

SENATE BILL REPORT

SB 5144

As Passed Senate, March 1, 2017

Title: An act relating to the Washington state credit union act.

Brief Description: Addressing the Washington state credit union act.

Sponsors: Senators Angel, Mullet and Hobbs.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/19/17 [DP].

Floor Activity:

Passed Senate: 3/01/17, 48-1.

Brief Summary of Bill

- Modifies the governance of state credit unions, including the operation of supervisory committees and special membership meetings.
- Adjusts low-income credit union designation requirements and eliminates the definition of secondary capital account.
- Moves the latest date that state credit unions have the same powers and duties as a federal credit union from July 2015 to the effective date of the act.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass.

Signed by Senators Angel, Chair; Mullet, Ranking Minority Member; Fain, Hobbs and Kuderer.

Staff: Jeff Olsen (786-7428)

Background: Credit unions doing business in Washington may be chartered by the state or federal government. The National Credit Union Administration regulates federally chartered credit unions and the Department of Financial Institutions (DFI) regulates state-chartered credit unions. State-chartered credit unions have the powers and authorities that a federal credit union had between December 31, 1993 and July 24, 2015.

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.

State-chartered credit unions are governed by a board of directors consisting of between five and fifteen members. The credit union's bylaws must prescribe the manner in which the business of the credit union will be conducted, including the frequency of regular meetings and the manner in which special meetings may be called.

A supervisory committee monitors both the financial condition of the credit union and the decisions of the board of directors. The supervisory committee consists of at least three members that are elected at the annual membership meeting. The supervisory committee must meet at least quarterly, arrange or perform a complete annual audit of the credit union, and report all findings to the board of directors. The committee must also make an annual report to the members at each annual membership meeting.

A special membership meeting may be called by a majority of the board of directors, a majority vote of the supervisory committee, or upon written application of at least 10 percent or 2000 members, whichever is less. A special membership meeting may also be called by unanimous vote, for cause, by the supervisory committee for purposes of suspending a member of a committee or a member of the board of directors. For cause includes demonstrated financial irresponsibility, a breach of fiduciary duty to the credit union, or activities that threaten the safety and soundness of the credit union. The secretary shall give notice of the special membership meetings at least 30 days in advance and include the purpose of the meeting.

A state-chartered credit union may apply to the DFI for designation as a low-income credit union based on the following criteria:

- at least 50 percent of the substantial and well-defined segment of the credit union's members or potential primary members are low-income members;
- the credit union submits an acceptable written plan on marketing to the DFI; and
- the credit union agrees to submit other information and satisfy other criteria as required by the director.

Low-income credit unions may issue secondary capital accounts, if approved by the DFI in advance, and accept shares and deposits from non-members. Secondary capital accounts are accounts over \$100,000, non-transactional, owned by a non-natural person, and subordinate to other creditors.

Summary of Bill: The supervisory committee shall perform or arrange for additional audits as requested by the board of directors, management, or the supervisory committee. The supervisory committee shall also monitor the implementation of management responses to adverse findings in audits or regulatory examinations. In addition, the supervisory committee shall implement a process for receiving and responding to whistleblower complaints. The supervisory committee may retain independent counsel, other professional advisors, or consultants as necessary to perform their required duties. Quarterly meetings of the supervisory committee are no longer required.

Members of the state-chartered credit union may remove a supervisory committee member at a special membership meeting called for that purpose. At the same meeting a supervisory

committee member is removed, a replacement supervisory committee member may be elected as an interim member to complete the removed member's term.

A credit union may establish an audit committee in lieu of a supervisory committee. An audit committee and its members have the same duties and powers, and are subject to the same limitations as a supervisory committee.

Requests for a special membership meeting may be called to discuss reports by the supervisory committee regarding the failure of the board to adequately respond to findings or recommendations. At a special membership meeting only the agenda items specified in the notice may be considered. A special meeting may also be called by a unanimous vote of the supervisory committee to suspend a director for cause.

State-chartered credit unions are no longer required to submit a marketing plan and an annual report to the DFI when applying for designation as a low-income credit union. The definition of a secondary capital account is eliminated.

The latest date that a state-chartered credit union has the powers and authorities a federal credit union is extended from July 24, 2015, to a date not later than the effective date of the act. The definition of membership share is removed and language throughout the bill is modified to conform with this change.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: Credit unions periodically examine the State Credit Union Act to look for improvements and evaluate how it compares to the federal credit union charter. The credit unions have also worked with the Department of Financial Institutions to get their input on the proposed changes in the bill. Most changes in this bill are clarifications related to credit union governance. The supervisory committee and special membership meeting changes provide clarity to avoid disputes. The role of the supervisory committee is to serve in an audit capacity. This bill standardizes the fiduciary duties section to cover all credit union officials. The federal parity provision is updated in the bill to incorporate all recently adopted federal rules. The credit unions are aware that there are pending lawsuits concerning recent national credit union rules and know that they will be bound by the outcome of those lawsuits. The changes made to how credit unions apply to be a low income credit union simplify and clean up the process.

Persons Testifying: PRO: Senator Angel, Prime Sponsor; Hal Scoggins, Northwest Credit Union Association.

Persons Signed In To Testify But Not Testifying: No one.