. 33. RCW 31.12.485 and 1984 c 31 s 50 are each amended to read
as follows:

(((1) At each annual, semiannual, quarterly, or monthly period the
board may declare a dividend from net earnings. The dividends shall be
paid on all eligible shares outstanding at the time of declaration and
may be paid to members on shares withdrawn during the period. Shares
which became paid-up during the dividend period shall be entitled only
to a proportional part of the dividend in accordance with a formula
adopted by the board.

(2)) Dividends may be declared from the credit union’s earnings
which remain after the deduction of expenses, interest on deposits, and
the amounts required for ((regular, liquidity, and special)) reserves,
or the dividends may be declared in whole or in part from the undivided
earnings that remain from preceding periods.

(((3) A member shall be given the option to receive declared
dividends either by cash payment or by a credit to the member’s account
in either shares or deposits.))

Sec. 34. RCW 31.12.406 and 1994 c 256 s 84 and 1994 c 92 s 195 are
each reenacted and amended to read as follows:

(1) A credit union may make secured and unsecured loans to its
members ((with the approval of a credit committee or loan officer))
under policies established by the board, subject to the loans to one
borrower limits provided for in RCW 31.12.317 (as recodified by this
act). ((All loans shall be documented in writing. Loans may be made
for (a) consumer, family, or household purposes, referred to in this
section as "consumer loans", or (b) business, investment, commercial,
or agricultural purposes which are)) Each loan must be evidenced by
records adequate to support enforcement or collection of the loan and
review of the loan by the director. Business loans must be in
compliance with rules adopted by the director.

(2) ((A credit union may make to members:
(a) Loans secured by the note of the member or other adequate
security, including, but not limited to, equity interests in real
estate, automobiles, boats, motorhomes, and travel trailers;
(b) Student loans under student loan programs of this state or the
United States;
(c) Loans for the acquisition of a modular home or mobile home as
defined by RCW 82.50.010, secured by a security interest in that
modular home or mobile home, owned by the member. A loan under this
subsection and any prior indebtedness secured by the home shall not
exceed eighty-five percent of the purchase price or of the appraised
value of the modular home or mobile home, whichever is less;
(d) Residential real estate loans under RCW 31.12.415;
(e) Loans to its members under an act of congress known as the "FHA
1701 to 1750, inc.); and
(f) Loans to credit union members in participation with other
credit unions, credit union organizations, or financial organizations.
The credit union which originates a loan under this subsection shall
retain an interest of at least ten percent of the face amount of the
loan unless the loan is a real estate loan in which case there is no
retention requirement.) A credit union may obligate itself to purchase
loans in accordance with RCW 31.12.425(1) (as recodified by this act),
if the credit union’s underwriting policies would have permitted it to
originate the loans.

(3) Consumer loans ((shall)) must be given preference, and in the
event there are not sufficient funds available to satisfy all approved
consumer loan ((applicants)) applications, further preference ((shall))
must be given to small loans.

(4) The director may by rule establish guidelines addressing the
issue of unsafe and unsound concentrations of credit and such other
related safety and soundness issues.))

Sec. 35. RCW 31.12.317 and 1994 c 256 s 92 are each amended to
read as follows:
(1) No loan may be made to any (member) borrower if (such) the loan would cause (that member) the borrower to be indebted to the credit union upon consumer and business loans (made to the member) in an aggregated amount exceeding ten thousand dollars or (two and one-half) twenty-five percent of the (assets) capital of the credit union, whichever is greater, without the approval of the director.

(2) The director by rule may establish limits on business loans (for business, investment, commercial, or agricultural purposes) to one (member) borrower.

Sec. 36. RCW 31.12.425 and 1994 c 256 s 86 and 1994 c 92 s 197 are each reenacted and amended to read as follows:

(((1) The capital or surplus funds in excess of the amount for which loans are approved may be deposited or invested in any of the following ways, so long as the investment has not been in default as to principal or interest within five years prior to the date of purchase))

A credit union may invest its funds in excess of loans in any of the following, as long as they are deemed prudent by the board:

(((a) Accounts in banks or trust companies, including national banks located in this state, or other states, the accounts of which are insured by the federal deposit insurance corporation. The deposits made by a credit union under this subsection may exceed the insurance limits established by the federal deposit insurance corporation;

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

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

((e))) (3) Obligations issued by corporations designated under (Section 9101 of Title) 31 U.S.C. Sec. 9101, or obligations, participations or other instruments issued and guaranteed by the federal national mortgage association, federal home loan mortgage corporation, government national mortgage association, or other government-sponsored enterprise;

((d))) (4) Participations or obligations which have been subjected by one or more government agencies to a trust or trusts for which an
executive department, agency, or instrumentality of the United States has been named to act as trustee;

(5) Share(s, share certificates) or (share) deposit(s) accounts of other (credit unions or savings and loan associations organized or authorized to do business under the laws of this state, other states, or the United States) financial institutions, the accounts of which are federally insured or insured or guaranteed by (the federal savings and loan insurance corporation, the national credit union administration, the Washington credit union share guaranty association, or) another insurer or guarantor approved by the director. The shares and deposits made by a credit union under this subsection may exceed the insurance or guarantee limits established by the organization insuring or guaranteeing the institution into which the shares or deposits are made;

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

(7) Up to (two) five percent of (a corporation) the capital of the credit union, in debt or equity issued by an organization owned by the Washington credit union league;

(8) Shares, stocks, loans, or other obligations of an organization (of which the membership or ownership is confined primarily to credit unions and the) whose primary purpose (of which) is to strengthen, advance, or provide services to the credit union industry and credit union members. Other than investment in an organization that is wholly owned by the credit union and whose activities are limited exclusively to those (determined by the director to be) authorized by RCW 31.12.125 ((2) through (9) and (12) through (14)) (as recodified by this act), an investment under this subsection ((1)(h) of this section) shall be limited to one percent of the ((total paid-in and unimpaired capital and surplus)) assets of the credit union, but a credit union may, in addition to the investment, lend to the organization an amount not exceeding an additional one percent of the ((total paid-in and unimpaired capital and surplus)) assets of the credit union;

(9) Loans to (other) credit unions (organized or authorized to do business under the laws of this state, other states, or the United States), out-of-state credit unions, or federal credit unions. The aggregate of loans issued under this subsection (shall
be) is limited to twenty-five percent of the (paid in and unimpaired capital)) total shares and deposits of the lending credit union; (or (f)) (10) Key person insurance policies, the proceeds of which inure exclusively to the benefit of the credit union; or

(11) Other investments (authorized in accordance with rules adopted) approved by the director (consistent with this chapter) upon written application.

((2) The board may appoint an investment committee to make and manage the investments under this section. An investment committee shall remain subject to the supervision of the board.)

Sec. 37. RCW 31.12.435 and 1994 c 256 s 87 and 1994 c 92 s 198 are each reenacted and amended to read as follows:

(1) (Unless otherwise approved by the director)) A credit union may invest ((a reasonable amount of its funds)) in real property or leasehold interests primarily for its own use in conducting business, including, but not limited to, structures and fixtures attached to real property, subject to the following limitations:

(a) ((The aggregate of its regular reserve and its undivided earnings equals)) The credit union’s net capital equals at least five percent of the total of its share and deposit accounts;

(b) The board approves the investment ((in real property for its own use in conducting business by a two thirds majority vote of the total number of directors)); and

(c) The (total) aggregate of all such investments ((in the property)) does not exceed seven and one-half percent of the (aggregate) total of its share and deposit accounts.

(2) If the real property or leasehold interest is acquired for future expansion, the credit union must satisfy the use requirement in subsection (1) of this section within three years after the credit union makes the investment.

(3) The director may, upon written application, waive any of the limitations listed in subsection (1) or (2) of this section.

