

HOUSE BILL REPORT

HB 1165

As Passed House:
February 3, 2021

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

Brief Description: Concerning the Washington credit union act.

Sponsors: Representatives Ryu, Vick, Santos, Hoff and Harris-Talley.

Brief History:

Committee Activity:

Consumer Protection & Business: 1/20/21, 1/21/21 [DP].

Floor Activity:

Passed House: 2/3/21, 93-2.

Brief Summary of Bill

- Modifies certain powers and authorities of state-chartered credit unions.
- Authorizes credit unions to invest in the equity interest of corporations that are engaged in or planning activity that is incidental or complementary to the credit union's operations.
- Allows credit unions to acquire real property without occupying the property within a designated period of time.

HOUSE COMMITTEE ON CONSUMER PROTECTION & BUSINESS

Majority Report: Do pass. Signed by 7 members: Representatives Kirby, Chair; Walen, Vice Chair; Vick, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Corry, Ryu and Santos.

Staff: Serena Dolly (786-7150).

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

Background:

Credit Union Regulations.

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. The Department of Financial Institutions (DFI) regulates state-chartered credit unions. State law provides for the organization, regulation, and examination of state-chartered credit unions. The Director of the DFI (Director) may, by rule, provide relief from certain state laws and rules to small credit unions, which are defined as credit unions with up to \$10 million in total assets.

Credit Union Authority.

State-chartered credit unions have all of the powers and authorities held by federal credit unions on December 31, 1993, or a subsequent date not later than July 28, 2019. State credit unions may have all of the powers and authorities held by federal credit unions after that date, if the Director finds that the exercise of the power and authority serves the convenience and advantage of credit union members and maintains the fairness of competition and parity between state credit unions and federal credit unions. State credit unions also have all powers and authorities of out-of-state credit unions, except membership, so long as insurance and other requirements are met.

Credit Union Services and Charges.

Credit unions may provide a variety of financial services to members, including accepting deposits, making loans, and paying interest or dividends. Credit unions may impose reasonable charges for the services provided to members.

Investment of Credit Union Funds.

Credit unions may invest funds in a variety of investment types so long as the investments are deemed prudent by its boards of directors. Examples include: loans held by other credit unions; fixed income securities such as bonds; mutual funds with a portfolio of securities issued or guaranteed by the federal government; shares of stocks in organizations whose primary purpose is to strengthen, advance, or provide services in the credit union industry or for the credit union's membership; and insurance policies and investment products related to employee benefits.

Real Property Interests.

With some limitations, credit unions may invest in real property or leasehold interests if used in conducting its business or the business of a credit union services organization. Credit unions must partially occupy real property acquired for future expansion within three years of the investment if property improvements are made at the time of acquisition, or within six years if no improvements are made.

Summary of Bill:

Credit Union Regulations.

The Director shall determine, by rule, the definition of small credit unions for the purpose of providing relief from certain credit union requirements in state law or rule.

Credit Union Authority.

State-chartered credit unions may have all of the powers and authorities held by federal credit unions as of December 31, 1993, or a subsequent date not later than the effective date of this act.

Credit Union Services and Charges.

The list of services credit unions may provide includes cashing checks, money orders, and other payment instruments for members and persons who are eligible for membership. Credit unions may impose reasonable charges for providing services to non-members.

Investment of Credit Union Funds.

Credit unions may invest in the equity interest of corporations and other limited liability entities. The principal business of the corporation or entity does not have to be related to the credit union's business, but the corporation or business must be engaged in or planning activity that will be performed for or provided to the credit union or its members. An equity interest is defined as a stock, membership in a limited liability corporation, or a limited partnership interest in which the credit union's liability is limited to the amount of the investment and the credit union does not take on general liability. A credit union's investments in corporate equity interests may not exceed the lesser of 50 percent of the credit union's net worth or, when combined with investments in credit union service organizations, 10 percent of the credit union's assets. Credit unions may not invest in a federal or state depository institution or a bank or savings bank holding company.

A credit union may engage in investment activity only with the prior authorization of the Director, and investment activity is subject to any requirements, restrictions, or other conditions adopted by the Director. In approving or denying a proposed investment, the Director must consider the financial and management strength of the credit union and the relationship of the activity to the credit union's operations.

Real Property Interests.

The requirement that credit unions partially occupy property acquired for future expansion within a designated amount of time from acquisition is removed.

Appropriation: None.

Fiscal Note: Not requested.

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

Staff Summary of Public Testimony:

(In support) Washington is fortunate to be served by 83 non-profit, member-owned credit unions. Even in these difficult times, credit unions have been engaged in charitable giving and providing relief to members. Credit unions want to be empowered to continue meeting the needs of Washington residents, and the bill addresses specific issues that came up over the past year. One focus is on the need to provide services to people without bank accounts, such as check cashing for non-members. With the shifting to a remote workplace, credit unions need to be able to deal with the realities of the real estate they own. The DFI needs flexibility to work with and provide relief to small credit unions. The definition of small credit union has not changed in 20 years, and no state credit union currently meets the definition. Companies are starting to think about providing services tailored to credit unions, and this bill will allow credit unions to invest in those companies and help guide the products and services offered. The bill places limits on how much credit unions would be able to invest in corporations, and any investment would require DFI approval. The bill expressly states that credit unions still may not invest in banks. Nothing in this bill has to do with supplemental capital.

(Opposed) Financial services and commerce need to stay separate, and the blurring of those lines contributed to the Great Recession. The authority in this bill goes beyond what community banks can do. The language would allow credit unions to invest in companies that are only contemplating providing services to credit unions. Credit unions in the state are growing quickly. These types of measures make credit unions look more like investment banks, which calls into question the validity of favorable tax treatment.

(Other) The language expands the authority of state credit unions beyond that of federal credit unions and has the potential to blur the lines between traditional credit unions and more complex investment banks. Credit unions have other ways of meeting their needs, such as engaging and investing in credit union service organizations. It is unclear exactly what types of entities a credit union would be allowed to invest in.

Persons Testifying: (In support) Representative Ryu, prime sponsor; Lynn Ciani, Numerica Credit Union; Hal Scoggins, Farleigh Wada Witt; and Joe Adamack, Northwest Credit Union Association.

(Opposed) Brad Tower, Community Bankers of Washington.

(Other) Trent House, Washington Bankers Association.

Persons Signed In To Testify But Not Testifying: None.