

# SENATE BILL REPORT

## SB 5233

---

---

As of February 6, 2011

**Title:** An act relating to increasing the permissible deposit of public funds with credit unions and authorizing the deposit of public funds at federally chartered credit unions.

**Brief Description:** Increasing the permissible deposit of public funds with credit unions.

**Sponsors:** Senators Prentice, Benton, Keiser, Kline and Conway.

**Brief History:**

**Committee Activity:** Financial Institutions, Housing & Insurance: 2/01/11.

---

### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

**Staff:** Edward Redmond (786-7471)

**Background:** Credit unions are nonprofit corporations that promote thrift among their members and create a source of credit for their members at fair and reasonable rates of interest. Seven or more natural persons who reside in Washington may apply to the Director of the Department of Financial Institutions for permission to organize as a credit union. Upon the Director's endorsement that the proposed articles of incorporation and bylaws are consistent with legal requirements, and the Director's determination that the proposed credit union is feasible, the formation of the credit union may proceed. One of the requirements of the bylaws is a statement of the credit union's field of membership. A credit union's field of membership is the limitation of membership to those having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district.

The powers of a credit union are specified in statute. These powers include receiving deposits, making loans, and paying both dividends and interest, among others. Since September 17, 2010, National Credit Union Share Insurance Fund (NCUSIF) insured deposits in credit unions up to \$250,000.

Public funds are those monies belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees, and includes monies held in trust. During the 2010 legislative session, credit unions were authorized to receive public deposits up to the lesser amount of \$100,000 or the maximum deposit insurance by the NCUSIF.

---

*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.*

**Summary of Bill:** State and federally chartered credit unions are public depositaries only for the purpose of receiving public deposits, which may total no more than the federal deposit insurance limit. The maximum amount of deposit applies to all funds attributable to any one depositor of public funds in any one credit union. Credit unions are subject to the same reporting requirements as are public depositaries.

**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.

**Staff Summary of Public Testimony:** PRO: Washington currently has 66 state-chartered credit unions and 44 federally-chartered credit unions; both are covered by the same NCUSIF deposit insurance, which is backed by the full faith and credit of the U.S. Government. After last year's bill passed, the U.S. Congress passed the Wall Street reform act. A provision in that act permanently increased the NCUSIF insurance deposit up to \$250,000. State law currently, however, only allows credit unions to receive public deposits up to \$100,000. There are many examples of credit unions across the state turning away public entities that want to deposit funds but cannot because the particular credit union has reached the \$100,000 limit. The next alternative for the public entity is a bank, which in a small community may mean having to go over to the next town to deposit their funds. This is quite an inconvenience for public entities, and this bill is about giving public entities a choice.

CON: Credit unions are trying to expand their product offerings and compete with banks, especially with the smaller banks. On scale, credit unions do not pay the same rate of taxes as banks. Every time a bank, large or small, competes with a credit union on the same product offering, they do so with at least a 30 percent disadvantage because credit unions do not pay B&O or federal income tax. According to the Department of Revenue, in 2010 banks paid approximately \$170 million in state taxes. Our own calculations show that credit unions paid less than 2 percent of that amount. By 2013 the state tax burden on banks is due to double given the full implementation of the nexus law. The underlying justification for the credit union's tax exemption had to do with the nature of their depositors. You had individuals with a common bond that sought to lend money to each other. Over the course of time, a number of those provisions have been weakened or eliminated entirely. The community banks believe that the depositing of government funds into credit unions is essentially the last standing pillar of that initial justification. The committee should look instead at the nature of the products offered by credit unions and determine whether or not there is a public policy decision to be made about the tax benefit of their services that compete with banks. Community banks are still struggling and seeking to compete where they can. This bill represents a primary issue for community banks.

**Persons Testifying:** PRO: Mark Minickiello, Northwest Credit Union Association; Phil Jones, Harborstone Credit Union.

CON: Denny Eliason, Washington Bankers Association; Brad Tower, Community Bankers of Washington