

HOUSE BILL REPORT

HB 1209

As Reported by House Committee On:
Business & Financial Services

Title: An act relating to municipal access to local financial services.

Brief Description: Concerning municipal access to local financial services.

Sponsors: Representatives Bergquist, Vick, Kirby, J. Walsh and Blake.

Brief History:

Committee Activity:

Business & Financial Services: 1/24/17, 2/1/17 [DPS].

Brief Summary of Substitute Bill

- Allows credit unions to accept public deposits over the maximum insured amount, subject to collateralization.
- Allows the Department of Financial Institutions (DFI) to rely on information reported by the National Credit Union Association for investigation and examination of public depositories.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Kirby, Chair; Reeves, Vice Chair; Vick, Ranking Minority Member; J. Walsh, Assistant Ranking Minority Member; Bergquist, Blake, McCabe, Santos and Stanford.

Minority Report: Without recommendation. Signed by 2 members: Representatives Barkis and Jenkin.

Staff: Robbi Kesler (786-7153).

Background:

Public funds may only be deposited in a bank or trust company, savings bank, or savings association that has been designated as a public depository by the Washington Public Deposit

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Protection Commission (Commission). "Public funds" means money, including money held in trust, belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees.

To be approved as a public depository, a bank or thrift must meet minimum requirements of the Commission and must pledge securities as collateral to protect public funds on deposit above the amounts insured under the Federal Deposit Insurance Corporation. If the deposit insurance and the collateral pledged by a failed institution are insufficient to reimburse all public depositors, the other public depositories, as part of the public depository pool, are each assessed a proportionate share of the shortfall.

In 2010 legislation was passed that added credit unions as a public depository only for the purpose of receiving public deposits. A credit union is not a public depository for any other purpose, such as inclusion in the public depository pool. Currently the maximum amount insured is \$250,000 per depositor.

Each public depository reports monthly and quarterly to the Commission on the amount of its insured and uninsured public deposits, the amount of collateral pledged, as well as other financial information. Those public depositories with excess deposits, or that do not meet minimum financial standards set by the Commission, must monitor public deposits on a daily basis and maintain adequate collateral accordingly. A credit union that accepts public deposits is subject to the Commission's reporting requirements and must report the amount of their insured public deposits monthly.

The Commission can request a public depository to furnish information on its financial condition, public deposits, and on the exact status of its net worth. The Commission may take any action deemed advisable for the protection of public funds and to establish procedures for collection or settlement of claims arising from the failure of a public depository.

Summary of Substitute Bill:

Credit unions are included in the definition of public depositories and are allowed to accept public deposits greater than the maximum insured amount.

The Department of Financial Institutions (DFI) may rely on information from the National Credit Union Association (NCUA) regarding credit unions when investigating or examining public depositories.

Substitute Bill Compared to Original Bill:

Provisions relating to minimum participation and maximum liability for credit unions accepting public deposits greater than the maximum insured amount are removed. The substitute allows the Commission to maintain a single depository risk pool rather than creating a separate risk pool for credit unions. The substitute bill also adds a provision to

allow the DFI to rely on information from the NCUA regarding credit unions when investigating or examining public depositories.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill will bring credit unions on par with other financial institutions. A public entity should be able to have a choice to deposit their funds at a credit union. There is value in allowing credit unions to accept public funds. Credit unions are not-for-profit and member owned; they often have lower fees and higher interest rates. State and local governments are the custodians of public funds and should be able to seek a fair and advantageous place to deposit the public funds. Allowing public depositors to have choice and competition is critical and necessary; when the market competes the customers win. Twenty-one states already allow credit unions to accept public funds. Public funds are protected by insurance and collateral. A parallel risk pool for credit unions will also limit risk. Access to credit unions will help governments in rural communities that may have fewer options, particularly when a credit union is the closest or only option. Credit unions have a history of community involvement and financial education. Current law prevents cities and counties from banking at a local entity. Some banks no longer offer public depository services and governments in rural areas need more options. Not allowing competition serves special interests.

(Opposed) This is a tax preference. The inferred tax benefit for credit unions exists because they were historically a place for low-income and underserved groups. This goes way beyond the objectives of the 2010 legislation that allowed credit unions to accept public funds up to the maximum insured amount. Community banks are endangered because they must compete against credit unions that do not have to pay tax. There is already enough competition in urban areas. This is largely unnecessary as there are community and national banks in every county of this state. Technology makes it possible for even the most rural customers to receive services.

Persons Testifying: (In support) Representative Bergquist, prime sponsor; Troy Stang and Ynette Gibbs, Northwest Credit Union Association; Hal Scoggins, Farleigh Wada Witt; Scott Adkins, Inspirus Credit Union; Chris Bradberry, Fibre Federal Credit Union; Lynn Ciani, Numerical Credit Union; and Bob Chase and Meredith Green, Washington State Association of County Treasurers.

(Opposed) Brad Tower, Community Bankers of Washington; Alan Crain, Kitsap Bank; and Denny Eliason, Washington Bankers Association.

Persons Signed In To Testify But Not Testifying: None.