

HOUSE BILL 2739

State of Washington

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1996 Regular Session

By Representatives L. Thomas, Pelesky, Benton, Huff, Dyer, D. Sommers, Dellwo, Blanton, Grant, Kessler, Hankins and Scheuerman

Read first time 01/17/96. Referred to Committee on Financial Institutions & Insurance.

1 AN ACT Relating to the dissolution of the Washington credit union
2 share guaranty association; amending RCW 31.12A.050; adding new
3 sections to chapter 31.12A RCW; adding a new section to chapter 31.12
4 RCW; creating a new section; repealing RCW 31.12A.005, 31.12A.010,
5 31.12A.020, 31.12A.030, 31.12A.040, 31.12A.050, 31.12A.060, 31.12A.070,
6 31.12A.080, 31.12A.090, 31.12A.100, 31.12A.110, 31.12A.120, 31.12A.130,
7 31.12A.140, 31.12A.900, 31.12A.910, 31.12A.920, 31.12A.930, 31.12A.940,
8 31.12A.--- (section 2 of this act), and 31.12A.--- (section 5 of this
9 act); repealing 1996 c -- s 1 (section 1 of this act); providing
10 effective dates; and declaring an emergency.

11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

12 NEW SECTION. **Sec. 1.** The Washington credit union share guaranty
13 association was created by the legislature in 1975. For over twenty
14 years, the association has guaranteed against the loss of credit union
15 customers' share and deposit accounts in a liquidating member credit
16 union, and has provided other services to promote the stability of
17 state-chartered credit unions. Thirty-member credit unions have been
18 assisted by the association to transition their customers to other
19 credit unions. No person has lost any funds in a credit union

1 guaranteed by the association. However, the changing financial
2 services environment that credit unions operate in, consolidation
3 between credit unions, and competitive pressures have caused the
4 membership of the association to review its operations. The membership
5 recommends that a voluntary, orderly dissolution of the association is
6 in the best interest of its member credit unions and their customers.

7 NEW SECTION. **Sec. 2.** A new section is added to chapter 31.12A RCW
8 to read as follows:

9 (1) Each member with a rating by the department of three, four, or
10 five, as of the effective date of this act, shall comply with
11 subsection (2) of this section by September 1, 1996. Each member with
12 a rating of one or two by the department, as of the effective date of
13 this act, shall comply with subsection (2) of this section by December
14 1, 1996. For purposes of this subsection, "rating" means the composite
15 analysis of capital, asset quality, management, earnings, and
16 liquidity. All unencumbered reserves, including the contingency
17 reserve, shall be included as capital by the department for purposes of
18 determining the rating.

19 (2) Each member shall file a:

20 (a) Completed application with the national credit union
21 administration to be insured under the federal share insurance program
22 or file a completed application with an approved private insurer, with
23 a copy forwarded to the director by the applicant within five working
24 days of filing the application;

25 (b) Detailed notice of voluntary liquidation of the credit union
26 with the director under RCW 31.12.725; or

27 (c) Completed application to merge into a credit union that is
28 insured under the federal share insurance program or has submitted an
29 application to convert to federal insurance or an approved private
30 insurer with the director under RCW 31.12.695.

31 (3) Each member shall forward a copy of the application or notice
32 required under subsection (2) of this section to the association within
33 five working days of filing the application or notice.

34 (4)(a) The guaranty by the association shall terminate upon the
35 member's completion of conversion to insurance of share accounts under
36 the federal share insurance program or an approved private insurer, or
37 liquidation or merger as applicable, with written approval of the
38 director.

1 (b) If a member fails to complete conversion, liquidation, or
2 merger by December 31, 1998, the director shall appoint a liquidating
3 agent for the involuntary liquidation of the member credit union under
4 RCW 31.12.675 and 31.12.685 as if the member were insolvent.

5 (5) All credit unions that were members of the association on
6 December 31, 1995, regardless of whether they have notified the
7 association of their intent to withdraw, shall continue to maintain
8 their contingency reserve under RCW 31.12A.050 and any other reserve,
9 and shall continue to be liable for assessments under RCW 31.12A.090 as
10 if they were members, until December 31, 1998.

11 (6) The association, in cooperation with the department, shall
12 assist members in their efforts to meet the requirements of this
13 section, section 3 of this act, and RCW 31.12A.050, particularly
14 subsection (2) of this section.

15 (7) Until December 31, 2000, those credit unions that were members
16 of the association as of December 31, 1995, shall maintain governance
17 of the association in accordance with the bylaws of the association in
18 effect that are not in conflict with chapter . . . , Laws of 1996 (this
19 act) and its purpose to effect the association's orderly dissolution.

