

SENATE BILL REPORT

HB 1466

As of March 9, 2011

Title: An act relating to the department of financial institutions' regulation of trust companies.

Brief Description: Allowing trust companies to be organized as, or convert to, limited liability companies under certain conditions.

Sponsors: Representatives Kirby and Bailey.

Brief History: Passed House: 3/01/11, 96-1.

Committee Activity: Financial Institutions, Housing & Insurance: 3/08/11.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Staff: Edward Redmond (786-7471)

Background: Washington State currently allows many types of businesses to form as Limited Liability Companies (LLCs), or convert to LLCs. A LLC is formed by one or more individuals or entities through a special written agreement, which provides such details as management structure and distribution of profits or loss. LLCs are popular because, similar to a corporation, owners have limited personal liability for the debts and actions of the LLC. LLCs also provide management flexibility and the benefit of pass-through taxation generally applied to partnerships.

Trust companies are corporations other than banks, savings banks, or savings associations that provide fiduciary and wealth management services. The Department of Financial Institutions (DFI) charters, examines, and regulates commercial banks, savings banks, and trust companies. In 2006 banks, bank holding companies, and savings banks were authorized to form or convert to LLCs after obtaining approval from DFI.

A qualified financial institution intending to become an LLC must satisfy various regulatory requirements. Such requirements include, but are not limited to meeting minimum safety and soundness standards; prohibiting automatic termination, dissolution, or suspension; and qualifying for insurability of deposits through the Federal Deposit Insurance Corporation.

Summary of Bill: A trust company may form or convert to a LLC after obtaining approval from DFI. Approval is based upon the same conditions set for banks, bank holding companies, and savings banks.

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.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: This bill is a technical correction. Back in 2006, legislation passed which allowed banks and their holding companies to convert to LLCs. Trust companies were inadvertently left out of that legislation. This bill corrects that error by allowing trust companies to form or convert to LLCs. This bill provides trust companies with the same flexibility of corporate formation and tax uniformity that banks currently enjoy. Perkins Coie has worked closely with the support of DFI in crafting this legislation. Under this bill, trust companies will remain under the regulation of DFI while providing the companies with a simpler governance structure. DFI is in support of the bill. It is a technical amendment that allows trust companies to operate in the same manner as our state-chartered banks and it is good for business.

Persons Testifying: PRO: Representative Kirby, prime sponsor; Jessica Fortescue, Perkins Coie; Catherine Mele-Hetter, Joe Vincent, Department of Financial Institutions.