

CERTIFICATION OF ENROLLMENT

HOUSE BILL 1366

Chapter 83, Laws of 2001

57th Legislature
2001 Regular Legislative Session

CREDIT UNIONS

EFFECTIVE DATE: 7/22/01

Passed by the House March 9, 2001
Yeas 98 Nays 0

FRANK CHOPP
**Speaker of the House of
Representatives**

CLYDE BALLARD
**Speaker of the House of
Representatives**

Passed by the Senate April 6, 2001
Yeas 49 Nays 0

BRAD OWEN
President of the Senate

Approved April 19, 2001

GARY LOCKE
Governor of the State of Washington

CERTIFICATE

We, Timothy A. Martin and Cynthia Zehnder, Co-Chief Clerks of the House of Representatives of the State of Washington, do hereby certify that the attached is **HOUSE BILL 1366** as passed by the House of Representatives and the Senate on the dates hereon set forth.

CYNTHIA ZEHNDER
Chief Clerk

TIMOTHY A. MARTIN
Chief Clerk

FILED

April 19, 2001 - 4:46 p.m.

**Secretary of State
State of Washington**

HOUSE BILL 1366

Passed Legislature - 2001 Regular Session

State of Washington 57th Legislature 2001 Regular Session

By Representatives Hatfield, Benson and Keiser; by request of
Department of Financial Institutions

Read first time 01/24/2001. Referred to Committee on Financial
Institutions & Insurance.

1 AN ACT Relating to credit unions; amending RCW 31.12.005,
2 31.12.065, 31.12.085, 31.12.105, 31.12.115, 31.12.225, 31.12.235,
3 31.12.255, 31.12.267, 31.12.326, 31.12.335, 31.12.365, 31.12.367,
4 31.12.402, 31.12.404, 31.12.426, 31.12.428, 31.12.436, 31.12.438,
5 31.12.461, 31.12.464, 31.12.467, 31.12.471, 31.12.474, 31.12.516,
6 31.12.545, 31.12.565, 31.12.567, 31.12.569, 31.12.571, 31.12.575,
7 31.12.585, 31.12.595, 31.12.625, 31.13.010, and 31.13.020; adding a new
8 section to chapter 31.12 RCW; decodifying RCW 31.13.900; and repealing
9 RCW 31.12.275, 31.12.407, 31.12.445, 31.12.448, 31.12.555, 31.12.605,
10 31.12.615, 31.12.627, 31.13.030, 31.13.040, and 31.13.050.

11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

12 **Sec. 1.** RCW 31.12.005 and 1997 c 397 s 2 are each amended to read
13 as follows:

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

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

17 (2) "Board officer" means an officer of the board elected under RCW
18 31.12.265(1).

1 (3) "Branch" of a credit union, out-of-state credit union, or
2 foreign credit union means any facility that meets all of the following
3 criteria:

4 ~~(a) The facility is a staffed physical facility ((where shares and~~
5 ~~deposits are taken. The term does not include an automated teller~~
6 ~~machine or a machine permitting members to communicate with credit~~
7 ~~union employees who are not located at the site of the machine, unless~~
8 ~~employees of the credit union at the site of the machine take shares~~
9 ~~and deposits on a regular basis. A facility is not deemed to be a~~
10 ~~branch of a credit union, regardless of any affiliation, accommodation~~
11 ~~arrangement, or other relationship between the organization owning or~~
12 ~~leasing the facility and the credit union, unless the facility is));~~

13 (b) The facility is owned or leased in whole or part~~((, directly or~~
14 ~~indirectly,))~~ by the credit union or its credit union service
15 organization; and

16 ~~(c) Deposits and withdrawals may be made, or shares purchased,~~
17 through staff at the facility.

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

20 ~~(5))~~ "Capital" means a credit union's reserves, undivided
21 earnings, and allowance~~((s))~~ for loan and lease losses, and other items
22 that may be included under section 16 of this act or by rule of the
23 director.

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

26 ~~(7))~~ (5) "Credit union" means a credit union organized and
27 operating under this chapter.

28 ~~((8))~~ (6) "Credit union service organization" means an
29 organization that a credit union has invested in pursuant to RCW
30 31.12.436(8), or a credit union service organization invested in by an
31 out-of-state ~~((credit union or)),~~ federal, or foreign credit union.

32 ~~((9))~~ (7) "Director" means the director of financial
33 institutions.

34 ~~((10))~~ (8) "Federal credit union" means a credit union organized
35 and operating under the laws of the United States.

36 ~~((11))~~ (9) "Financial institution" means any commercial bank,
37 trust company, savings bank, or savings and loan association, whether
38 state or federally chartered, and any credit union, out-of-state credit
39 union, or federal credit union.

1 (~~(12)~~) (10) "Foreign credit union" means a credit union organized
2 and operating under the laws of another country or other foreign
3 jurisdiction.

4 (~~(13)~~) (11) "Insolvency" means:

5 (a) If, under generally accepted accounting principles, the
6 recorded value of the credit union's assets are less than its
7 obligations to its share account holders, depositors, creditors, and
8 others; or

9 (b) If it is likely that the credit union will be unable to pay its
10 obligations or meet its share account holders' and depositors' demands
11 in the normal course of business.

12 (~~(14)~~) (12) "Loan" means any loan, overdraft line of credit,
13 extension of credit, or lease, in whole or in part.

14 (~~(15)~~) (13) "Material violation of law" means:

15 (a) If the credit union or person has violated a material provision
16 of:

17 (i) Law;

18 (ii) Any cease and desist order issued by the director;

19 (iii) Any condition imposed in writing by the director in
20 connection with the approval of any application or other request of the
21 credit union; or

22 (iv) Any written agreement entered into with the director;

23 (b) If the credit union or person has concealed any of the credit
24 union's books, papers, records, or assets, or refused to submit the
25 credit union's books, papers, records, or affairs for inspection to any
26 examiner of the state or, as appropriate, to any examiner of the
27 national credit union administration; or

28 (c) If the person has breached his or her fiduciary duty to the
29 credit union.

30 (~~(16)~~) (14) "Membership share" means an initial share (~~(required~~
31 ~~to be purchased)~~) that a credit union may require a person to purchase
32 in order to establish and maintain membership in a credit union.

33 (~~(17)~~) (15) "Net (~~capital~~) worth" means a credit union's
34 capital, less the allowance for loan and lease losses.

35 (~~(18)~~) (16) "Operating officer" means an (~~officer~~) employee of
36 a credit union designated (~~under~~) as an officer pursuant to RCW
37 31.12.265(2).

1 (~~(19)~~) (17) "Organization" means a corporation, partnership,
2 association, limited liability company, trust, or other organization or
3 entity.

4 (~~(20)~~) (18) "Out-of-state credit union" means a credit union
5 organized and operating under the laws of another state or United
6 States territory or possession.

7 (~~(21)~~) (19) "Person" means an organization or a natural person
8 including, but not limited to, a sole proprietorship.

9 (~~(22)~~) (20) "Principally" or "primarily" means more than one-
10 half.

11 (~~(23)~~) (21) "Senior operating officer" includes:

12 (a) An operating officer who is a vice-president or above; and

13 (b) Any employee who has policy-making authority.

14 (22) "Small credit union" means a credit union with up to ten
15 million dollars in total assets.

