

SENATE BILL REPORT

SB 5913

As Reported by Senate Committee On:
Financial Institutions, Housing & Insurance, January 17, 2012

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: Senators Prentice, Hobbs and Benton.

Brief History:

Committee Activity: Financial Institutions, Housing & Insurance: 1/11/12, 1/17/12 [DP, w/oRec].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: Do pass.

Signed by Senators Hobbs, Chair; Prentice, Vice Chair; Benton, Ranking Minority Member; Haugen and Keiser.

Minority Report: That it be referred without recommendation.

Signed by Senator Fain.

Staff: Edward Redmond (786-7471)

Background: Credit unions are nonprofit corporations that promote thrift and create a source of credit for their members at reasonable rates of interest. Seven or more natural persons who reside in Washington may apply to the Director of the Department of Financial Institutions for permission to organize as a credit union. Upon the Director's endorsement that the proposed articles of incorporation and bylaws are consistent with legal requirements, and at the Director's determination that the proposed credit union is feasible, the formation of the credit union may proceed. One of the requirements of the bylaws is a statement of the credit union's field of membership. A credit union's field of membership is the limitation of membership to those having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district.

The powers of a credit union are specified in statute. These powers include receiving deposits, making loans, and paying dividends and interest, among others. National Credit

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Union Share Insurance Fund (NCUSIF) has insured deposits in credit unions of up to \$250,000 since September 2010.

Public funds are those monies belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees, and includes monies held in trust. During the 2010 legislative session, credit unions were authorized to receive public deposits up to the lesser amount of \$100,000 or the maximum deposit insurance by NCUSIF.

Summary of Bill: State and federally chartered credit unions are public depositories only for the purpose of receiving public deposits, which may total no more than the federal deposit insurance limit. The maximum amount of deposit applies to all funds attributable to any one depositor of public funds in any one credit union. Credit unions are subject to the same reporting requirements as are public depositories.

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: Spokane Media Federal Credit Union (SMFCU) supports the removal of provisions in current law that only allow for state-chartered credit unions to operate as public depositories. Allowing federally chartered credit unions to hold public deposits will provide more options for public entities to use this service. SMFCU supports the increase in deposit limit to NCUSIF limit enacted under the 2010 Dodd-Frank Wall Street Reform Act. Northwest Credit Union Association (NWCUA) wants to make it clear that this bill does not make the credit unions part of the public deposit credit pool, as credit unions will be at or below the federal deposit insurance limit. This bill is a member service bill because it removes the barriers for public entities to deposit funds in credit unions; this bill gives them a choice. The Office of the State Treasurer (OST) is in support of this bill and finds it beneficial to bring both state and federally chartered credit unions into the public deposit pool.

CON: Community banks are opposed to the bill because it deviates from the original purpose and justification given for credit unions' current tax treatment. It also further enables the erosion of the current tax base when those public funds are used to back lending that would otherwise be obtained through taxable institutions. The Washington Bankers Association (WBA) is opposed to the bill but appreciates two important portions in the bill: limiting credit union public deposits to the maximum NCUSIF insurance limit and protections through the Public Deposit Protection Commission. WBA is opposed to this bill because credit unions compete against our banks on an untaxed basis. Every time a bank competes with a credit union on the same product offering, they do so with at least a 30 percent disadvantage because credit unions do not pay B&O or federal income tax. In 2010 banks paid approximately \$170 million in state taxes, and by 2013 these tax obligations are due to double given the full implementation of the nexus law. Credit unions paid less than 2

percent of that amount and no federal taxes. If credit unions had the same tax obligations, this would bring in approximately \$31 million per year to the state treasury. Hence, every time you broaden offerings of credit unions, you take money from the state and federal treasury while putting large and community banks at a disadvantage.

Persons Testifying: PRO: Debie Keese, SMFCU; Stacy Augustine, NWCUA; Wolfgang Opitz, OST.

CON: Brad Tower, Community Bankers of WA; Denny Eliason, WA Bankers Assn.