

SENATE BILL REPORT

SB 5058

As Reported By Senate Committee On:
Commerce, Trade, Housing & Financial Institutions, January 28, 1999

Title: An act relating to the establishment and authority to conduct the business of state-chartered financial institutions.

Brief Description: Regulating certain financial institutions.

Sponsors: Senators Prentice and Winsley; by request of Department of Financial Institutions.

Brief History:

Committee Activity: Commerce, Trade, Housing & Financial Institutions: 1/21/99, 1/28/99 [DPS].

SENATE COMMITTEE ON COMMERCE, TRADE, HOUSING & FINANCIAL INSTITUTIONS

Majority Report: That Substitute Senate Bill No. 5058 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Shin, Vice Chair; Benton, Gardner, Hale, Heavey, Rasmussen, T. Sheldon and Winsley.

Staff: Susan Jones (786-7784)

Background: Presently, an existing mutual savings bank may convert to a stock savings bank. However, the law does not allow for initial organization of a stock savings bank. The Department of Financial Institutions (DFI) has established a process which allows organizers to form a mutual savings bank and simultaneously convert the bank to a stock savings bank. This is a cumbersome process for DFI and the mutual savings bank.

Washington-based savings banks and savings and loans' assets are the largest in the nation. However, DFI is continually working to make state charters more attractive while implementing effective safety and soundness measures for state-chartered financial institutions. Simplification of administration and operation for state-chartered financial institutions may make state charters more attractive.

Currently, DFI must periodically interpret or clarify the application of state and federal law. Interpreting and clarifying the law can be time-consuming for DFI. In addition, unclear application of the law may have negative impacts on state-chartered financial institutions.

Summary of Substitute Bill: Organizers of a new institution may incorporate a stock savings bank under provisions similar to those required of commercial banks or mutual savings banks including provisions related to paid in capital stock, information required in

the articles of incorporation, and investigation and determination by the director of the suitability of the bank.

State savings banks may provide pension or retirement benefits and health insurance for employees after approval by the board of trustees or a board committee as long as none of the committee members are officers. All compensation for a savings bank's officers and employees must be approved by the board of trustees or a board committee as long as none of the committee members are officers.

The law is clarified to specifically allow the board of a savings bank to authorize certain borrowings by means of a resolution, policy, or other governing document. A condition to certain investment powers is repealed. The dates of the state parity provisions are updated to allow state-chartered savings banks the same powers available to federally-chartered savings banks.

Interpretation of federal law and Washington State parity provisions is no longer required to confirm the following: (1) that a savings bank has the authority to make payments with satisfactory information that the recipient is entitled to the payment; (2) that savings banks may classify depositors and regulate interest based on the local markets of its branches; (3) that a mutual or converted savings bank's funds include borrowings, which may be invested; and (4) that all the investment options available for federally-chartered savings banks are available for state-chartered savings banks.

Consistent with federal law, a savings bank's board of trustees must meet at least six times during any year.

A stock savings bank may directly convert to a savings bank without capital stock and any dissenting shareholders must receive their share value. A commercial bank may directly convert to a savings bank and a savings bank may directly convert to a commercial bank. A savings bank without capital may also directly convert to a credit union. The ability of savings banks to merge with other financial institutions is clarified and expanded.

Many of the changes do not create new substantive law; rather, they codify DFI's interpretations or they modernize and streamline cumbersome administrative processes.

Substitute Bill Compared to Original Bill: The substitute bill changes the placement of new sections in the RCW. The substitute bill deletes certain words in a new section to be consistent with a change made by the original bill. The substitute bill adds language to permissible investments of savings banks to avoid future amendments as new types of entities are available. The substitute bill amends certain terminology and the use of a term.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The bill does not increase the current powers or authorities of savings banks. The bill clarifies in statute the application of federal and state laws, including

Washington's parity statute allowing state-chartered savings banks to have the same powers as federally-chartered savings banks. Current procedures to form a stock savings bank are complicated. The bill streamlines the process.

Testimony Against: None.

Testified: PRO: John Bley, Director, Department of Financial Institutions; Scott Gaspard, President, Washington Savings League; Greg Pierce, Director, Government Relations, Washington Savings League.