Sec. 38. RCW 31.12.445 and 1994 c 92 s 199 are each amended to read as follows:

This section applies to all nonfederally insured credit unions.
(1) At the end of each accounting period and before the payment of dividends to members, a credit union shall set apart as a regular reserve an amount in accordance with subsection (2) of this section.

(2)(a) If a credit union has been in operation for four or more years and has assets of at least five hundred thousand dollars, it shall reserve ten percent of gross income until the regular reserve together with the allowance for loan loss equals four percent of outstanding loans and then shall reserve five percent of gross income until the regular reserve together with the allowance for loan loss equals six percent of outstanding loans.

(b) If a credit union has been in operation for less than four years or has assets of less than five hundred thousand dollars, it shall reserve ten percent of gross income until the regular reserve together with the allowance for loan loss equals seven and one-half percent of outstanding loans and then shall reserve five percent of gross income until the regular reserve together with the allowance for loan loss equals ten percent of outstanding loans.

(c) The director may authorize a credit union falling under subsection (2)(b) of this section to follow the reserving requirements for credit unions falling under subsection (2)(a) of this section.

(d) In computing outstanding loans for purposes of reserving, a credit union may exclude loans secured by shares and loans insured or guaranteed by the federal government or the government of this state to the extent of the security, insurance, or guarantee.

(3) When the regular reserve falls below the percentage of outstanding loans required under subsection (2) of this section, a credit union shall replenish the regular reserve by again reserving a portion of gross income as set forth in subsection (2) of this section.

(4) The regular reserve and the investment thereof must be held to meet contingencies or losses in the business of the credit union and may not be distributed to its members except in the case of liquidation or with the permission of the director.

Sec. 39. RCW 31.12.465 and 1994 c 92 s 201 are each amended to read as follows:

(1) The director may, if deemed necessary, require a credit union to establish a liquidity reserve of up to five percent of total shares, deposits, and capital. The
liquidity reserve ((shall)) must be in cash or investments with maturities of one year or less.

(2) The director may require a credit union to charge off or set up a special reserve fund for delinquent loans or other assets.

Sec. 40. RCW 31.12.695 and 1994 c 256 s 91 and 1994 c 92 s 220 are each reenacted and amended to read as follows:

(1) For purposes of this section, the merging credit union is the credit union whose charter ceases to exist upon ((merging)) merger with the continuing credit union. The continuing credit union is the credit union whose charter continues upon ((merging)) merger with the merging credit union.

(2) A credit union may be merged with another credit union with the approval of the director and in accordance with requirements the director may prescribe. The merger ((shall)) must be approved by a two-thirds majority vote of the board of each credit union and a two-thirds majority vote of those members of the merging credit union voting on the merger at a ((special)) membership meeting ((called by the merging credit union board or by mail ballot)). The requirement of approval by the members of the merging credit union may be waived by the director if ((in the director’s opinion)) the merging credit union is in imminent danger of insolvency.

(3) The property, rights, and interests of the merging credit union transfer to and vest in the continuing credit union without deed, endorsement, or instrument of transfer, although instruments of transfer may be used if their use is deemed appropriate. The debts and obligations of the merging credit union that are known or reasonably should be known are assumed by the continuing credit union. The continuing credit union shall cause to be published notice of merger once a week for three consecutive weeks in a newspaper of general circulation in the county in which the principal place of business of the merging credit union is located. The notice of merger ((shall)) must also inform creditors of the merging credit union how to make a claim on the continuing credit union and that if a claim is not made upon the continuing credit union within thirty days of the last date of publication creditors’ claims that are not known by the continuing credit union may be barred. Unless a claim is filed as requested by the notice, or unless the debt or obligation is known or reasonably should be known by the continuing credit union, the debts and

SSB 5563.SL p. 30
obligations of the merging credit union are discharged. Upon merger, the charter of the merging credit union ceases to exist.

Sec. 41. RCW 31.12.705 and 1994 c 92 s 221 are each amended to read as follows:

(1) A credit union ((chartered under the laws of this state)) may convert ((itself)) into a federal credit union ((chartered under the laws of the United States)) as authorized by the federal credit union act. The conversion ((shall)) must be approved by a two-thirds majority vote of ((the)) those members ((present)) voting at ((any regular or special)) a membership meeting ((called for that purpose by the board. The meeting shall be held within thirty days of being called and the secretary shall notify the members and the director of the meeting and its purpose as provided by the bylaws at least twenty days prior to the meeting)).

(2) If the conversion is approved by the members, a copy of the resolution certified by the board ((shall)) must be filed with the director within ten days of approval. The board may effect the conversion ((from a state-chartered credit union to a federal-chartered credit union)) upon terms agreed by the board and the ((proper)) federal ((authorities as provided by federal laws, rules, and regulations)) regulator.

(3) A certified copy of the federal credit union charter or authorization issued ((to the credit union)) by the ((proper)) federal ((authority—shall)) regulator must be filed ((in)) with the ((director’s office)) director and thereupon the ((state-chartered)) credit union ceases to exist except for the purpose of winding up its affairs and prosecuting or defending any litigation by or against the ((state-chartered)) credit union. For all other purposes, the credit union is converted into a ((federal-chartered)) federal credit union and the ((state-chartered)) credit union may execute, acknowledge, and deliver to the successor federal credit union the instruments of transfer, conveyance, and assignment that are necessary or desirable to complete the conversion, and the property, tangible or intangible, and all rights, titles, and interests that are agreed to by the board and the ((proper)) federal ((authorities)) regulator.

(4) Procedures, similar to those contained in subsections (1) through (3) of this section, prescribed by the director ((shall)) must be followed when a credit union ((chartered under the laws of this state)) is converted into a federal credit union.
state)) merges ((with)) or converts ((to a credit union chartered under
the laws of another state)) into an out-of-state or foreign credit
union.

Sec. 42. RCW 31.12.715 and 1994 c 92 s 222 are each amended to
read as follows:
(1) A federal credit union located and conducting business in this
state ((which becomes inoperative because of a change in the laws under
which it is chartered or which is authorized to dissolve or convert to
a state-chartered credit union in accordance with federal law)) may
convert into a ((state-chartered)) credit union organized and operating
under this chapter.
(2) The board of the federal credit union shall file with the
director proposed articles of incorporation and ((proposed)) bylaws, as
provided by this chapter for organizing a new ((state-chartered))
credit union. If approved by the director, the ((federal-chartered))
Federal credit union ((shall)) becomes a ((state-chartered)) credit
union under the laws of this state and the assets and liabilities of
the federal credit union will vest in and become the property of the
successor ((state-chartered)) credit union subject to all existing
liabilities against the ((federal-chartered)) Federal credit union.
(Shareholders and) Members of the federal credit union may become
(shareholders and) members of the successor ((state-chartered))
credit union.
(3) Procedures, similar to those contained in subsections (1) and
(2) of this section, prescribed by the director ((shall)) must be
followed when ((a)) an out-of-state or foreign credit union ((chartered
under the laws of another state)) wishes to merge ((with)) or convert
((to)) into a credit union ((chartered under the laws of this state))
organized and operating under this chapter.

