

SENATE BILL REPORT

SB 6355

As Passed Senate, February 10, 1998

Title: An act relating to share insurance for credit unions.

Brief Description: Regulating share insurance for credit unions.

Sponsors: Senators Winsley, Prentice, Sellar, Heavey, Benton and Hale; by request of Department of Financial Institutions.

Brief History:

Committee Activity: Financial Institutions, Insurance & Housing: 1/22/98, 1/28/98 [DP]. Passed Senate, 2/10/98, 48-0.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, INSURANCE & HOUSING

Majority Report: Do pass.

Signed by Senators Winsley, Chair; Benton, Vice Chair; Finkbeiner, Hale, Heavey, Kline and Prentice.

Staff: Dave Cheal (786-7576)

Background: In 1975, the Legislature enacted a program of credit union share and deposit guarantee known as the Washington Credit Union Share Guarantee Association (WCUSGA). In 1996, the Legislature required credit unions insured under the WCUSGA to convert to federal share/deposit insurance by December 31, 1998. To date, 67 of the 71 affected credit unions have received approval from the National Credit Union Administration to convert to federal insurance.

WCUSGA members that convert to federal insurance after the effective date of the 1996 act must maintain contingency and capital reserves available to WCUSGA until December 31, 1998. WCUSGA itself must wind up its affairs by December 31, 2000.

Several technical issues have arisen concerning the phase out of WCUSGA. For example, there is no indication in the WCUSGA dissolution act as to how the organization should dissolve. The organization does not seem to be subject to any other law specifying a process for dissolution. Also, at the time WCUSGA dissolves, remaining assets must be distributed to former members. There is no indication in the dissolution act as to which former members are entitled to receive a distribution, or what the basis for the pro rata distribution should be. The 1996 dissolution bill requires that credit unions must either convert to federal share insurance, merge with a federally insured credit union, or dissolve by the end of 1998. An issue has arisen as to whether credit unions with a very high safety and soundness rating that have not technically qualified for federal insurance by that deadline should be allowed an interim period with insurance approved by the director of the Department of Financial Institutions.

Summary of Bill: The expiration of WCUSGA's share/deposit guarantee is confirmed to be December 31, 1998, at the latest. The director is authorized to put a credit union into conservatorship or receivership if it fails to obtain federal insurance or to obtain interim insurance approved by the director by the end of 1998.

The amount of WCUSGA reserves to be maintained by former members is based on the shares of that member as of year end prior to its conversion to federal insurance. Further details are provided for the dissolution of WCUSGA and the distribution of assets. Dissolution does not affect certain internal corporate governance of WCUSGA.

A method is provided for notifying creditors of dissolution and providing a means of accepting or rejecting claims against the organization. If a claim is not filed within 12 months after the effective date of dissolution, it will be forever barred.

Articles of dissolution must be filed with the director by the officers of WCUSGA after the organization has been dissolved and liquidated.

By the end of 1998, and after that date, credit unions must have federal insurance or interim insurance approved by the director as described in the bill. Credit unions with a high safety and soundness rating which have not been approved for federal insurance by September 30, 1998, can be insured under a program approved by the director until July 1, 2001. At that time, credit unions must obtain federal insurance or an equivalent share insurance program as provided under current law.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: Some technical aspects of the final dissolution of the guaranty association need to be addressed. This bill provides a little extra time for credit unions that are financially sound to meet the conversion requirement.

Testimony Against: None.

Testified: Parker Cann, DFI (pro); Joel Edwards, WA Credit Union Share Guaranty Association (pro).

House Amendment(s): The expiration of the director's authority to liquidate a credit union that has not met a final extended deadline is extended from July 1, 2001, to September 1, 2001.