HOUSE BILL REPORT

HB 1396

As Reported By House Committee On:
State Government

Title: An act relating to the creation of the department of financial institutions.

Brief Description: Creating a department of financial institutions.

Sponsors: Representatives Anderson, Zellinsky, Mielke, Reams, Wineberry and Dellwo.

Brief History:
Reported by House Committee on:
State Government, February 17, 1993, DPS.

HOUSE COMMITTEE ON STATE GOVERNMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Anderson, Chair; Veloria, Vice Chair; Reams, Ranking Minority Member; Vance, Assistant Ranking Minority Member; Campbell; Conway; Dyer; King; and Pruitt.

Staff: Bonnie Austin (786-7135).

Background: State-chartered financial institutions are regulated by two separate divisions within the Department of General Administration (GA). The Division of Banking charters, examines, and regulates state-chartered commercial banks, savings banks, trust companies, and alien institutions. The Division of Banking also licenses consumer loan companies and check cashers and sellers. The Division of Savings and Loan charters, examines, and regulates state-chartered credit unions and savings and loan associations. Both divisions maintain their own administrative and examination staff.

A report issued by an industry advisory panel to GA in November 1992 recommends the consolidation of these two divisions into a new Department of Financial Institutions. The new department would have divisions to regulate: (1) FDIC-insured institutions; (2) credit unions; and (3) consumer loan companies and check cashers and sellers. The report also recommended the creation of an advisory board composed of the regulated industries and the general public.

The industry panel cited several reasons for its recommendations. First, a department devoted solely to the regulation of financial institutions will have increased visibility and concentration of effort concerning regulatory issues. Second, the combination of like functions is anticipated to improve the quality and efficiency of the regulatory process. Third, the unique missions of these two divisions currently make them isolated within GA.

The industry panel also believes that the creation of an advisory board will: ensure, open, and direct communication between the department and the regulated industries; provide a forum for communication and reaching consensus on issues; and provide a mechanism to insure that all concerned parties have access to decision-makers in the regulatory process.

Summary of Substitute Bill: The Department of Financial Institutions is created. All powers, duties, functions, assets, documents, rules, pending business and employees of the Division of Banking and the Division of Savings and Loan within GA are transferred to the new department. Existing collective bargaining agreements and civil services laws must be complied within the transfer. The Office of Financial Management will resolve any disputes arising from the transfer.

The director of the department is appointed by the governor with the advice of the financial institutions advisory panel. The director is granted all powers and functions currently possessed by GA with respect to the entities regulated by the Division of Banking and the Division of Savings and Loan.

The new department will have at least the following divisions: (1) A division of FDIC-insured institutions; (2) a division of credit unions; and (3) a division of consumer affairs. The director will appoint assistant directors for each division.

A financial institutions advisory board is created. The board will: (1) Advise the governor on the appointment of the director; (2) advise the director, at his or her request, on broad policy and operational issues; and (3) provide information to their respective groups on the administration of the department. The board will have eight members and will be composed of two members of the general public and six industry members, including one member each of state-chartered commercial banks, consumer loan companies, credit unions, savings banks, savings and loan associations, and trust companies.

Substitute Bill Compared to Original Bill: The advisory board is reduced in size from 12 to eight members. Language is added clarifying that the transfer will take effect no later than July 1, 1994, and GA will retain its regulatory authority until the transfer is complete. Other technical changes are made.

Fiscal Note: Available.

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

Testimony For: The regulated industries support this bill. Credit unions are unique and need a separate division as this bill requires. Ensuring the safety and soundness of deposits is the main goal of more focused regulation. Retaining a dual-charter system is also important. The advisory board does not need to be in the statute. The advisory board should be in the statute. This bill has been around since 1977, but now the regulated industries have overcome their turf battles and are ready to proceed.

Testimony Against: None.

Witnesses: Scott Gaspard, Washington Savings League (pro); Dave Adams, Washington Credit Union League (pro); Bill Brandt, Washington State Employees Credit Union (pro); Tom Lundbom, Twin County Credit Union (pro); and Jerry Gordon, Beneficial (pro).