Sec. 43. RCW 31.12.526 and 1994 c 256 s 88 and 1994 c 92 s 205 are
each reenacted and amended to read as follows:
(1) ((A)) An out-of-state or foreign credit union ((organized and
qualified as a credit union in another state which has not had its
authority to operate in another state suspended or revoked may operate
as a credit union under this chapter if)) may not operate a branch in
Washington unless:
(a) The director has approved its application to do business in this state;

(b) A credit union (organized under the laws of this state) is permitted to do business in the state or jurisdiction in which the applicant is organized;

(c) The interest rate charged by the applicant on loans made to members residing in this state does not exceed the maximum interest rate permitted in the state or jurisdiction in which the applicant is organized, or exceed the maximum interest rate (which) that a credit union (organized in this state) organized and operating under this chapter is permitted to charge on similar loans, whichever is lower;

(d) The applicant has secured surety bond and fidelity bond coverages satisfactory to the director;

(e) The applicant’s share and deposit accounts (of its members insurance or other surety satisfactory to the director) are insured under the federal share insurance program or an equivalent share insurance program in compliance with RCW 31.12.039 (as recodified by this act);

(f) The applicant submits to the director an annual examination report of its most recently completed fiscal year;

(g) The applicant has not had its authority to operate in another state or jurisdiction suspended or revoked;

(h) If the applicant is a foreign credit union:

(i) A treaty or agreement between the United States and the jurisdiction where the applicant is organized requires the director to permit the applicant to operate a branch in Washington; and

(ii) The director determines that the applicant has substantially the same characteristics as a credit union organized and operating under this chapter; and

(i) The applicant complies with all other provisions of this chapter and rules adopted by the director, except as otherwise permitted by this section.

(2) The director shall deny an application filed under this section or, upon notice and an opportunity for hearing, suspend or revoke the approval of an application, if the director finds that the standards of organization, operation, and regulation of the applicant do not reasonably conform
with the standards under this chapter ((or that at least fifty percent of the members of the credit union are, or are reasonably expected to be, residents of this state)). In considering the standards of organization, operation, and regulation of the ((credit union)) applicant, the director may consider the laws ((and regulations)) of the state or jurisdiction in which the ((credit union)) applicant is organized. A decision under this subsection may be appealed under chapter 34.05 RCW.

(3) In implementing this section, the director may cooperate with ((the administrators of the)) credit union ((laws)) regulators in other states or jurisdictions and may share with the ((administrators)) regulators the information received in the administration of this chapter.

(4) The director may enter into supervisory agreements with out-of-state and foreign credit unions and their regulators to prescribe the applicable laws governing the powers and authorities of Washington branches of the out-of-state or foreign credit unions. The director may also enter into supervisory agreements with the credit union regulators in other states or jurisdictions to prescribe the applicable laws governing the powers and authorities of out-of-state or foreign branches and other facilities of credit unions.

The agreements may address, but are not limited to, corporate governance and operational matters. The agreements may resolve any conflict of laws, and specify the manner in which the examination, supervision, and application processes must be coordinated with the regulators.

The director ((shall)) may adopt rules for the periodic examination and investigation of the affairs of an out-of-state of foreign credit union operating in this state. The costs of examination and supervision ((shall)) must be fully borne by the out-of-state or foreign credit union.

Sec. 44. RCW 31.12.725 and 1994 c 92 s 223 are each amended to read as follows:

(1) At a special board meeting ((specially)) called for the purpose of liquidation, and upon the recommendation of at least two-thirds of the total members of the board of a credit union, the members of a credit union may elect to liquidate the credit union by a two-thirds
majority vote of those members present elect to liquidate the credit union voting.

(2) Upon a vote to liquidate under subsection (1) of this section, a three-person liquidating committee of three shall must be elected to liquidate the assets of the credit union. The committee shall act in accordance with any requirements of the director and may be reasonably compensated by the board of the credit union. Each share account holder and depositor at the credit union is entitled to his, her, or its proportionate part of the assets in liquidation after all shares, deposits, and debts have been paid. The proportionate allocation shall be based on account balances as of a date determined by the board. For the purposes of liquidation, shares and deposits are equivalent. The assets of the liquidating credit union are not subject to contingent liabilities. Upon distribution of the assets, the credit union ceases to exist except for the purpose of discharging existing liabilities and obligations.

(3) Funds representing unclaimed dividends in liquidation and remaining in the hands of the liquidating committee for six months after the date of the final dividend must be deposited, together with all the books and papers of the credit union, with the director. The director may one year after receipt destroy such records, books, and papers as, in the director’s judgment, are obsolete or unnecessary for future reference. The funds may be deposited in one or more (trust companies, mutual savings banks, savings and loan associations, or national or state banks) financial institutions to the credit of the director in trust for the members of the credit union in liquidation in trust for the members of the credit union entitled to the funds. The director may pay a ((person entitled to it that person’s)) portion of the funds to a person upon receipt of satisfactory evidence that the person is entitled to the funds. In case of doubt or conflicting claims, the director may require an order of the superior court of the county in which the principal place of business of the credit union was located authorizing and directing the payment of the funds. The director may apply the interest earned by the funds toward defraying the expenses incurred in the holding and paying of the funds. Five years after the receipt of the funds, the funds still remaining with the director must be remitted to the state as unclaimed property.
Sec. 45. RCW 31.12.516 and 1994 c 92 s 204 are each amended to read as follows:

(1) The powers of supervision and examination of credit unions and other persons subject to this chapter and chapters 31.12A and 31.13 RCW are vested in the director. The director shall require each credit union to conduct business in compliance with this chapter and other laws that apply to credit unions, and has the power to commence and prosecute actions and proceedings, to enjoin violations, and to collect sums due the state of Washington from a credit union ((authorized to conduct business under this chapter)).

(2) The director may adopt such rules as are reasonable or necessary to carry out the purposes of this chapter and chapters 31.12A and 31.13 RCW. Chapter 34.05 RCW will, whenever applicable, govern the rights, remedies, and procedures respecting the administration of this chapter.

(3) The director shall have the power and broad administrative discretion to administer and interpret the provisions of this chapter and chapters 31.12A and 31.13 RCW, to facilitate the delivery of financial services to the members of a credit union.

(4) The director may charge fees to credit unions and other persons subject to this chapter and chapters 31.12A and 31.13 RCW, in order to cover the costs of the operation of the division of credit unions, and to establish a reasonable reserve for the division. The director may waive all or a portion of such fees.

Sec. 46. RCW 31.12.545 and 1994 c 92 s 207 are each amended to read as follows:

(1) The director shall make an examination and ((full)) investigation into the affairs of each credit union at least once every eighteen months, unless the director determines with respect to a credit union that a less frequent examination schedule will satisfactorily protect the financial stability of the credit union and will satisfactorily assure compliance with the provisions of this chapter. ((The actual cost of examination and supervision shall be paid by the credit union examined. The director may waive all or a portion of the examination costs payable by the credit union, in light of the time and expense of the examination and the ability of the credit union to pay the costs. The examination costs with respect to

SSB 5563.SL p. 36
the first examination of a credit union with assets under two hundred
thousand dollars shall not be payable by that credit union.))

(2) The director may accept in lieu of an examination under
subsection (1) of this section the report of an examiner authorized to
examine ((a)) an out-of-state, federal, or foreign credit union ((under
the laws of the United States or another state))) or the report of an
accountant, satisfactory to the director, who has made and submitted a
report of the condition of the affairs of a credit union ((and, if
approved)). The director may accept such a report in lieu of part or
all of an examination. If accepted, the report ((shall have)) has the
same force and effect as an examination under subsection (1) of this
section.

(((3) Communications from the director to the board of a credit
union regarding an examination or report shall be read before the board
at its first meeting following the receipt of the communication and the
fact that the communication was read before the board shall be noted in
the minutes of the meeting. The board shall promptly respond to the
director either by stating that steps have been taken to comply with
the communication or by stating that the board objects to the
communication and stating the reasons for the objection.)))

Sec. 47. RCW 31.12.555 and 1994 c 256 s 89 and 1994 c 92 s 208 are
each reenacted and amended to read as follows:

(1) The director may examine the affairs of:

(a) A credit union service organization in which a credit union has
an interest((.));

(b) A person ((or an entity)) that is not a credit union,
out-of-state credit union, federal credit union, or foreign credit
union, and that has an interest in a credit union service organization
in which a credit union has an interest ((is deemed to have consented
to the examination. For the purposes of this section and RCW
31.12.565, a sole proprietorship, partnership, or corporation that is
primarily in the business of managing one or more credit unions shall
be considered to be a credit union service organization.)); and

(c) A sole proprietorship or organization primarily in the business
of managing one or more credit unions.