16 (23) "Unsafe or unsound condition" means, but is not limited to:

17 (a) If the credit union is insolvent;

18 (b) If the credit union has incurred or is likely to incur losses
19 that will deplete all or substantially all of its (~~capital~~) net
20 worth; or

21 (c) If the credit union is in imminent danger of losing its share
22 and deposit insurance or guarantee.

23 (24) "Unsafe or unsound practice" means any action, or lack of
24 action, which is contrary to generally accepted standards of prudent
25 operation, the likely consequences of which, if continued, would be
26 abnormal risk of loss or danger to a credit union, its members, or an
27 organization insuring or guaranteeing its shares and deposits.

28 **Sec. 2.** RCW 31.12.065 and 1997 c 397 s 7 are each amended to read
29 as follows:

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

33 (a) The name of the credit union;

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

35 (c) Reasonable qualifications for membership in the credit union,
36 including, but not limited to, the minimum number of shares, and the
37 payment of a membership fee, if any, required for membership, and the
38 procedures for expelling a member;

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

4 (e) Any qualification for eligibility to serve on the credit
5 union's board(~~(7)~~) or supervisory committee;

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

8 (g) The frequency of regular meetings of the board and the
9 supervisory committee, and the manner in which members of the board or
10 supervisory committee (~~(are to)~~) will be notified of meetings;

11 (~~(The powers and duties of board officers;~~

12 ~~(i))~~) The timing of the annual membership meeting;

13 (~~(j))~~) (i) The manner in which members may call a special
14 membership meeting;

15 (~~(k))~~) (j) The manner in which members (~~(are to)~~) will be notified
16 of membership meetings;

17 (~~(l))~~) (k) The number of members constituting a quorum at a
18 membership meeting;

19 (~~(m))~~) (l) Provisions, if any, for the indemnification of
20 directors, supervisory committee members, officers, employees, and
21 others by the credit union, if not included in the articles of
22 incorporation; and

23 (~~(n))~~) (m) Any other provision which is not inconsistent with this
24 chapter.

25 (2) Applicants shall submit the bylaws in duplicate to the
26 director.

27 **Sec. 3.** RCW 31.12.085 and 1997 c 397 s 9 are each amended to read
28 as follows:

29 (1) Upon approval under RCW 31.12.075(2), the director shall
30 deliver a copy of the articles of incorporation to the secretary of
31 state for filing. Upon receipt of the approved articles of
32 incorporation and a twenty dollar filing fee provided by the
33 applicants, the secretary of state shall file the articles of
34 incorporation.

35 (2) Upon filing of the approved articles of incorporation by the
36 secretary of state, the persons named in the articles of incorporation
37 and their successors may conduct business as a credit union, having the
38 powers, duties, and obligations set forth in this chapter. A credit

1 union may not conduct business until the articles have been filed by
2 the secretary of state.

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

10 **Sec. 4.** RCW 31.12.105 and 1997 c 397 s 10 are each amended to read
11 as follows:

12 A credit union's articles of incorporation may be amended by the
13 board with the approval of the director. Complete applications for
14 amendments to the articles must be approved or denied by the director
15 within sixty days of receipt. Amendments to a credit union's articles
16 of incorporation must conform with RCW 31.12.055.

17 Upon approval, the director shall promptly deliver the articles'
18 amendments, including any necessary filing fees paid by the applicant,
19 to the secretary of state for filing. ((Amendments to a credit union's
20 articles of incorporation must conform with RCW 31.12.055.)) The
21 articles' amendments are effective upon filing of the amendments by the
22 secretary of state.

23 **Sec. 5.** RCW 31.12.115 and 1997 c 397 s 11 are each amended to read
24 as follows:

25 (1) A credit union's field of membership bylaws may be amended by
26 the board with approval of the director. ((All)) Complete applications
27 to amend a credit union's field of membership bylaws must be approved
28 or denied by the director within sixty days of receipt.

29 (2) ((Bylaw amendments, other than those requiring the approval of
30 the director under subsection (1) of this section, may be approved at
31 any regular board meeting, or any special board meeting called for the
32 purpose of amending the credit union's bylaws)) A credit union's other
33 bylaws may be amended by the board.

34 (3) Any amendments to a credit union's bylaws must conform with RCW
35 31.12.065.

1 **Sec. 6.** RCW 31.12.225 and 1997 c 397 s 14 are each amended to read
2 as follows:

3 (1) The business and affairs of a credit union shall be managed by
4 a board of not less than five and not greater than fifteen directors.

5 (2) The directors must be elected at the credit union's annual
6 membership meeting. They shall hold their offices until their
7 successors are qualified and elected or appointed.

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

13 (4) Any ~~((vacancies))~~ vacancy on the board must be filled by an
14 interim director~~((s))~~ appointed by the board, unless the interim
15 director would serve a term of fewer than ninety days. Interim
16 directors appointed to fill vacancies created by expansion of the board
17 will serve until the next annual meeting of members. Other interim
18 directors will serve out the unexpired term of the former director,
19 unless provided otherwise in the credit union's bylaws.

20 (5) The board will ~~((meet as often as necessary, but))~~ have regular
21 meetings not less frequently than once each month.

22 **Sec. 7.** RCW 31.12.235 and 1997 c 397 s 15 are each amended to read
23 as follows:

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

27 (2) ~~((Unless reasonably excused by the board, a director shall no~~
28 ~~longer serve as a director if the))~~ (a) If a director is absent from
29 ((more than thirty-three percent)) four of the regular board meetings
30 in any twelve-month period in a term without being reasonably excused
31 by the board, the director shall no longer serve as a director for the
32 period remaining in the term.

33 (b) The board secretary shall promptly notify the director that he
34 or she shall no longer serve as a director. Failure to provide notice
35 does not affect the termination of the director's service under (a) of
36 this subsection.

1 (3) A director must meet any qualification requirements set forth
2 in the credit union's bylaws. If a director fails to meet these
3 requirements, the director shall no longer serve as a director.

4 (4) The operating officers and employees of the credit union may
5 serve as directors of the credit union, but only as permitted by the
6 credit union's bylaws. In no event may the operating officers and
7 employees of the credit union constitute a majority of the board.

8 **Sec. 8.** RCW 31.12.255 and 1997 c 397 s 17 are each amended to read
9 as follows:

10 The business and affairs of a credit union shall be managed by the
11 board of the credit union. The duties of the board include, but are
12 not limited to, the duties enumerated in this section. The duties
13 listed in subsection (1) of this section may not be delegated by the
14 credit union's board of directors. The duties listed in subsection (2)
15 of this section may be delegated to a committee, officer, or employee,
16 with appropriate reporting to the board.

17 (1) The board shall:

18 (a) Set the par value of shares, if any, of the credit union;

19 (b) Set the minimum number of shares, if any, required for
20 membership;

21 (c) Establish the loan policies under which loans may be
22 approved(~~(, including policies on any automated loan approval~~
23 ~~programs));~~

24 (d) Establish the conditions under which a member may be expelled
25 for cause;

26 (e) Fill vacancies on all committees except the supervisory
27 committee;

28 (f) Approve an annual operating budget (~~or financial plan~~) for
29 the credit union;

30 (g) Designate those persons or positions authorized to execute or
31 certify documents or records on behalf of the credit union;

32 (h) Review the supervisory committee's annual report; and

33 (i) Perform such other duties as the members may direct.

