

SENATE BILL REPORT

SB 6463

As Passed Senate, February 13, 2006

Title: An act relating to banks and savings banks.

Brief Description: Allowing banks and savings banks to organize as limited liability companies.

Sponsors: Senators Fairley and Benton.

Brief History:

Committee Activity: Financial Institutions, Housing & Consumer Protection: 1/17/06, 2/1/06[DP].

Passed Senate: 2/13/06, 45-0.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & CONSUMER PROTECTION

Majority Report: Do pass.

Signed by Senators Fairley, Chair; Berkey, Vice Chair; Benton, Ranking Minority Member; Benson, Brandland, Finkbeiner, Franklin, Keiser, Schmidt and Spanel.

Staff: Joanne Conrad (786-7472)

Background: Limited Liability Corporations (LLCs) provide flexibility in corporate formation and tax treatment, encouraging investment. Washington State currently allows many types of businesses to form as LLCs, or convert to LLCs.

Generally, banks and insurers have not been permitted to become LLCs under state law. It is expected that the Internal Revenue Service (IRS) will soon change its rules, permitting the LLC-style tax treatment of banks. This is expected to enhance capital formation for new banks, and provide a healthy business investment climate for Washington State chartered financial institutions.

Banks intending to become LLCs need to conform to standards set by the Federal Deposit Insurance Corporation (FDIC), in order to meet minimum safety and soundness standards and qualify for insurability of deposits. Regulatory oversight and strict criteria for the formation or conversion of banks and savings banks into LLCs is necessary to meet federal standards.

Summary of Bill: Banks and bank holding companies regulated under Title 30 RCW, and savings banks regulated under Title 32 RCW may form as or convert to Limited Liability Corporations, by obtaining approval of the Director of the Washington State Department of Financial Institutions (DFI). Approval is based upon meeting various criteria important to the safety and soundness of the bank or savings bank, and conforming to FDIC Regulations, including a prohibition against automatic termination, dissolution or suspension.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Twenty jurisdictions, including Oregon, allow banks to form LLCs, which are better for shareholders, and have better tax treatment. This ability would improve the value of a WA state charter and benefit WA stakeholders. It conforms to FDIC standards.

Testimony Against: None.

Who Testified: PRO: Denny Eliason, WA Bankers Assoc; Joe Vincent, DFI.