(2) Persons subject to examination under this section are deemed to
have consented to the examination.
(3) The director will establish the appropriate frequency of regular examinations under this section, but no more frequently than once every eighteen months. The cost of the examinations will be borne fully by the person examined.

Sec. 48. RCW 31.12.565 and 1994 c 256 s 90 and 1994 c 92 s 209 are each reenacted and amended to read as follows:

(1) The following are confidential and privileged and not subject to public disclosure under chapter 42.17 RCW:

(a) Examination reports and information obtained by the director in conducting examinations and investigations under this chapter and chapters 31.12A and 31.13 RCW;

(b) Examination reports and related information from other financial institution regulators obtained by the director; and

(c) Business plans and other proprietary information obtained by the director in connection with a credit union’s application or notice to the director.

(2) Notwithstanding subsection (1) of this section, the director may furnish examination reports prepared by the director to:

(a) Federal agencies empowered to examine credit unions;

(b) Officials empowered to investigate criminal charges. The director may furnish only that part of the report which is necessary and pertinent to the investigation, and only after notifying the affected credit union and members of the credit union who are named in that part of the examination report, or other person examined, that the report is being furnished to the officials, unless the officials requesting the report obtain a waiver of the notice requirement for good cause from a court of competent jurisdiction;

(c) The examined credit union or other person examined, solely for its confidential use;

(d) The attorney general in his or her role as legal advisor to the director;

(e) Prospective merger partners or conservators, receivers, or liquidating agents of a distressed credit union;
(f) Credit union (administrators) regulators in other states or jurisdictions regarding an out-of-state (chartered) or foreign credit union (doing) conducting business in this state under this chapter, or regarding a credit union (chartered under this chapter doing) conducting business in (another) the other state or jurisdiction;

(g) A person (or organization) officially connected with the credit union or other person examined, as officer, director, supervisory committee member, attorney, auditor, accountant, independent attorney, independent auditor, or independent accountant;

(h) Organizations that have bonded the credit union to the extent that information is relevant to the renewal of the bond coverage or to a claim under the bond coverage;

(i) Organizations insuring or guaranteeing the shares of or deposits in the credit union; or

(j) Other persons (or organizations) as the director may determine necessary to protect the public interest and confidence.

(3) Examination reports furnished under subsection (2) of this section remain the property of the director and no person (agency, or authority) to whom reports are furnished or any officer, director, or employee thereof may disclose or make public the reports or information contained in the reports except in published statistical information that does not disclose the affairs of a person, except that nothing prevents the use in a criminal prosecution of reports furnished under subsection (2)(b) of this section.

(4) In a civil action in which the reports or information are sought to be discovered or used as evidence, a party upon notice to the director, may petition the court for an in-camera review of the reports or information. The court may permit discovery and introduction of only those portions of the report or information which are relevant and otherwise unobtainable by the requesting party. This subsection does not apply to an action brought or defended by the director.

(5) This section does not apply to investigation reports prepared by the director (and the director’s staff) concerning an application for a new credit union or a notice of intent to establish or relocate a branch of a credit union, except that the director may adopt rules making portions of the reports confidential, if in the director’s opinion the public disclosure of that portion of the report
would impair the ability to obtain information the director considers necessary to fully evaluate the application.

(6) Any person who knowingly violates a provision of this section is guilty of a gross misdemeanor.

**NEW SECTION. Sec. 49.** A new section is added to chapter 31.12 RCW to read as follows:

A credit union shall make at least two regular reports each year to the director showing the assets and liabilities of the credit union. Each report must be certified by the principal operating officer of the credit union. The director shall designate the form, the due dates of, and the period covered by the reports.

**NEW SECTION. Sec. 50.** A new section is added to chapter 31.12 RCW to read as follows:

Credit unions will comply with the provisions of generally accepted accounting principles as identified by rule of the director. In adopting rules to implement this section, the director shall consider, among other relevant factors, whether to transition small credit unions to generally accepted accounting principles over a period of time.

**Sec. 51.** RCW 31.12.215 and 1994 c 92 s 190 are each amended to read as follows:

A credit union desiring to establish a branch shall submit to the director a notice of intent to establish a branch ((on a form provided by the director)) at least thirty days before conducting business at the branch.

**Sec. 52.** RCW 31.12.575 and 1994 c 92 s 210 are each amended to read as follows:

(1) ((The director may suspend a director or the principal operating officer of a credit union if, in the opinion of the director, the director or principal operating officer is dishonest, inefficient, incompetent, is willfully disobeying orders of the director, or is in any way violating this chapter or the bylaws of the credit union. The director shall give prompt notice of and the reasons for the suspension to the board of the affected credit union.))

(2) Unless the director specifically provides otherwise in the order of suspension, an order of suspension shall take effect...
immediately. The suspended person shall be prohibited from all aspects of the operation of the credit union. The suspended person shall be barred from the credit union premises and shall surrender the possession of all property and records of the credit union. A person who knowingly violates an order of suspension or who knowingly aids in the violation of an order of suspension shall be guilty of a gross misdemeanor.

(3) Upon receipt of the notice of suspension, the board shall within twenty days call a meeting of its members to consider the causes of the suspension. The board shall give at least seven days’ notice of the time and place of the meeting to the director unless the director agrees to accept shorter notice. If the board finds the director’s objection to be well-founded, the board shall remove the suspended person immediately.

(4) If the board fails to remove the suspended person as provided in subsection (3) of this section, the director may remove that person after reasonable notice and an opportunity to be heard under chapter 34.05 RCW. The suspension shall remain in effect for twenty days after the board meeting at which the board considers the suspension, during which time the director may call a hearing under this subsection. If the director calls a hearing, the suspension shall remain in effect until the time of the hearing.) The director may serve a credit union director, supervisory committee member, officer, or employee with written notice of the director’s intent to remove the person from office or to prohibit the person from participating in the conduct of the affairs of the credit union whenever, in the opinion of the director:

(a) The person has committed a material violation of law or an unsafe or unsound practice;

(b) (i) The credit union has suffered or is likely to suffer substantial financial loss or other damage; or

(ii) The interests of the credit union’s share account holders and depositors could be seriously prejudiced by reason of the violation or practice; and

(c) The violation or practice involves personal dishonesty, recklessness, or incompetence.

(2) The notice must contain a statement of the facts constituting the alleged violation or practice and must fix a time and place at which a hearing will be held to determine whether a removal or
prohibition order should be issued against the person. The hearing must be set not earlier than ten days nor later than thirty days after service of the notice, unless a later date is set by the director at the request of any of the parties.

Unless the person appears at the hearing, the person will be deemed to have consented to the issuance of the removal or prohibition order. In the event of this consent, or if upon the record made at the hearing the director finds that any violation or practice specified in the notice of intention has been established, the director may issue and serve upon the person an order removing the person from office at the credit union or an order prohibiting the person from participating in the conduct of the affairs of the credit union.

(3) A removal order or prohibition order becomes effective at the expiration of ten days after the service of the order upon the person, except that a removal order or prohibition order issued upon consent becomes effective at the time specified in the order. An order remains effective unless it is stayed, modified, terminated, or set aside by action of the director or a reviewing court.

Sec. 53. RCW 31.12.585 and 1994 c 92 s 211 are each amended to read as follows:

(1) The director may issue and serve ((upon)) a credit union with a notice of charges if, in the opinion of the director, the credit union has committed or is about to commit:

(a) ((Is engaging or has engaged in an unsafe or unsound practice in conducting the business of the credit union;)) A material violation of law; or

(b) ((Is violating or has violated a material provision of any law, rule, or any condition imposed in writing by the director in connection with the granting of any application or other request by the credit union or any written agreement made with the director; or

(c) Is about to do the acts prohibited in (a) or (b) of this subsection if the opinion that the threat exists is based upon reasonable cause)) An unsafe or unsound practice.

