

HOUSE BILL REPORT

HB 1085

*As Reported By House Committee on:
Financial Institutions & Insurance*

Title: An act relating to directors, officers, employees, and other agents of credit unions.

Brief Description: Defining the fiduciary relationship of credit union personnel.

Sponsor(s): Representatives Winsley, Dellwo, Broback, Dorn, Mielke, Inslee, Schmidt, Zellinsky, Anderson, Paris, R. Johnson, Edmondson, Wynne, Chandler, Wood, Tate and Orr.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, February 5, 1991,
DPS.

**HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE**

Majority Report: *That Substitute House Bill No. 1085 be substituted therefor, and the substitute bill do pass.*
Signed by 13 members: Representatives Dellwo, Chair; Zellinsky, Vice Chair; Broback, Ranking Minority Member; Mielke, Assistant Ranking Minority Member; Anderson; Dorn; Inslee; R. Johnson; R. Meyers; Paris; Schmidt; Scott; and Winsley.

Staff: John Conniff (786-7119).

Background: State statutes governing banks, savings banks, and savings and loan associations contain standards for management of these institutions and prohibit acts and practices which give rise to conflicts of interest between institutional and personal gain. Statutes governing credit unions contain no similar standards or prohibitions.

Summary of Substitute Bill: Directors and officers of credit unions must discharge their management duties with the diligence, care, and skill that ordinary, prudent persons would exercise under similar circumstances in like positions.

No director, officer, employee, or other agent of a credit union may have an interest in the purchase of credit union

assets without the consent of a majority of disinterested directors of the credit union. The credit union must give notice to the state supervisor of credit unions if the fair market value of the sale of assets to a director, officer, or employee exceeds \$10,000.

Except for credit union compensation and benefits, no director, officer, employee or other agent of the credit union may receive any interest in the gains or profits of the credit union or a credit union service organization. Directors, officers, employees, or other agents of the credit union may not own or have an interest in a corporation doing business with the credit union or credit union service organization unless the state supervisor finds that such ownership is fair to the credit union.

No director, officer, employee, or other agent of a credit union may receive any compensation, commission, or other interest from any person or corporation other than the credit union related to loans made by the credit union or securities bought or sold by the credit union.

A violation of these provisions constitutes a gross misdemeanor.

Substitute Bill Compared to Original Bill: The absolute prohibition of officer and director ownership in corporations doing business with the credit union is modified to allow such ownership if approved by the state supervisor.

Fiscal Note: Not requested.

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

Testimony For: The credit union code contains no explicit provision prohibiting conflicts of interest between a credit union and its officers and directors. By amending the credit union code to prohibit such conflicts and establish a clear standard to judge management, the supervisor can act to prevent officers and directors from engaging in practices which might jeopardize the solvency of the credit union.

Testimony Against: None.

Witnesses: Gary Gardner, Washington Credit Union League (Pro); and Betty Reed, Division of Savings & Loan Association (Pro).