34 (2) In addition, unless delegated, the board shall:

35 (a) Act upon applications for membership in the credit union;

36 (b) Determine the maximum amount of shares and deposits that a
37 member may hold in the credit union;

1 (c) Declare dividends on shares and set the rate of interest on
2 deposits;

3 (d) Set the fees, if any, to be charged by the credit union to its
4 members for the right to be a member of the credit union and for
5 services rendered by the credit union;

6 (e) Determine the amount which may be loaned to a member together
7 with the terms and conditions of loans;

8 (f) Establish policies under which the credit union may borrow and
9 invest; and

10 (g) Approve the charge-off of credit union losses.

11 **Sec. 9.** RCW 31.12.267 and 1997 c 397 s 19 are each amended to read
12 as follows:

13 Directors ((and)), board officers, and senior operating officers
14 are deemed to stand in a fiduciary relationship to the credit union,
15 and must discharge the duties of their respective positions:

16 (1) In good faith;

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

19 (3) In a manner the director or ((board)) officer reasonably
20 believes to be in the best interests of the credit union.

21 **Sec. 10.** RCW 31.12.326 and 1997 c 397 s 22 are each amended to
22 read as follows:

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

30 (2)(a) If a supervisory committee member is absent from more than
31 one-third of the committee meetings in any twelve-month period in a
32 term without being reasonably excused by the committee, the member
33 shall no longer serve as a member of the committee for the period
34 remaining in the term.

35 (b) The supervisory committee shall promptly notify the member that
36 he or she shall no longer serve as a committee member. Failure to

1 provide notice does not affect the termination of the member's service
2 under (a) of this subsection.

3 (3) A supervisory committee member must be a natural person and a
4 member of the credit union. If a member of the supervisory committee
5 ceases to be a member of the credit union, the ~~((member's office~~
6 ~~becomes vacant))~~ member shall no longer serve as a committee member.
7 The chairperson of the supervisory committee may not serve as a board
8 officer.

9 (4) Any vacancy on the committee must be filled by an interim
10 member appointed by the committee, unless the interim member would
11 serve a term of fewer than ninety days. Interim members appointed to
12 fill vacancies created by expansion of the committee will serve until
13 the next annual meeting of members. Other interim members may serve
14 out the unexpired term of the former member, unless provided otherwise
15 by the credit union's bylaws. However, if all positions on the
16 committee are vacant at the same time, the board may appoint interim
17 members to serve until the next annual membership meeting.

18 ~~((+3))~~ (5) No operating officer or employee of a credit union may
19 serve on the credit union's supervisory committee. No more than one
20 director may be a member of the supervisory committee at the same time,
21 unless provided otherwise by the credit union's bylaws. No member of
22 the supervisory committee may serve on the credit committee or
23 investment committee of the credit union while serving on the
24 supervisory committee.

25 **Sec. 11.** RCW 31.12.335 and 1997 c 397 s 23 are each amended to
26 read as follows:

27 (1) The supervisory committee of a credit union shall:
28 ~~((+1))~~ (a) Meet ((as often as necessary and)) at least quarterly;
29 ~~((+2))~~ (b) Keep fully informed as to the financial condition of
30 the credit union and the decisions of the credit union's board;
31 ~~((+3) Annually)~~ (c) Perform or arrange for a complete annual audit
32 of ((internal controls, loans, investments, cash, general ledger
33 accounts, including, but not limited to, income and expense, and)) the
34 credit union and a verification of its members' ((share and deposit))
35 accounts; and
36 ~~((+4))~~ (d) Report its findings and recommendations to the board
37 and make an annual report to members at each annual membership meeting.

1 (2) At least one supervisory committee member may attend each
2 regular board meeting.

3 **Sec. 12.** RCW 31.12.365 and 1997 c 397 s 25 are each amended to
4 read as follows:

5 (1) Directors and members of committees shall not receive
6 compensation for their service as directors and committee members.
7 However, this subsection does not prohibit directors or committee
8 members from receiving:

9 (a) Gifts of minimal value; and

10 (b) Insurance coverage or incidental services, available to
11 employees generally~~((, and gifts of minimal value))~~.

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

16 (3) Loans to directors and supervisory and credit committee members
17 may not be made under more favorable terms and conditions than those
18 made to members generally.

19 **Sec. 13.** RCW 31.12.367 and 1997 c 397 s 26 are each amended to
20 read as follows:

21 (1) Each credit union must be adequately insured against risk. In
22 addition, each director, officer, committee member, and employee of a
23 credit union must be adequately bonded ~~((in an amount and in accordance~~
24 ~~with conditions established by the director))~~.

25 (2) When ~~((the))~~ a credit union receives notice that its fidelity
26 bond coverage ~~((under subsection (1) of this section is))~~ will be
27 suspended or terminated, the ~~((board of the affected))~~ credit union
28 shall notify the director in writing ~~((within five days of receipt))~~
29 not less than thirty-five days prior to the effective date of the
30 notice of suspension or termination.

31 **Sec. 14.** RCW 31.12.402 and 1997 c 397 s 30 are each amended to
32 read as follows:

33 A credit union may:

34 (1) Issue shares to and receive deposits from its members in
35 accordance with RCW 31.12.416;

- 1 (2) Make loans to its members in accordance with RCW 31.12.426 and
2 31.12.428;
- 3 (3) Pay dividends (~~(or)~~) and interest to its members in accordance
4 with RCW 31.12.418;
- 5 (4) Impose reasonable charges for the services it provides to its
6 members;
- 7 (5) Impose financing charges and reasonable late charges in the
8 event of default on loans, subject to applicable law, and recover
9 reasonable costs and expenses, including, but not limited to,
10 collection costs, and reasonable attorneys' fees incurred both before
11 and after judgment, incurred in the collection of sums due, if provided
12 for in the note or agreement signed by the borrower;
- 13 (6) Acquire, lease, hold, assign, pledge, sell, or otherwise
14 dispose of interests in personal property and in real property in
15 accordance with RCW 31.12.438;
- 16 (7) Deposit and invest funds in accordance with RCW 31.12.436;
- 17 (8) Borrow money, up to a maximum of fifty percent of its total
18 shares, deposits, and net (~~(capital)~~) worth;
- 19 (9) Discount or sell any of its assets, or purchase any or all of
20 the assets of another credit union, out-of-state credit union, or
21 federal credit union. However, a credit union may not discount or sell
22 all, or substantially all, of its assets without the approval of the
23 director;
- 24 (10) Accept deposits of deferred compensation of its members;
- 25 (11) Act as fiscal agent for and receive payments on shares and
26 deposits from the federal government or this state, and any agency or
27 political subdivision thereof;
- 28 (12) Engage in activities and programs as requested by the federal
29 government, this state, and any agency or political subdivision
30 thereof, when the activities or programs are not inconsistent with this
31 chapter;
- 32 (13) Hold membership in credit unions, out-of-state credit unions,
33 or federal credit unions and in organizations controlled by or
34 fostering the interests of credit unions, including, but not limited
35 to, a central liquidity facility organized under state or federal law;
- 36 (14) Pay additional dividends (~~(or)~~) and interest to members, or an
37 interest rate refund to borrowers;
- 38 (15) Enter into lease agreements, lease contracts, and
39 lease-purchase agreements with members;

1 (16) (~~Procure for, or sell to its members~~) Act as insurance agent
2 or broker for the sale to members of:

3 (a) Group life, accident, health, and credit life and disability
4 insurance; and

5 (b) Other insurance that other types of Washington state-chartered
6 financial institutions are permitted to sell, on the same terms and
7 conditions that these institutions are permitted to sell such
8 insurance;

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

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

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

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

23 (21) Limit the personal liability of its directors in accordance
24 with provisions of its articles of incorporation that conform with RCW
25 23B.08.320;

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

30 (23) Exercise such incidental powers as are necessary or convenient
31 to enable it to conduct the business of a credit union.