(2) The notice ((shall)) must contain a statement of the facts constituting the alleged violation or the practice and ((shall)) must fix a time and place at which a hearing will be held to determine whether an order to cease and desist should issue against the credit union. The hearing ((shall)) must be set not earlier than ten days nor
later than thirty days after service of the notice unless a later date is set by the director at the request of any of the parties.

Unless the credit union appears at the hearing by a duly authorized representative, it shall be deemed to have consented to the issuance of the cease and desist order. In the event of this consent or if upon the record made at the hearing the director finds that any violation or practice specified in the notice of charges has been established, the director may issue and serve upon the credit union an order to cease and desist from the violation or practice. The order may require the credit union and its directors, supervisory committee members, officers, employees, and agents to cease and desist from the violation or practice and may require the credit union to take affirmative action to correct the conditions resulting from the violation or practice.

(3) A cease and desist order becomes effective at the expiration of ten days after the service of the order upon the credit union except that a cease and desist order issued upon consent becomes effective at the time specified in the order and remains effective unless set aside, modified, terminated, or set aside by action of the director or a reviewing court.

Sec. 54. RCW 31.12.595 and 1994 c 92 s 212 are each amended to read as follows:

If the director determines that the violation or practice specified in RCW 31.12.585 (as recodified by this act) is likely to cause insolvency or substantial dissipation of assets or earnings of the credit union or to otherwise seriously prejudice the interests of its depositors, members, or shareholders) an unsafe or unsound condition at the credit union, the director may issue a temporary order requiring the credit union to cease and desist from the violation or practice. The order becomes effective upon service on the credit union and remains effective unless set aside, limited, or suspended by a court in proceedings under RCW 31.12.605 (as recodified by this act) pending the completion of the administrative proceedings under the notice and until the director dismisses the charges specified in the notice or until the effective date of a cease and desist order issued against the credit union under RCW 31.12.585 (as recodified by this act).
Sec. 55. RCW 31.12.605 and 1984 c 31 s 62 are each amended to read as follows:
Within ten days after a credit union has been served with a temporary cease and desist order, the credit union may apply to the superior court in the county of its principal place of business for an injunction setting aside, limiting, or suspending the order pending the completion of the administrative proceedings under RCW 31.12.585 (as recodified by this act). The superior court (shall have) has jurisdiction to issue the injunction.

Sec. 56. RCW 31.12.625 and 1994 c 92 s 214 are each amended to read as follows:
(1) An administrative hearing provided for in RCW 31.12.575 or 31.12.585 (shall) (as recodified by this act) may be held at such place as is designated by the director and must be conducted in accordance with chapter 34.05 RCW. The hearing shall be private unless the director determines that a public hearing is necessary to protect the public interest after fully considering the views of the party afforded the hearing.

(2) Within sixty days after the hearing, the director shall render a decision which (shall) includes findings of fact upon which the decision is based (and). The director shall issue and serve upon each party to the proceeding an order or orders consistent with RCW 31.12.575 or 31.12.585 (as recodified by this act).

(3) Unless a petition for review is timely filed in the superior court of the county in which the principal place of business of the credit union is located, and until the record in the proceeding has been filed as provided therein, the director may at any time modify, terminate, or set aside any order upon such notice and in such manner as the director may deem proper. Upon filing the record, the director may modify, terminate, or set aside an order only with the permission of the court or the party or parties to the proceeding.

The judicial review provided in this section will be exclusive for orders issued under RCW 31.12.575 and 31.12.585 (as recodified by this act).

(4) Any party to the proceeding, or any person subject to an order, temporary order, or injunction issued under RCW 31.12.575, 31.12.585, 31.12.595, or 31.12.615 (as recodified by this act), may obtain a review of any order issued and served under subsection (1) of this...
section, other than an order issued upon consent, by filing a written
petition requesting that the order be modified, terminated, or set
aside, in the superior court of the county in which the principal place
of business of the affected credit union is located. The petition must
be filed within ten days after the date of service of the order. A
copy of the petition must be immediately served upon the director and
the director must then file the record of the proceeding in court. The
court has jurisdiction, upon the filing of the petition, to affirm,
modify, terminate, or set aside, in whole or in part, the order of the
director. The jurisdiction of the court becomes exclusive upon the
filing of the record. However, the director may modify, terminate, or
set aside the order with the permission of the court. The judgment and
decree of the court is final subject to appellate review under the
rules of the court.

(5) The commencement of proceedings for judicial review under
subsection (4) of this section may not operate as a stay of any order
issued by the director unless specifically ordered by the court.

(6) Service of any notice or order required to be served under RCW
31.12.575, 31.12.585, or 31.12.595 (as recodified by this act), must be
accomplished in the same manner as required for the service of process
in civil actions in superior courts of this state.

NEW SECTION. Sec. 57. A new section is added to chapter 31.12 RCW
to read as follows:

The director may apply to the superior court of the county in which
the principal place of business of the affected credit union is located
for the enforcement of any effective and outstanding order issued under
this act), and the court has jurisdiction to order compliance
therewith. No court has jurisdiction to affect by injunction or
otherwise the issuance or enforcement of any such order, or to review,
modify, suspend, terminate, or set aside any such order, except as
provided in RCW 31.12.605, 31.12.615, and 31.12.625 (as recodified by
this act).

Sec. 58. RCW 31.12.655 and 1994 c 92 s 216 are each amended to
read as follows:

The director may request a special meeting of the board of a credit
union if the director believes that a special meeting is necessary for
the welfare of the credit union or the purposes of this chapter. The
director’s request for a special board meeting ((shall)) must be made
in writing to the secretary of the board and the request ((shall)) must
be handled in the same manner as a call for a special meeting under RCW
31.12.195 (as recodified by this act). The director may require the
attendance of all of the directors ((of the board)) at the special
board meeting, and an absence ((of a director)) unexcused by the
director constitutes a violation of this chapter.

Sec. 59. RCW 31.12.665 and 1994 c 92 s 217 are each amended to
read as follows:

((1))) The director may attend a ((regular or special)) meeting of
the board of a credit union if the director believes that attendance at
the meeting is necessary for the welfare of the credit union, or the
purposes of this chapter, or if the board has requested the director’s
attendance. The director shall provide reasonable notice to the board
before attending a meeting.

((2) A communication from the director to the board shall upon the
request of the director be read to the board at its next meeting and
the fact that the communication was read shall be noted in the
minutes.)

NEW SECTION. Sec. 60. A new section is added to chapter 31.12 RCW
to read as follows:

The director may place a credit union under supervisory direction
in accordance with sections 61 through 63 of this act, appoint a
conservator for a credit union in accordance with sections 64 through
67 of this act, appoint a liquidating agent for a credit union in
accordance with RCW 31.12.675 and 31.12.685 (as recodified by this
act), or appoint a receiver for a credit union in accordance with
sections 70 through 86 of this act, if the credit union:

(1) Consents to the action;

(2) Has failed to comply with the requirements of the director
while the credit union is under supervisory direction;

(3) Has committed or is about to commit a material violation of law
or an unsafe or unsound practice, and such violation or practice has
caused or is likely to cause an unsafe or unsound condition at the
credit union; or

(4) Is in an unsafe or unsound condition.
NEW SECTION. Sec. 61. A new section is added to chapter 31.12 RCW to read as follows:

(1) As authorized by section 60 of this act, the director may determine to place a credit union under supervisory direction. Upon such a determination, the director shall notify the credit union in writing of:

(a) The director’s determination; and
(b) Any requirements that must be satisfied before the director shall terminate the supervisory direction.

(2) The credit union must comply with the requirements of the director as provided in the notice. If the credit union fails to comply with the requirements, the director may appoint a conservator, liquidating agent, or receiver for the credit union, in accordance with this chapter. The director may appoint a representative to supervise the credit union during the period of supervisory direction.

