

HOUSE BILL REPORT

HB 1327

As Reported by House Committee On: Business & Financial Services

Title: An act relating to increasing the permissible deposit of public funds with credit unions and authorizing the deposit of public funds at federally chartered credit unions.

Brief Description: Increasing the permissible deposit of public funds with credit unions.

Sponsors: Representatives Kirby, Warnick, Miloscia, Fitzgibbon and Roberts.

Brief History:

Committee Activity:

Business & Financial Services: 1/27/11, 1/28/11 [DP].

Brief Summary of Bill

- Allows credit unions to accept deposits of public funds up to the amount insured by the National Credit Union Share Insurance Fund.
- Allows federally chartered credit unions to accept deposits of public funds.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: Do pass. Signed by 12 members: Representatives Kirby, Chair; Kelley, Vice Chair; Bailey, Ranking Minority Member; Buys, Assistant Ranking Minority Member; Blake, Condotta, Hurst, Parker, Pedersen, Rivers, Ryu and Stanford.

Staff: Alison Hellberg (786-7152).

Background:

Public funds may only be deposited in financial institutions that have been designated as public depositories by the Public Deposit Protection Commission (Commission). The Commission was established in 1969 and is comprised of the Governor, the Lieutenant Governor, and the State Treasurer. The Commission is responsible for protecting all public funds deposited in public depositories. "Public funds" are those moneys belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees, and includes moneys held in trust.

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

A "public depository" is defined as a financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has been approved by the Commission to hold public deposits, and which has segregated for the benefit of the Commission eligible collateral having a value of not less than its maximum liability.

To be approved as a public depository, a financial institution must meet minimum requirements of the Commission and must pledge securities as collateral to protect public funds on deposit in all public depositories (not just for that particular institution). If deposit insurance and collateral pledged by a failed institution are insufficient to reimburse all public depositors, the other public depositories are each assessed a proportionate share of the shortfall.

Credit unions doing business in Washington can be chartered by the state or federal government. The Department of Financial Institutions regulates state-chartered credit unions. The National Credit Union Share Insurance Fund (NCUSIF) insures deposits in credit unions up to \$250,000.

Legislation enacted in 2010 allows state-chartered credit unions to accept public deposits starting on July 1, 2011. Credit unions may accept the lesser of the federal deposit insurance limits or \$100,000. The maximum deposit applies to all funds attributable to any one depositor of public funds in any one credit union. Credit unions will be subject to Commission reporting requirements, but will not be part of the public depository pool.

Summary of Bill:

Credit unions may accept deposits up to the amount insured by the NCUSIF. In addition to state-chartered credit unions, federally chartered credit unions may also accept public deposits.

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) This bill is meant to fix some items that were left out of last year's bill. An important change in the bill is to set the permissible deposit limits at the federal insured amount rather than setting an amount. There will be no need to keep going back and changing the amount. One part of the financial reform was to make the level of insurance

permanent at \$250,000. This bill allows federally chartered credit unions to accept public deposits. Both types of credit unions have the same insurance, which is also the same as banks.

This bill gives public entities a choice. Some public entities would like to place some amount of public funds in credit unions. Credit unions will never compete with banks for large public deposits.

(With concerns) Credit unions were originally granted tax exemptions because of the nature of their institutions. They were comprised of members who are individuals with a common bond. As credit unions expand their offerings and their membership, they compete with banks. It puts community banks at a significant disadvantage because of their tax burden. Banks are significant tax payers in this state and credit unions pay much less in taxes. When this bill goes into effect credit unions will be competing directly with community banks. In the future, the tax burden on banks should be considered when expanding credit union offerings.

(Opposed) None.

Persons Testifying: (In support) Representative Kirby, prime sponsor; Larry Hoff, Fibre Federal Credit Union; and Debie Keese, Spokane Media Federal Credit Union.

(With concerns) Denny Eliason, Washington Bankers Association; and Brad Tower, Community Bankers of Washington.

Persons Signed In To Testify But Not Testifying: None.