32 **Sec. 15.** RCW 31.12.404 and 1997 c 397 s 31 are each amended to
33 read as follows:

34 (1) Notwithstanding any other provision of law, and in addition to
35 all powers and authorities, express or implied, that a credit union has
36 under the laws of this state, a credit union (~~may exercise any of~~)
37 has the powers and authorities (~~conferred as of~~) that a federal

1 credit union had on December 31, 1993, ((upon federal credit unions))
2 or a subsequent date not later than the effective date of this section.

3 (2) Notwithstanding any other provision of law, and in addition to
4 the powers and authorities ~~((conferred))~~, express or implied, that a
5 credit union has under subsection (1) of this section, ((the director
6 may, by rule, authorize)) a credit union((s to exercise any of)) has
7 the powers and authorities ~~((conferred at the time of the adoption of~~
8 ~~the rule upon federal credit unions))~~ that a federal credit union has,
9 and an out-of-state credit union operating a branch in Washington has,
10 subsequent to the effective date of this section, if the director finds
11 that the exercise of the power and authority serves the convenience and
12 advantage of members of credit unions, and maintains the fairness of
13 competition and parity between credit unions and federal or out-of-
14 state credit unions. However, a credit union:

15 (a) Must still comply with RCW 31.12.408; and

16 (b) Is not granted the field of membership powers or authorities of
17 any out-of-state credit union operating a branch in Washington.

18 (3) The restrictions, limitations, and requirements applicable to
19 specific powers or authorities of federal or out-of-state credit unions
20 apply to credit unions exercising those powers or authorities permitted
21 under this section but only insofar as the restrictions, limitations,
22 and requirements relate to the specific exercise of the powers or
23 authorities granted credit unions solely under this section.

24 (4) As used in this section, "powers and authorities" include
25 ~~((without limitation))~~, but are not limited to, powers and authorities
26 in corporate governance matters.

27 NEW SECTION. Sec. 16. A new section is added to chapter 31.12 RCW
28 to read as follows:

29 (1) A credit union may apply in writing to the director for
30 designation as a low-income credit union. The criteria for approval of
31 this designation are as follows:

32 (a) At least fifty percent of a substantial and well-defined
33 segment of the credit union's members or potential primary members earn
34 no more than eighty percent of the state or national median income,
35 whichever is higher;

36 (b) The credit union must submit an acceptable written plan on
37 marketing to and serving the well-defined segment;

1 (c) The credit union must agree to submit annual reports to the
2 director on its service to the well-defined segment; and

3 (d) The credit union must submit other information and satisfy
4 other criteria as may be required by the director.

5 (2)(a) Among other powers and authorities, a low-income credit
6 union may:

7 (i) Issue secondary capital accounts approved in advance by the
8 director upon application of the credit union; and

9 (ii) Accept shares and deposits from nonmembers.

10 (b) A secondary capital account is:

11 (i) Over one hundred thousand dollars, or a higher amount as
12 established by the director;

13 (ii) Nontransactional;

14 (iii) Owned by a nonnatural person; and

15 (iv) Subordinate to other creditors.

16 (3) The director may adopt rules for the organization and operation
17 of low-income credit unions including, but not limited to, rules
18 concerning secondary capital accounts and requiring disclosures to the
19 purchasers of the accounts.

20 **Sec. 17.** RCW 31.12.426 and 1997 c 397 s 34 are each amended to
21 read as follows:

22 (1) A credit union may make secured and unsecured loans to its
23 members under policies established by the board, subject to the loans
24 to one borrower limits provided for in RCW 31.12.428. Each loan must
25 be evidenced by records adequate to support enforcement or collection
26 of the loan and any review of the loan by the director. ~~((Business))~~
27 Loans must be in compliance with rules adopted by the director.

28 (2) A credit union may obligate itself to purchase loans in
29 accordance with RCW 31.12.436(1), if the credit union's underwriting
30 policies would have permitted it to originate the loans.

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

35 **Sec. 18.** RCW 31.12.428 and 1997 c 397 s 35 are each amended to
36 read as follows:

1 (1) No loan may be made to any borrower if the loan would cause the
2 borrower to be indebted to the credit union (~~((upon consumer and~~
3 ~~business loans))~~ on all types of loans in an aggregated amount
4 exceeding ten thousand dollars or twenty-five percent of the capital of
5 the credit union, whichever is greater, without the approval of the
6 director.

7 (2) The director by rule may establish separate limits on business
8 loans to one borrower.

9 **Sec. 19.** RCW 31.12.436 and 1997 c 397 s 36 are each amended to
10 read as follows:

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

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

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

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

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

30 (5) Share or deposit accounts of other financial institutions, the
31 accounts of which are federally insured or insured or guaranteed by
32 another insurer or guarantor approved by the director. The shares and
33 deposits made by a credit union under this subsection may exceed the
34 insurance or guarantee limits established by the organization insuring
35 or guaranteeing the institution into which the shares or deposits are
36 made;

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

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

7 (8) Shares, stocks, loans, or other obligations of ((an))
8 organizations whose primary purpose is to strengthen, advance, or
9 provide services to the credit union industry ((and)) or credit union
10 members. ((Other than investment in an organization that is wholly
11 owned by the credit union and whose activities are limited exclusively
12 to those authorized by RCW 31.12.402, an investment under this
13 subsection shall be limited to one percent of the assets of the credit
14 union, but a credit union may, in addition to the investment, lend to
15 the organization an amount not exceeding an additional one percent of
16 the assets of the credit union)) A credit union may in the aggregate
17 invest an amount not to exceed one percent of its assets in
18 organizations under this subsection. In addition, a credit union may
19 in the aggregate lend an amount not to exceed one percent of its assets
20 to organizations under this subsection. These limits do not apply to
21 investments in, and loans to, an organization:

22 (a) That is wholly owned by one or more credit unions or federal or
23 out-of-state credit unions; and

24 (b) Whose activities are limited exclusively to those authorized by
25 this chapter for a credit union;

26 (9) Loans to credit unions, out-of-state credit unions, or federal
27 credit unions. The aggregate of loans issued under this subsection is
28 limited to twenty-five percent of the total shares and deposits of the
29 lending credit union;

30 (10) Key person insurance policies, the proceeds of which inure
31 exclusively to the benefit of the credit union; or

32 (11) Other investments approved by the director upon written
33 application.