(3) All costs incident to supervisory direction will be a charge against the assets of the credit union to be allowed and paid as the director may determine.

NEW SECTION. Sec. 62. A new section is added to chapter 31.12 RCW to read as follows:

During the period of supervisory direction, the director may prohibit the credit union from engaging in any of the following acts without prior approval:

(1) Disposing of, conveying, or encumbering any of its assets;
(2) Withdrawing any of its accounts at other financial institutions;
(3) Lending any of its funds;
(4) Investing any of its funds;
(5) Transferring any of its property; or
(6) Incurring any debt, obligation, or liability.

NEW SECTION. Sec. 63. A new section is added to chapter 31.12 RCW to read as follows:

During the period of supervisory direction, the credit union may request the director to review an action taken or proposed to be taken by the representative, specifying how the action is not in the best interests of the credit union. The request stays the action, pending the director’s review of the request.
NEW SECTION. Sec. 64. A new section is added to chapter 31.12 RCW to read as follows:

(1) As authorized by section 60 of this act, the director may, upon due notice and hearing, appoint a conservator for a credit union. The director may appoint himself or herself or another qualified party as conservator of the credit union. The conservator shall immediately take charge of the credit union and all of its property, books, records, and effects.

(2) The conservator shall conduct the business of the credit union and take such steps toward the removal of the causes and conditions that have necessitated the appointment of a conservator, as the director may direct. The conservator is authorized to, without limitation:

(a) Take all necessary measures to preserve, protect, and recover any assets or property of the credit union, including any claim or cause of action belonging to or which may be asserted by the credit union, and administer the same in his or her own name as conservator; and

(b) File, prosecute, and defend any suit that has been filed or may be filed by or against the credit union that is deemed by the conservator to be necessary to protect all of the interested parties or a property affected thereby.

The conservator shall make such reports to the director from time to time as may be required by the director.

(3) All costs incident to conservatorship will be a charge against the assets of the credit union to be allowed and paid as the director may determine.

(4) If at any time the director determines that the credit union is not in condition to continue business under the conservator in the interest of its share account holders, depositors, or creditors, and grounds exist under section 60 of this act, the director may proceed with appointment of a liquidating agent or receiver in accordance with this chapter.

NEW SECTION. Sec. 65. A new section is added to chapter 31.12 RCW to read as follows:

During the period of conservatorship, the credit union may request the director to review an action taken or proposed to be taken by the conservator, specifying how the action is not in the best interest of
NEW SECTIO. Sec. 66. A new section is added to chapter 31.12 RCW to read as follows:

Any suit filed against a credit union or its conservator, during the period of conservatorship, must be brought in the superior court of Thurston county. A conservator for a credit union may file suit in any superior court or other court of competent jurisdiction against any person for the purpose of preserving, protecting, or recovering any asset or property of the credit union, including, but not limited to, any claims or causes of action belonging to or asserted by the credit union.

NEW SECTIO. Sec. 67. A new section is added to chapter 31.12 RCW to read as follows:

The conservator shall serve until the purposes of the conservatorship have been accomplished. If rehabilitated, the credit union must be returned to management or new management under such conditions as the director may determine.

Sec. 68. RCW 31.12.675 and 1994 c 92 s 218 are each amended to read as follows:

(1) The articles of incorporation of a credit union may be suspended or revoked, the credit union placed in involuntary liquidation, and a liquidating agent appointed upon a finding by the director that the credit union is insolvent.

(2) Except as otherwise provided in this chapter, the director, before suspending or revoking the articles and placing the credit union in liquidation, shall issue and serve notice on the credit union an order directing the credit union to show cause why its articles of incorporation should not be suspended or revoked, in accordance with chapter 34.05 RCW.

(3) If the credit union fails to adequately show cause, the articles of incorporation shall be suspended or revoked and the...
credit union placed in involuntary liquidation. The) director shall
serve ((on)) the credit union with
an order directing the suspension or
revocation ((and an order directing the)) of the articles of
incorporation, placing the credit union in involuntary liquidation
((and appointment of)), appointing a liquidating agent under this
section and RCW 31.12.685 (as recodified by this act), and providing a
statement of the findings on which the order is based.

((4))) (3) The suspension or revocation ((shall)) must be
immediate and complete. Once the articles of incorporation are
suspended or revoked, the credit union shall cease conducting business.
The credit union may not accept any payment ((on)) to share((s)) or
deposit((s)) accounts, may not grant or pay out any new or previously
approved loans, may not invest any of its assets, and may not declare
or pay out any previously declared dividends. The liquidating agent of
a credit union whose articles have been suspended or revoked may accept
payments on loans previously paid out and may accept income from
investments already made.

Sec. 69. RCW 31.12.685 and 1994 c 92 s 219 are each amended to
read as follows:

(1) ((The director shall designate the liquidating agent in the
order directing the involuntary liquidation of the credit union under
RCW 31.12.675.)) On receipt of the order placing the credit union in
involuntary liquidation, the officers and directors of the credit union
((concerned)) shall deliver to the liquidating agent possession and
control of all books, records, assets, and property of the credit
union.

(2) The liquidating agent shall proceed to convert the assets to
cash, collect all debts due to the credit union and wind up its affairs
in accordance with ((the)) any instructions and procedures issued by
the director. If a liquidating agent agrees to absorb and serve the
membership of ((a distressed)) the credit union, the director may
approve a pooling of assets and liabilities rather than a distribution
of assets.

(3) Each share account holder and depositor at the credit union is
entitled to a proportionate allocation of the assets in liquidation
after all shares, deposits, and debts have been paid.
The proportionate allocation shall be based on account balances as of a date determined by the board. For the purposes of liquidation, shares and deposits are equivalent.

(4) The liquidating agent shall cause a notice of liquidation to be published (notice of liquidation) once a week for three consecutive weeks in a newspaper of general circulation in the county in which the principal place of business of the (liquidating) credit union is located. The notice of liquidation (shall) must inform creditors of the (liquidating) credit union on how to make a claim upon the liquidating agent and that if a claim is not made upon the liquidating agent within thirty days of the last date of publication the creditor’s claim (shall be) is barred. The liquidating agent shall provide personal notice of liquidation to the creditors of record, informing them that if they fail to make a claim upon the liquidating agent within thirty days of the service of the notice, the creditor’s claim (shall be) is barred. If a creditor fails to make a claim upon the liquidating agent within the times required to be specified in the notices of liquidation the creditor’s claim (shall be) is barred. All contingent liabilities of the (liquidated) credit union (shall be) are discharged upon the director’s order to liquidate the credit union. The liquidating agent shall, upon completion, certify to the director that the distribution or pooling of assets of the credit union is complete.

NEW SECTION. Sec. 70. A new section is added to chapter 31.12 RCW to read as follows:

As authorized by section 60 of this act, the director may without prior notice appoint a receiver to take possession of a credit union. The director may appoint the national credit union administration or other qualified party as receiver. Upon appointment, the receiver is authorized to act without bond. Upon acceptance of the appointment, the receiver shall have and possess all the powers and privileges provided by the laws of this state with respect to the receivership of a credit union, and be subject to all the duties of and restrictions applicable to such a receiver, except insofar as such powers, privileges, duties, or restrictions are in conflict with any applicable provision of the federal credit union act.

Upon taking possession of the credit union, the receiver shall give written notice to the directors of the credit union and to all persons
having possession of any assets of the credit union. No person with
knowledge of the taking of possession by the receiver shall have a lien
or charge for any payment advanced, clearance made, or liability
incurred against any of the assets of the credit union, after the
receiver takes possession, unless approved by the receiver.

NEW SECTION. Sec. 71. A new section is added to chapter 31.12 RCW
to read as follows:
Within ten days after the receiver takes possession of a credit
union’s assets, the credit union may serve notice upon the receiver to
appear before the superior court of the county in which the principal
place of business of the credit union is located and at a time to be
fixed by the court, which may not be less than five or more than
fifteen days from the date of the service of the notice, to show cause
why the credit union should not be restored to the possession of its
assets.