20 NEW SECTION. **Sec. 3.** A new section is added to chapter 31.12 RCW
21 to read as follows:

22 (1) Except as provided in subsection (2) of this section, a credit
23 union shall be a member of:

24 (a) The federal share insurance program under the national credit
25 union administration; or

26 (b) A share deposit insurance provider approved by the director
27 that will assure that deposits are protected at similar risk levels as
28 the federal deposit insurance system.

29 (2) Credit unions that were members of the Washington credit union
30 share guaranty association on December 31, 1995, may continue to
31 guarantee deposits through the association until those credit unions
32 have terminated their memberships as provided in section 2 of this act.

33 **Sec. 4.** RCW 31.12A.050 and 1994 c 92 s 227 are each amended to
34 read as follows:

35 (1) Funding of the association shall be by transfers to a share
36 guaranty association contingency reserve as follows:

1 (a) Credit unions approved by the director and ratified by the
2 board for membership subsequent to those initial members shall
3 establish a share guaranty association contingency reserve by
4 transferring from their guaranty fund an amount equal to one-half of
5 one percent of the total guaranteeable outstanding share and deposit
6 balances as of the date of membership. When one member credit union is
7 merged into another member credit union, the continuing credit union
8 shall include in its share guaranty contingency reserve the share
9 guaranty contingency reserve of the merged credit union. A nonmember
10 credit union merging with a member credit union must transfer into the
11 share guaranty contingency reserve of the continuing credit union an
12 amount equal to one-half of one percent of the total guaranteeable
13 outstanding share and deposit balances of the nonmember credit union as
14 of the effective date of the merger, as determined by the director.

15 (b) On the first business day of each year, member credit unions
16 shall make a transfer of an amount sufficient to adjust the contingency
17 reserve to a level of one-half of one percent of the guaranteeable
18 outstanding share and deposit balances as of December 31st of the
19 previous year. If the member's guaranteeable outstanding share and
20 deposit balances decrease from the previous year, any excess which may
21 then appear in the contingency reserve may be transferred to the
22 guaranty fund.

23 (c) The board may require one additional transfer during the
24 calendar year of an amount not to exceed one-half of one percent of the
25 guaranteeable outstanding share and deposit balances as of December
26 31st of the previous year. Credit unions which have merged during the
27 year and credit unions which have joined during the year will be
28 subject to the one additional transfer, even if that required transfer
29 occurred before ratification of the joining member or the merger of the
30 two credit unions. The transfer will be based on the guaranteeable
31 share and deposit balances of those credit unions as of the following
32 dates:

33 (i) For new members, the balances as of the date of membership;

34 (ii) For members that merge, the sum of the balances as of December
35 31st of the previous year;

36 (iii) For a nonmember merging with a member, the sum of the
37 member's balances as of December 31st of the previous year, and of the
38 nonmember's balances as of the effective date of the merger.

1 (2) Sums specified in subsection (1) of this section may be offset
2 from the statutory transfer requirement to the guaranty fund and shall
3 be retained in the credit union share guaranty contingency reserve as
4 an integral part of its guaranty fund until such time and if necessary
5 to be drawn for the purposes set forth in this chapter.

6 (3) Members' share guaranty association contingency reserve funds
7 shall be invested in investments as permitted in the bylaws of the
8 association.

9 (4) The board, in concurrence with the director, may also suspend
10 or diminish the transfer in any given period after reaching a normal
11 operating sufficiency as provided in the bylaws.

12 ~~((5) Membership in this association may be terminated upon
13 approval by a majority of the credit union members responding to such
14 a proposal and subject further to acceptance by the national credit
15 union administration of continued share insurance coverage under the
16 national credit union administration share insurance program. Notice
17 of such intentions shall be in writing to the association's board of
18 directors at least twelve months prior to such contemplated action:
19 PROVIDED, That in the event that the credit union board has voted to
20 recommend to the membership liquidation, conversion from state to
21 federal credit union charter, or merger with or conversion to a credit
22 union organized under the laws of another state, the liquidating,
23 converting, or merging member will notify the association in writing
24 within seven days after the credit union board has taken such action.
25 Share guarantee coverage through the association will terminate with
26 the effective date of the new charter or completion of the liquidation
27 or merger as determined by the director.~~