34 **Sec. 20.** RCW 31.12.438 and 1997 c 397 s 37 are each amended to
35 read as follows:

36 (1) A credit union may invest in real property or leasehold
37 interests primarily for its own use in conducting business, including,

1 but not limited to, structures and fixtures attached to real property,
2 subject to the following limitations:

3 (a) The credit union's net (~~capital~~) worth equals at least five
4 percent of the total of its share and deposit accounts;

5 (b) The board approves the investment; and

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

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

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

14 **Sec. 21.** RCW 31.12.461 and 1997 c 397 s 40 are each amended to
15 read as follows:

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

21 (2) A credit union may be merged with another credit union with the
22 approval of the director and in accordance with requirements the
23 director may prescribe. The merger must be approved by a two-thirds
24 majority vote of the board of each credit union and a two-thirds
25 majority vote of those members of the merging credit union voting on
26 the merger at a membership meeting. The requirement of approval by the
27 members of the merging credit union may be waived by the director if
28 the merging credit union is in imminent danger of insolvency.

29 (3) The property, rights, and interests of the merging credit union
30 transfer to and vest in the continuing credit union without deed,
31 endorsement, or instrument of transfer, although instruments of
32 transfer may be used if their use is deemed appropriate. The debts and
33 obligations of the merging credit union that are known or reasonably
34 should be known are assumed by the continuing credit union. The
35 continuing credit union shall cause to be published notice of merger
36 once a week for three consecutive weeks in a newspaper of general
37 circulation in the county in which the principal place of business of
38 the merging credit union is located. The notice of merger must also

1 inform creditors of the merging credit union how to make a claim on the
2 continuing credit union, and that if a claim is not made upon the
3 continuing credit union within thirty days of the last date of
4 publication, creditors' claims that are not known by the continuing
5 credit union may be barred. (~~Unless a~~) Except for claims (~~is~~)
6 filed as requested by the notice, or (~~unless the~~) debts or
7 obligations (~~is~~) that are known or reasonably should be known by the
8 continuing credit union, the debts and obligations of the merging
9 credit union are discharged. Upon merger, the charter of the merging
10 credit union ceases to exist.

11 (4) Mergers are effective after the thirty-day notice period to
12 creditors and all regulatory waiting periods have expired, and upon
13 filing of the credit union's articles of merger by the secretary of
14 state, or a later date stated in the articles, which in no event may be
15 later than ninety days after the articles are filed.

16 **Sec. 22.** RCW 31.12.464 and 1997 c 397 s 41 are each amended to
17 read as follows:

18 (1) A credit union may merge or convert into a federal credit union
19 as authorized by the federal credit union act. The merger or
20 conversion must be approved by a two-thirds majority vote of those
21 credit union members voting at a membership meeting.

22 (2) If the merger or conversion is approved by the members, a copy
23 of the resolution certified by the (~~board~~) secretary must be filed
24 with the director within ten days of approval. The board may effect
25 the merger or conversion upon terms agreed by the board and the federal
26 regulator.

27 (3) A certified copy of the federal credit union charter or
28 authorization issued by the federal regulator must be filed with the
29 director and thereupon the credit union ceases to exist except for the
30 purpose of winding up its affairs and prosecuting or defending any
31 litigation by or against the credit union. For all other purposes, the
32 credit union is merged or converted into a federal credit union and the
33 credit union may execute, acknowledge, and deliver to the successor
34 federal credit union the instruments of transfer, conveyance, and
35 assignment that are necessary or desirable to complete the merger or
36 conversion, and the property, tangible or intangible, and all rights,
37 titles, and interests that are agreed to by the board and the federal
38 regulator.

1 (4) Mergers and conversions are effective after all applicable
2 regulatory waiting periods have expired and upon filing of the credit
3 union's articles of merger or articles of conversion, as appropriate,
4 by the secretary of state, or a later date stated in the articles,
5 which in no event may be later than ninety days after the articles are
6 filed.

7 (5) Procedures, similar to those contained in subsections (1)
8 through ~~((3))~~ (4) of this section, prescribed by the director must be
9 followed when a credit union merges or converts into an out-of-state or
10 foreign credit union, or other type of financial institution.

11 **Sec. 23.** RCW 31.12.467 and 1997 c 397 s 42 are each amended to
12 read as follows:

13 (1) A federal credit union located and conducting business in this
14 state may merge or convert into a credit union organized and operating
15 under this chapter.

16 (2) In the case of a conversion, the board of the federal credit
17 union shall file with the director proposed articles of incorporation
18 and bylaws, as provided by this chapter for organizing a new credit
19 union. If the conversion is approved by the director, the federal
20 credit union becomes a credit union under the laws of this state~~((7~~
21 ~~and))~~.

22 (3) The assets and liabilities of the federal credit union will
23 vest in and become the property of the successor credit union subject
24 to all existing liabilities against the federal credit union. Members
25 of the federal credit union may become members of the successor credit
26 union.

27 ~~((3))~~ (4) Mergers and conversions are effective after all
28 applicable regulatory waiting periods have expired and upon filing of
29 the federal credit union's articles of merger or articles of
30 conversion, as appropriate, by the secretary of state, or a later date
31 stated in the articles, which in no event may be later than ninety days
32 after the articles are filed.

33 (5) Procedures, similar to those contained in subsections (1) ~~((and~~
34 ~~(2))~~ through (4) of this section, prescribed by the director must be
35 followed when an out-of-state or foreign credit union wishes to merge
36 or convert into a credit union organized and operating under this
37 chapter.

1 **Sec. 24.** RCW 31.12.471 and 1997 c 397 s 43 are each amended to
2 read as follows:

3 (1) An out-of-state or foreign credit union may not operate a
4 branch in Washington unless:

5 (a) The director has approved its application ~~((to do business))~~ in
6 ~~((this state))~~ accordance with this section;

7 (b) A credit union organized and operating under this chapter is
8 permitted to do business in the state or foreign jurisdiction in which
9 the ~~((applicant))~~ credit union is organized;

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

16 (d) The ~~((applicant))~~ credit union has secured surety bond and
17 fidelity bond coverages satisfactory to the director;

18 (e) The ~~((applicant's))~~ credit union's share and deposit accounts
19 are insured under the federal share insurance program or an equivalent
20 share insurance program in compliance with RCW 31.12.408;

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

23 (g) The ~~((applicant))~~ credit union has not had its authority to
24 ~~((operate))~~ do business in another state or foreign jurisdiction
25 suspended or revoked;

26 (h) The credit union complies with:

27 (i) The provisions concerning field of membership in this chapter
28 and rules adopted by the director; and

29 (ii) Such other provisions of this chapter and rules adopted by the
30 director, as determined by the director; and

31 (i) In addition, if the ~~((applicant))~~ credit union is a foreign
32 credit union:

33 (i) A treaty or agreement between the United States and the
34 jurisdiction where the ~~((applicant))~~ credit union is organized requires
35 the director to permit the ~~((applicant))~~ credit union to operate a
36 branch in Washington; and

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

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

4 (2) The director shall deny an application filed under this section
5 or, upon notice and an opportunity for hearing, suspend or revoke the
6 approval of an application, if the director finds that the standards of
7 organization, operation, and regulation of the applicant do not
8 reasonably conform with the standards under this chapter. In
9 considering the standards of organization, operation, and regulation of
10 the applicant, the director may consider the laws of the state or
11 foreign jurisdiction in which the applicant is organized. A decision
12 under this subsection may be appealed under chapter 34.05 RCW.