The court shall summarily hear and dismiss the complaint if it
finds that the receiver was appointed for cause. However, if the court
finds that no cause existed for appointment of the receiver, the court
shall require the receiver to restore the credit union to possession of
its assets and enjoin the director from further appointment of a
receiver for the credit union without cause.

NEW SECTION. Sec. 72. A new section is added to chapter 31.12 RCW
to read as follows:
Upon taking possession of a credit union, the receiver shall
proceed to collect the assets of the credit union and preserve,
administer, and liquidate its business and assets.

With the approval of the Thurston county superior court or the
superior court of the county in which the principal place of business
of the credit union is located, the receiver may sell, compound, or
compromise bad or doubtful debts, and upon such terms as the court may
direct, borrow, mortgage, pledge, or sell all or any part of the real
and personal property of the credit union. The receiver may deliver to
each purchaser or lender an appropriate deed, mortgage, agreement of
pledge, or other instrument of title or security. The receiver may
employ an attorney or other assistants to assist in carrying out the
receivership, subject to such surety bond as the director may require.
The premium for any such bond must be paid out of the assets of the credit union.

In carrying out the receivership, the receiver may without limitation arrange for the merger or consolidation of the credit union in receivership with another credit union, out-of-state credit union, or federal credit union, or may arrange for the purchase of the credit union’s assets and the assumption of its liabilities by such a credit union, in whole or in part, or may arrange for such a transaction with another type of financial institution as may be otherwise permitted by law. The receiver shall give preference to transactions with a credit union or a federal credit union that has its principal place of business in this state.

NEW SECTION. Sec. 73. A new section is added to chapter 31.12 RCW to read as follows:

The receiver shall publish once a week for four consecutive weeks in a newspaper of general circulation in the county where the credit union’s principal place of business is located, a notice requiring all persons having claims against the credit union to file proof of claim not later than ninety days from the date of the first publication of the notice. The receiver shall mail similar notices to all persons whose names appear as creditors upon the books of the credit union. The assets of the credit union are not subject to contingent claims.

After the expiration of the time fixed in the notice, the receiver has no power to accept any claim except the claim of a depositor or share account holder, and all other claims are barred. Claims of depositors or share account holders may be presented after the expiration of the time fixed in the notice and may be approved by the receiver. If such a claim is approved, the depositor or share account holder is entitled to its proportion of prior liquidation dividends, if sufficient funds are available for it, and will share in the distribution of the remaining assets.

The receiver may approve or reject any claim, but shall serve notice of rejection upon the claimant by mail or personally. An affidavit of service of the notice of rejection will serve as prima facie evidence that notice was given. No action may be brought on any claim after three months from the date of service of the notice of rejection.
NEW SECTION. Sec. 74. A new section is added to chapter 31.12 RCW to read as follows:

Upon taking possession of the credit union, the receiver shall make an inventory of the assets and file the list in the office of the county clerk. Upon the expiration of the time fixed for the presentation of claims, the receiver shall make a list of claims presented, segregating those approved and those rejected, to be filed in the office of the county clerk. The receiver shall also make and file with the office of the county clerk a supplemental list of claims at least fifteen days before the declaration of any liquidation dividend, and in any event at least every six months.

Objection may be made by any interested person to any claim approved by the receiver. Objections to claims approved by the receiver will be resolved by the court after providing notice to both the claimant and objector, as the court may prescribe.

NEW SECTION. Sec. 75. A new section is added to chapter 31.12 RCW to read as follows:

All expenses incurred by the receiver in relation to the receivership of a credit union, including, but not limited to, reasonable attorneys’ fees, become a first charge upon the assets of the credit union. The charges shall be fixed and determined by the receiver, subject to the approval of the court.

NEW SECTION. Sec. 76. A new section is added to chapter 31.12 RCW to read as follows:

At any time after the expiration of the date fixed for the presentation of claims, the receiver, subject to the approval of the court, may declare one or more liquidation dividends out of the funds remaining after the payment of expenses.

NEW SECTION. Sec. 77. A new section is added to chapter 31.12 RCW to read as follows:

When all expenses of the receivership have been paid, as well as all proper claims of share account holders, depositors, and other creditors, and proper provision has been made for unclaimed or unpaid debts and liquidation dividends, and assets of the credit union still remain, the receiver shall wind up the affairs of the credit union and distribute its assets to those entitled to them. Each share account
holder and depositor at the credit union is entitled to a proportionate share of the assets remaining. The proportionate allocation shall be based on account balances as of a date determined by the board. For the purposes of liquidation, shares and deposits are equivalent.

NEW SECTION. Sec. 78. A new section is added to chapter 31.12 RCW to read as follows:

Any liquidation dividends to share account holders, depositors, or other creditors of the credit union remaining uncalled for and unpaid in the hands of the receiver for six months after the order of final distribution, must be deposited in a financial institution to each share account holder’s, depositor’s, or creditor’s credit. The funds must be held in trust for the benefit of the persons entitled to the funds and, subject to the supervision of the court, must be paid by the receiver to them upon presentation of satisfactory evidence of their right to the funds.

NEW SECTION. Sec. 79. A new section is added to chapter 31.12 RCW to read as follows:

(1) The receiver shall inventory, package, and seal uncalled for and unclaimed personal property left with the credit union, including, but not limited to, property held in safe deposit boxes, and arrange for the packages to be held in safekeeping. The credit union, its directors and officers, and the receiver, shall be relieved of responsibility and liability for the property held in safekeeping. The receiver shall promptly send to each person in whose name the property stood on the books of the credit union, at the person’s last known address, a registered letter notifying the person that the property will be held in the person’s name for a period of not less than two years.

(2) After the expiration of two years from the date of mailing the notice, the receiver shall promptly send to each person in whose name the property stood on the books of the credit union, at the person’s last known address, a registered letter providing notice of sale. The letter must indicate that the receiver will sell the property set out in the notice, at a public auction at a specified time and place, not less than thirty days after the date of mailing the letter. The receiver may sell the property unless the person, prior to the sale, presents satisfactory evidence of the person’s right to the property.
A notice of the time and place of the sale must be published once within ten days prior to the sale in a newspaper of general circulation in the county where the sale is to be held.

(3) Any property, for which the address of the owner or owners is not known, may be sold at public auction after it has been held by the receiver for two years. A notice of the time and place of the sale must be published once within ten days prior to the sale in a newspaper of general circulation in the county where the sale is to be held.

(4) Whenever the personal property left with the credit union consists either wholly or in part, of documents, letters, or other papers of a private nature, the documents, letters, or papers may not be sold, but must be retained by the receiver and may be destroyed after a period of five years.

NEW SECTION. Sec. 80. A new section is added to chapter 31.12 RCW to read as follows:

The proceeds of the sale less any amounts for costs and charges incurred in safekeeping and sale must be deposited by the receiver in a financial institution, in trust for the benefit of the person entitled to the property. The sale proceeds must be paid by the receiver to the person upon presentation of satisfactory evidence of the person’s right to the funds.

NEW SECTION. Sec. 81. A new section is added to chapter 31.12 RCW to read as follows:

Upon the completion of a receivership through merger, purchase of assets and assumption of liabilities, or liquidation, the director shall terminate the credit union’s authority to conduct business and certify that fact to the secretary of state. Upon certification, the credit union shall cease to exist and the secretary of state shall note that fact upon his or her records.

NEW SECTION. Sec. 82. A new section is added to chapter 31.12 RCW to read as follows:

If at any time after a receiver is appointed, the director determines that all material deficiencies at the credit union have been corrected, and that the credit union is in a safe and sound condition to resume conducting business, the director may terminate the receivership and permit the credit union to reopen upon such terms and
conditions as the director may prescribe. Before being permitted to reopen, the credit union must pay all of the expenses of the receiver.