28 ~~(6) Except for a credit union merging with a member credit union,
29 any credit union terminating membership in the association shall be
30 assessed its pro rata share of the difference, if any, between the
31 association's current liability for contracted guarantees and the
32 amount from previous assessments currently held for contracted
33 guarantees by the association. Such difference shall be determined by
34 the director at the time the membership is terminated. If the amount
35 of the assessment exceeds the amount of the actual obligation when
36 finalized, the excess shall be refunded in the same proportion as
37 paid.)~~

1 NEW SECTION. **Sec. 5.** A new section is added to chapter 31.12A RCW
2 to read as follows:

3 If a member whose application for insurance of share accounts is
4 approved by the national credit union administration or a similar share
5 deposit insurance provider authorized in section 3(1)(b) of this act
6 fails to complete the insurance conversion, the failure will constitute
7 an unsafe and unsound condition or practice that seriously jeopardizes
8 the interests of the member's depositors and shareholders. The failure
9 shall constitute grounds for the director to issue a temporary order
10 under RCW 31.12.595 requiring the member to complete the insurance
11 conversion and to take such other action as the director deems
12 necessary, and shall constitute grounds for the director to issue a
13 notice of charges under RCW 31.12.585.

14 NEW SECTION. **Sec. 6.** The following acts or parts of acts are each
15 repealed:

- 16 (1) RCW 31.12A.005 and 1982 c 67 s 1 & 1975 1st ex.s. c 80 s 2;
- 17 (2) RCW 31.12A.010 and 1994 c 92 s 225, 1985 c 7 s 98, 1983 c 48 s
18 1, 1982 c 67 s 2, 1980 c 41 s 11, & 1975 1st ex.s. c 80 s 3;
- 19 (3) RCW 31.12A.020 and 1975 1st ex.s. c 80 s 4;
- 20 (4) RCW 31.12A.030 and 1985 c 7 s 99, 1982 c 67 s 3, & 1975 1st
21 ex.s. c 80 s 5;
- 22 (5) RCW 31.12A.040 and 1994 c 92 s 226, 1982 c 67 s 4, & 1975 1st
23 ex.s. c 80 s 6;
- 24 (6) RCW 31.12A.050 and 1996 c . . . s 4 (section 4 of this act),
25 1994 c 92 s 227, 1983 c 48 s 2, 1982 c 67 s 5, 1980 c 41 s 12, & 1975
26 1st ex.s. c 80 s 7;
- 27 (7) RCW 31.12A.060 and 1982 c 67 s 6 & 1975 1st ex.s. c 80 s 8;
- 28 (8) RCW 31.12A.070 and 1994 c 92 s 228 & 1975 1st ex.s. c 80 s 9;
- 29 (9) RCW 31.12A.080 and 1994 c 92 s 229 & 1975 1st ex.s. c 80 s 10;
- 30 (10) RCW 31.12A.090 and 1994 c 92 s 230, 1982 c 67 s 7, & 1975 1st
31 ex.s. c 80 s 11;
- 32 (11) RCW 31.12A.100 and 1994 c 92 s 231 & 1975 1st ex.s. c 80 s 12;
- 33 (12) RCW 31.12A.110 and 1975 1st ex.s. c 80 s 13;
- 34 (13) RCW 31.12A.120 and 1994 c 92 s 232 & 1975 1st ex.s. c 80 s 14;
- 35 (14) RCW 31.12A.130 and 1975 1st ex.s. c 80 s 15;
- 36 (15) RCW 31.12A.140 and 1994 c 92 s 233 & 1975 1st ex.s. c 80 s 16;
- 37 (16) RCW 31.12A.900 and 1975 1st ex.s. c 80 s 17;
- 38 (17) RCW 31.12A.910 and 1975 1st ex.s. c 80 s 18;

- 1 (18) RCW 31.12A.920 and 1975 1st ex.s. c 80 s 19;
2 (19) RCW 31.12A.930 and 1975 1st ex.s. c 80 s 21;
3 (20) RCW 31.12A.940 and 1975 1st ex.s. c 80 s 20;
4 (21) 1996 c . . . s 1 (section 1 of this act);
5 (22) RCW 31.12A.--- (section 2 of this act); and
6 (23) RCW 31.12A.--- (section 5 of this act).

7 NEW SECTION. **Sec. 7.** (1) Sections 1 through 4 of this act are
8 necessary for the immediate preservation of the public peace, health,
9 or safety, or support of the state government and its existing public
10 institutions, and shall take effect immediately.

11 (2) Section 5 of this act shall take effect January 1, 1998.

12 (3) Section 6 of this act shall take effect December 31, 2000.

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