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

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

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

30 The director may adopt rules for the periodic examination and
31 investigation of the affairs of an out-of-state or foreign credit union
32 operating a branch in this state. ~~((The costs of examination and~~
33 ~~supervision must be fully borne by the out of state or foreign credit~~
34 ~~union.))~~

35 **Sec. 25.** RCW 31.12.474 and 1997 c 397 s 44 are each amended to
36 read as follows:

37 (1) At a special ~~((board))~~ meeting called for the purpose of
38 liquidation, and upon the recommendation of at least two-thirds of the

1 total members of the board of a credit union, the members of a credit
2 union may elect to liquidate the credit union by a two-thirds majority
3 vote of those members voting.

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

18 (3) Funds representing unclaimed dividends in liquidation and
19 remaining in the hands of the liquidating committee for six months
20 after the date of the final dividend must be deposited, together with
21 all the books and papers of the credit union, with the director. The
22 director may, one year after receipt, destroy such records, books, and
23 papers as, in the director's judgment, are obsolete or unnecessary for
24 future reference. The funds may be deposited in one or more financial
25 institutions to the credit of the director, in trust for the members of
26 the credit union entitled to the funds. The director may pay a portion
27 of the funds to a person upon receipt of satisfactory evidence that the
28 person is entitled to the funds. In case of doubt or conflicting
29 claims, the director may require an order of the superior court of the
30 county in which the principal place of business of the credit union was
31 located, authorizing and directing the payment of the funds. The
32 director may apply the interest earned by the funds toward defraying
33 the expenses incurred in the holding and paying of the funds. Five
34 years after the receipt of the funds, the funds still remaining with
35 the director must be remitted to the state as unclaimed property.

36 **Sec. 26.** RCW 31.12.516 and 1997 c 397 s 45 are each amended to
37 read as follows:

1 (1) The powers of supervision and examination of credit unions and
2 other persons subject to this chapter and chapter(~~(s 31.12A and)~~) 31.13
3 RCW are vested in the director. The director shall require each credit
4 union to conduct business in compliance with this chapter and may
5 require each credit union to conduct business in compliance with other
6 state and federal laws that apply to credit unions(~~(, and)~~). The
7 director has the power to commence and prosecute actions and
8 proceedings, to enjoin violations, and to collect sums due the state of
9 Washington from a credit union.

10 (2) The director may adopt such rules as are reasonable or
11 necessary to carry out the purposes of this chapter and chapter(~~(s~~
12 ~~31.12A and)~~) 31.13 RCW. Chapter 34.05 RCW will, whenever applicable,
13 govern the rights, remedies, and procedures respecting the
14 administration of this chapter.

15 (3) The director may by rule provide appropriate relief for small
16 credit unions from requirements under this chapter or rules of the
17 director. However, small credit unions must still comply with RCW
18 31.12.408.

19 (4) The director shall have the power and broad administrative
20 discretion to administer and interpret the provisions of this chapter
21 and chapter(~~(s 31.12A and)~~) 31.13 RCW, to facilitate the delivery of
22 financial services to the members of a credit union.

23 (~~(4)~~) (5) Nonfederally insured credit unions, nonfederally
24 insured out-of-state credit unions, and nonfederally insured foreign
25 credit unions operating in this state as permitted by RCW 31.12.408 and
26 31.12.471, as applicable, must comply with safety and soundness
27 requirements established by the director.

28 (6) The director may charge fees to credit unions and other persons
29 subject to examination and investigation under this chapter and
30 chapter(~~(s 31.12A and)~~) 31.13 RCW, and to other parties where the
31 division contracts out its services, in order to cover the costs of the
32 operation of the division of credit unions, and to establish a
33 reasonable reserve for the division. The director may waive all or a
34 portion of (~~such~~) the fees.

35 **Sec. 27.** RCW 31.12.545 and 1997 c 397 s 46 are each amended to
36 read as follows:

37 (1) The director shall make an examination and investigation into
38 the affairs of each credit union at least once every eighteen months,

1 unless the director determines with respect to a credit union, that a
2 less frequent examination schedule will satisfactorily protect the
3 financial stability of the credit union and will satisfactorily assure
4 compliance with the provisions of this chapter.

5 (2) In regard to credit unions, and out-of-state and foreign credit
6 unions permitted to operate a branch in Washington pursuant to RCW
7 31.12.471, the director:

8 (a) Shall have full access to the credit union's books and records
9 and files, including but not limited to computer files;

10 (b) May appraise and revalue the credit union's investments; and

11 (c) May require the credit union to charge off or set up a special
12 reserve for loans and investments.

13 (3) The director may make an examination and investigation into the
14 affairs of:

15 (a) An out-of-state or foreign credit union permitted to operate a
16 branch in Washington pursuant to RCW 31.12.471;

17 (b) A nonpublicly held organization in which a credit union has a
18 material investment;

19 (c) A publicly held organization the capital stock or equity of
20 which is controlled by a credit union;

21 (d) A credit union service organization in which a credit union has
22 an interest;

23 (e) An organization that is not a credit union, out-of-state credit
24 union, federal credit union, or foreign credit union, and that has a
25 majority interest in a credit union service organization in which a
26 credit union has an interest;

27 (f) A sole proprietorship or organization primarily in the business
28 of managing one or more credit unions; and

29 (g) A person providing electronic data processing services to a
30 credit union.

31 The director shall have full access to the books and records and
32 files, including but not limited to computer files, of persons
33 described in this subsection.

34 (4) In connection with examinations and investigations, the
35 director may:

36 (a) Administer oaths and examine under oath any person concerning
37 the affairs of any credit union or of any person described in
38 subsection (3) of this section; and

1 (b) Issue subpoenas to and require the attendance and testimony of
2 any person at any place within this state, and require witnesses to
3 produce any books and records and files, including but not limited to
4 computer files, that are material to an examination or investigation.

5 (5) The director may accept in lieu of an examination under
6 (~~subsection (1) of~~) this section:

7 (a) The report of an examiner authorized to examine a credit union
8 or an out-of-state, federal, or foreign credit union, or other
9 financial institution; or

10 (b) The report of an accountant, satisfactory to the director, who
11 has made and submitted a report of the condition of the affairs of a
12 credit union or an out-of-state, federal, or foreign credit union, or
13 other financial institution.

14 The director may accept all or part of such a report in lieu of all or
15 part (~~or all~~) of an examination. (~~If~~) The accepted (~~the~~) report
16 or accepted part of the report has the same force and effect as an
17 examination under (~~subsection (1) of~~) this section.

18 **Sec. 28.** RCW 31.12.565 and 1997 c 397 s 48 are each amended to
19 read as follows:

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

22 (a) Examination reports and information obtained by the director in
23 conducting examinations and investigations under this chapter and
24 chapter (~~s 31.12A and~~) 31.13 RCW;

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

27 (c) Reports or parts of reports accepted in lieu of an examination
28 under RCW 31.12.545; and

29 (d) Business plans and other proprietary information obtained by
30 the director in connection with a credit union's application or notice
31 to the director.