NEW SECTION. Sec. 83. A new section is added to chapter 31.12 RCW to read as follows:

The receiver or director, as appropriate, may at any time after the expiration of one year from the order of final distribution, or from the date when the receivership has been completed, destroy any of the remaining files, records, documents, books of account, or other papers of the credit union that appear to be obsolete or unnecessary for future reference as part of the receivership files.

NEW SECTION. Sec. 84. A new section is added to chapter 31.12 RCW to read as follows:

The pendency of any proceedings for judicial review of the appointment of a receiver may not operate to prevent the payment or acquisition of the share and deposit liabilities of the credit union by the national credit union administration or other insurer or guarantor of the share and deposit liabilities of the credit union. During the pendency of the proceedings, the receiver shall make credit union facilities, books, records, and other relevant credit union data available to the insurer or guarantor as may be necessary or appropriate to enable the insurer or guarantor to pay out or to acquire the insured or guaranteed share and deposit liabilities of the credit union. The national credit union administration and any other insurer or guarantor of the credit union’s share and deposit liabilities, together with their directors, officers, agents, and employees, and the director and receiver and their agents and employees, will be free from liability to the credit union, its directors, members, and creditors, for or on account of any action taken in connection with the receivership.

NEW SECTION. Sec. 85. A new section is added to chapter 31.12 RCW to read as follows:

No receiver may be appointed by any court for any credit union, except that a court otherwise having jurisdiction may in case of imminent necessity appoint a temporary receiver to take possession of and preserve the assets of the credit union. Immediately upon appointment, the clerk of the court shall notify the director in
writing of the appointment and the director shall appoint a receiver to
take possession of the credit union and the temporary receiver shall
upon demand surrender possession of the assets of the credit union to
the receiver. The receiver may in due course pay the temporary
receiver out of the assets of the credit union, subject to the approval
of the court.

NEW SECTION. Sec. 86. A new section is added to chapter 31.12 RCW
to read as follows:

Every transfer of a credit union’s property or assets, and every
assignment by a credit union for the benefit of creditors, made in
contemplation of insolvency, or after it has become insolvent, to
intentionally prefer one creditor over another, or to intentionally
prevent the equal distribution of its property and assets among its
creditors, is void. Every credit union director, officer, or employee
making any such transfer is guilty of a felony.

An officer, director, or employee of a credit union who
fraudulently receives any share or deposit on behalf of the credit
union, knowing that the credit union is insolvent, is guilty of a
felony.

Sec. 87. RCW 31.12.635 and 1994 c 92 s 215 are each amended to
read as follows:

(1) It is unlawful for a director, supervisory committee member,
officer, employee, or agent of a credit union to knowingly violate or
consent to a violation of this chapter. Unless otherwise provided by
law, a violation of this subsection is a misdemeanor under chapter
9A.20 RCW.

(2) It is unlawful for a person to perform any of the following acts:

(a) To knowingly subscribe to, make, or cause to be made a false
statement or entry in the books of a credit union;

(b) To knowingly make a false statement or entry in a report
required to be made to the director; or

(c) To knowingly exhibit a false or fictitious paper, instrument,
or security to a person authorized to examine a credit union.

(2) A violation of this subsection is a class C felony under chapter 9A.20 RCW.
NEW SECTION. Sec. 88. The following acts or parts of acts are each repealed:

1. RCW 31.12.095 and 1994 c 92 s 183;
2. RCW 31.12.165 and 1984 c 31 s 18;
3. RCW 31.12.206 and 1994 c 92 s 189 & 1984 c 31 s 22;
4. RCW 31.12.315 and 1994 c 256 s 81 & 1984 c 31 s 33;
5. RCW 31.12.355 and 1994 c 92 s 193;
6. RCW 31.12.376 and 1984 c 31 s 39;
7. RCW 31.12.395 and 1984 c 31 s 41;
8. RCW 31.12.415 and 1994 c 256 s 85, 1994 c 92 s 196, & 1984 c 31 s 43;
9. RCW 31.12.455 and 1994 c 92 s 202 & 1984 c 31 s 49;
10. RCW 31.12.475 and 1994 c 92 s 203 & 1984 c 31 s 51;
11. RCW 31.12.506 and 1994 c 92 s 203 & 1984 c 31 s 52;
13. RCW 31.12.645 and 1984 c 31 s 66;
14. RCW 31.12.903 and 1984 c 31 s 77;
15. RCW 31.12.904 and 1984 c 31 s 80;
16. RCW 31.12.905 and 1994 c 92 s 224 & 1984 c 31 s 81; and
17. RCW 43.320.125 and 1996 c 274 s 1.

NEW SECTION. Sec. 89. The following sections are codified or recodified within chapter 31.12 RCW in the following order:

RCW 31.12.005.

1. The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Credit Union Organization":
   RCW 31.12.015;
   RCW 31.12.025;
   RCW 31.12.035;
   RCW 31.12.055;
   RCW 31.12.065;
   RCW 31.12.075; and
   RCW 31.12.085.

2. The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Corporate Governance":
   RCW 31.12.105;
(3) The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Membership":

RCW 31.12.045;
RCW 31.12.145;
RCW 31.12.155; and

(4) The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Powers of Credit Unions":

RCW 31.12.125;
RCW 31.12.136;
RCW 31.12.037; and
RCW 31.12.039.

(5) The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Members’ Accounts":

RCW 31.12.385; and

(6) The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Loans to Members":

RCW 31.12.406; and
(7) The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Investments":

- RCW 31.12.425; and

(8) The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Reserves":

- RCW 31.12.445; and

(9) The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Mergers, Conversions, and Voluntary Liquidations":

- RCW 31.12.695;
- RCW 31.12.705;
- RCW 31.12.715;
- RCW 31.12.526; and

(10) The following sections are recodified and designated as a subchapter of chapter 31.12 RCW under the subchapter designation "Examination and Supervision":

- RCW 31.12.516;
- RCW 31.12.545;
- RCW 31.12.555;
- RCW 31.12.565;
- section 49 of this act;
- section 50 of this act;
- RCW 31.12.215;
- RCW 31.12.575;
- RCW 31.12.585;
- RCW 31.12.595;
- RCW 31.12.605;
- RCW 31.12.615;
- RCW 31.12.625;
- section 57 of this act;
- RCW 31.12.655;
- RCW 31.12.665;
- section 60 of this act;
section 61 of this act;
section 62 of this act;
section 63 of this act;
section 64 of this act;
section 65 of this act;
section 66 of this act;
section 67 of this act;
RCW 31.12.675;
RCW 31.12.685;
section 70 of this act;
section 71 of this act;
section 72 of this act;
section 73 of this act;
section 74 of this act;
section 75 of this act;
section 76 of this act;
section 77 of this act;
section 78 of this act;
section 79 of this act;
section 80 of this act;
section 81 of this act;
section 82 of this act;
section 83 of this act;
section 84 of this act;
section 85 of this act; and
section 86 of this act.
(11) The following sections are recodified and designated as a
subchapter of chapter 31.12 RCW under the subchapter designation
"Miscellaneous":
RCW 31.12.720;
RCW 31.12.740;
RCW 31.12.735;
RCW 31.12.635;
Section 92 of this act; and
RCW 31.12.902.

NEW SECTION. Sec. 90. Section 35 of this act takes effect July 1, 1998.
NEW SECTION. Sec. 91. Section 50 of this act takes effect January 1, 1999.

NEW SECTION. Sec. 92. Except for sections 35 and 50 of this act, this act takes effect January 1, 1998.

NEW SECTION. Sec. 93. If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

Passed the Senate April 21, 1997.
Passed the House April 8, 1997.
Approved by the Governor May 16, 1997.
Filed in Office of Secretary of State May 16, 1997.