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

34 (a) Federal agencies empowered to examine credit unions or other
35 financial institutions;

36 (b) Officials empowered to investigate criminal charges. The
37 director may furnish only that part of the report which is necessary
38 and pertinent to the investigation, and only after notifying the

1 affected credit union and members of the credit union who are named in
2 that part of the examination report, or other person examined, that the
3 report is being furnished to the officials, unless the officials
4 requesting the report obtain a waiver of the notice requirement for
5 good cause from a court of competent jurisdiction;

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

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

10 (e) Prospective merger partners or conservators, receivers, or
11 liquidating agents of a distressed credit union;

12 (f) Credit union regulators in other states or foreign
13 jurisdictions regarding an out-of-state or foreign credit union
14 conducting business in this state under this chapter, or regarding a
15 credit union conducting business in the other state or jurisdiction;

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

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

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

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

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

35 (4) In a civil action in which the reports or information are
36 sought to be discovered or used as evidence, a party may, upon notice
37 to the director, ((may)) petition the court for an in-camera review of
38 the reports or information. The court may permit discovery and
39 introduction of only those portions of the report or information which

1 are relevant and otherwise unobtainable by the requesting party. This
2 subsection does not apply to an action brought or defended by the
3 director.

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

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

14 **Sec. 29.** RCW 31.12.567 and 1997 c 397 s 49 are each amended to
15 read as follows:

16 A credit union shall (~~make at least two regular reports each year~~
17 ~~to the director showing the assets and liabilities of the credit~~
18 ~~union~~) file with the director any financial and statistical report
19 that it is required to file with the national credit union
20 administration. Each report must be certified by the principal
21 operating officer of the credit union. (~~The director shall designate~~
22 ~~the form, the due dates of, and the period covered by the reports.~~) In
23 addition, a credit union shall file reports as may be required by the
24 director.

25 **Sec. 30.** RCW 31.12.569 and 1997 c 397 s 50 are each amended to
26 read as follows:

27 Credit unions will comply with the provisions of generally accepted
28 accounting principles as (~~identified by~~) required by federal law or
29 rule of the director. In adopting rules to implement this section, the
30 director shall consider, among other relevant factors, whether to
31 transition small credit unions to generally accepted accounting
32 principles over a period of time.

33 **Sec. 31.** RCW 31.12.571 and 1997 c 397 s 51 are each amended to
34 read as follows:

35 A credit union desiring to establish a branch in another state or
36 a foreign jurisdiction shall submit to the director a notice of intent

1 to establish ((a)) the branch at least thirty days before conducting
2 business at the branch.

3 **Sec. 32.** RCW 31.12.575 and 1997 c 397 s 52 are each amended to
4 read as follows:

5 ((1)) The director may issue and serve a credit union director,
6 supervisory committee member, officer, or employee with written notice
7 of ((the director's)) intent to remove the person from office or
8 employment or to prohibit the person from participating in the conduct
9 of the affairs of the credit union or any credit union whenever, in the
10 opinion of the director:

11 ((a)) (1) The person has committed a material violation of law or
12 an unsafe or unsound practice; and

13 ((b)(i)) (2)(a) The credit union has suffered or is likely to
14 suffer substantial financial loss or other damage; or

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

18 ((e)) (3) The violation or practice involves personal dishonesty,
19 recklessness, or incompetence.

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

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

35 (3) A removal order or prohibition order becomes effective at the
36 expiration of ten days after the service of the order upon the person,
37 except that a removal order or prohibition order issued upon consent
38 becomes effective at the time specified in the order. An order remains

1 ~~effective unless it is stayed, modified, terminated, or set aside by~~
2 ~~action of the director or a reviewing court.))~~

3 **Sec. 33.** RCW 31.12.585 and 1997 c 397 s 53 are each amended to
4 read as follows:

5 ~~((1))~~ The director may issue and serve a credit union with a
6 written notice of charges and intent to issue a cease and desist order
7 if, in the opinion of the director, the credit union has committed or
8 is about to commit:

9 ~~((a))~~ (1) A material violation of law; or

10 ~~((b))~~ (2) An unsafe or unsound practice.

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

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

29 (3) A cease and desist order becomes effective at the expiration of
30 ten days after the service of the order upon the credit union, except
31 that a cease and desist order issued upon consent becomes effective at
32 the time specified in the order. The order remains effective unless it
33 is stayed, modified, terminated, or set aside by action of the director
34 or a reviewing court.)) Upon taking effect, the order may require the
35 credit union and its directors, supervisory committee members,
36 officers, employees, and agents to cease and desist from the violation
37 or practice and may require them to take affirmative action to correct
38 the conditions resulting from the violation or practice.

1 **Sec. 34.** RCW 31.12.595 and 1997 c 397 s 54 are each amended to
2 read as follows:

3 (1) If the director determines that the violation or practice
4 specified in RCW 31.12.585 is likely to cause an unsafe or unsound
5 condition at the credit union, the director may issue and serve a
6 temporary cease and desist order (~~((requiring the credit union to cease~~
7 ~~and desist from the violation or practice))~~). The order may require the
8 credit union and its directors, supervisory committee members,
9 officers, employees, and agents to cease and desist from the violation
10 or practice and may require them to take affirmative action to correct
11 the conditions resulting from the violation or practice.

12 (2) With the temporary order, the director shall serve a notice of
13 charges and intent to issue a cease and desist order under RCW
14 31.12.585 in the matter.

15 (3) The temporary order becomes effective upon service on the
16 credit union and remains effective (~~((unless set aside, limited, or~~
17 ~~suspended by a court in proceedings under RCW 31.12.605 pending the))~~)
18 until completion of the administrative proceedings under the notice
19 ~~((and until the director dismisses the charges specified in the notice or~~
20 ~~until the effective date of a cease and desist order issued against the~~
21 ~~credit union under RCW 31.12.585))~~ issued under subsection (2) of this
22 section.

23 (4) Within ten days after a credit union has been served with a
24 temporary order, the credit union may apply to the superior court in
25 the county of its principal place of business for an injunction setting
26 aside, limiting, or suspending the order pending the completion of the
27 administrative proceedings under the notice issued under subsection (2)
28 of this section.

29 (5) In the case of a violation or threatened violation of a
30 temporary order, the director may apply to the superior court of the
31 county of the principal place of business of the credit union for an
32 injunction to enforce the order, and the court shall issue an
33 injunction if it determines that there has been a violation or
34 threatened violation.

35 **Sec. 35.** RCW 31.12.625 and 1997 c 397 s 56 are each amended to
36 read as follows:

37 (~~((1))~~) An administrative hearing on the notice provided for in RCW
38 31.12.575 (~~((or))~~) and 31.12.585 must be conducted in accordance with

1 chapter 34.05 RCW; provided that, to the extent the requirements of
2 this chapter are inconsistent with chapter 34.05 RCW, this chapter will
3 govern. The hearing may be held at such place as is designated by the
4 director ((and must be conducted in accordance with chapter 34.05
5 RCW)). The hearing shall be private unless the director determines
6 that a public hearing is necessary to protect the public interest after
7 fully considering the views of the party afforded the hearing.

8 ~~((2) Within sixty days after the hearing, the director shall~~
9 ~~render a decision which includes findings of fact upon which the~~
10 ~~decision is based. The director shall issue and serve upon each party~~
11 ~~to the proceeding an order or orders consistent with RCW 31.12.575 or~~
12 ~~31.12.585.~~

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

21 ~~The judicial review provided in this section will be exclusive for~~
22 ~~orders issued under RCW 31.12.575 and 31.12.585.~~

23 ~~(4) Any party to the proceeding, or any person subject to an order,~~
24 ~~temporary order, or injunction issued under RCW 31.12.575, 31.12.585,~~
25 ~~31.12.595, or 31.12.615, may obtain a review of any order issued and~~
26 ~~served under subsection (1) of this section, other than an order issued~~
27 ~~upon consent, by filing a written petition requesting that the order be~~
28 ~~modified, terminated, or set aside, in the superior court of the county~~
29 ~~in which the principal place of business of the affected credit union~~
30 ~~is located. The petition must be filed within ten days after the date~~
31 ~~of service of the order. A copy of the petition must be immediately~~
32 ~~served upon the director and the director must then file the record of~~
33 ~~the proceeding in court. The court has jurisdiction, upon the filing~~
34 ~~of the petition, to affirm, modify, terminate, or set aside, in whole~~
35 ~~or in part, the order of the director. The jurisdiction of the court~~
36 ~~becomes exclusive upon the filing of the record. However, the director~~
37 ~~may modify, terminate, or set aside the order with the permission of~~
38 ~~the court. The judgment and decree of the court is final subject to~~
39 ~~appellate review under the rules of the court.~~

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

4 ~~(6) Service of any notice or order required to be served under RCW~~
5 ~~31.12.575, 31.12.585, or 31.12.595, must be accomplished in the same~~
6 ~~manner as required for the service of process in civil actions in~~
7 ~~superior courts of this state.)~~

8 **Sec. 36.** RCW 31.13.010 and 1984 c 31 s 79 are each amended to read
9 as follows:

10 ~~((The terms))~~ As used in this chapter ~~((shall have the following~~
11 ~~meanings))~~, unless the context in which ~~((they are))~~ it is used clearly
12 indicates otherwise~~((-~~

13 ~~(1) "Members" shall mean any organization which meets the~~
14 ~~requirements of chapter 31.12 RCW.~~

15 ~~(2) "Member credit union" shall mean any credit union which has~~
16 ~~been elected to membership and subscribed for at least one share in the~~
17 ~~central credit union and paid the initial installment thereon.~~

18 ~~(3))~~, the term "corporate credit union" ((shall)) or "corporate"
19 means a ((corporation)) credit union organized under this chapter
20 ~~((31.12 RCW or chartered to do business as a credit union by the~~
21 ~~administrator of the national credit union administration or the~~
22 ~~successor or successors of him.~~

23 ~~(4) "Funds" shall mean deposits and shares of the central credit~~
24 ~~union members.~~

25 ~~(5) For the purpose of establishing required reserves all assets~~
26 ~~except the following are "risk assets":~~

27 ~~(a) Cash on hand;~~

28 ~~(b) Deposits and shares in banks, trust companies, savings and loan~~
29 ~~associations, mutual savings banks or credit unions;~~

30 ~~(c) Assets which are insured or guaranteed by, or due from, the~~
31 ~~federal government or any agency or instrumentalities thereof)).~~

32 **Sec. 37.** RCW 31.13.020 and 1977 ex.s. c 207 s 1 are each amended
33 to read as follows:

34 ~~((A central))~~ (1) Corporate credit unions may be organized and
35 operated under this chapter. ~~((The central))~~ A corporate credit union
36 ~~((shall have))~~ has all the ~~((rights and))~~ powers and authorities
37 granted in, and ~~((be))~~ is subject to, all of the provisions of chapter

1 31.12 RCW which are not inconsistent with this chapter. (~~(Such credit~~
2 ~~union shall)~~) A corporate must use the term "~~(central)~~ corporate" in
3 its official name. (~~(Any central credit union in existence on~~
4 September 21, 1977 in the state of Washington shall operate under the
5 provisions of this chapter.)) The director may adopt rules for the
6 organization and operation of corporate credit unions.

7 (2) Notwithstanding any other provision of law, and in addition to
8 all powers and authorities, express or implied, that a corporate credit
9 union has under the laws of this state, a corporate has the powers and
10 authorities that a federal or Kansas state corporate credit union had
11 on the effective date of this section. However, a corporate must still
12 comply with RCW 31.12.408.

13 (3) Notwithstanding any other provision of law, and in addition to
14 the powers and authorities, express or implied, that a corporate has
15 under subsection (2) of this section, a corporate credit union has the
16 powers and authorities that a federal or Kansas state corporate credit
17 union has subsequent to the effective date of this section, if the
18 director finds that the exercise of the power and authority serves the
19 convenience and advantage of members of credit unions, and maintains
20 the fairness of competition and parity between corporate credit unions.
21 However, a corporate must still comply with RCW 31.12.408.

22 (4) The restrictions, limitations, and requirements applicable to
23 specific powers or authorities of federal or Kansas state corporate
24 credit unions apply to corporate credit unions exercising those powers
25 or authorities permitted under this section but only insofar as the
26 restrictions, limitations, and requirements relate to the specific
27 exercise of the powers or authorities granted corporate credit unions
28 solely under this section.

29 (5) As used in this section, "powers and authorities" include, but
30 are not limited to, powers and authorities in corporate governance
31 matters.

32 NEW SECTION. Sec. 38. The following acts or parts of acts are
33 each repealed:

34 (1) RCW 31.12.275 (Removal of board officers by board--For cause)
35 and 1997 c 397 s 20 & 1984 c 31 s 29;

36 (2) RCW 31.12.407 (Insurance required on or before December 31,
37 1998) and 1996 c 5 s 5;

1 (3) RCW 31.12.445 (Reserve requirements--Nonfederally insured
2 credit unions) and 1997 c 397 s 38, 1994 c 92 s 199, & 1984 c 31 s 46;

3 (4) RCW 31.12.448 (Liquidity reserve--Special reserve fund) and
4 1997 c 397 s 39, 1994 c 92 s 201, & 1984 c 31 s 48;

5 (5) RCW 31.12.555 (Examinations by director--Consent--Frequency)
6 and 1997 c 397 s 47;

7 (6) RCW 31.12.605 (Injunction setting aside, limiting, or
8 suspending temporary cease and desist order) and 1997 c 397 s 55 & 1984
9 c 31 s 62;

10 (7) RCW 31.12.615 (Injunction to enforce temporary cease and desist
11 order) and 1994 c 92 s 213 & 1984 c 31 s 63; and

12 (8) RCW 31.12.627 (Judicial enforcement of orders) and 1997 c 397
13 s 57.

14 NEW SECTION. **Sec. 39.** The following acts or parts of acts are
15 each repealed:

16 (1) RCW 31.13.030 (Bylaws) and 1994 c 92 s 234 & 1977 ex.s. c 207
17 s 2;

18 (2) RCW 31.13.040 (Additional rights and powers) and 1977 ex.s. c
19 207 s 3; and

20 (3) RCW 31.13.050 (Reserve fund) and 1977 ex.s. c 207 s 4.

21 NEW SECTION. **Sec. 40.** RCW 31.13.900 is decodified.

22 NEW SECTION. **Sec. 41.** If any provision of this act or its
23 application to any person or circumstance is held invalid, the
24 remainder of the act or the application of the provision to other
25 persons or circumstances is not affected.

Passed the House March 9, 2001.

Passed the Senate April 6, 2001.

Approved by the Governor April 19, 2001.

Filed in Office of Secretary of State April 19, 2001.