

SENATE BILL REPORT

SB 5302

As of February 12, 2013

Title: An act relating to credit unions' corporate governance and investments.

Brief Description: Addressing credit unions' corporate governance and investments.

Sponsors: Senators Benton and Hobbs.

Brief History:

Committee Activity: Financial Institutions, Housing & Insurance: 2/07/13.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Staff: Edward Redmond (786-7471)

Background: The Washington State Credit Union Act (WSCUA) provides the statutory framework for credit union organization, governance, and investments in the state. Credit unions are nonprofit corporations that promote thrift among their members and create a source of credit for their members at competitive rates of interest. Seven or more natural persons who reside in Washington may apply to the Department of Financial Institutions (DFI) for permission to organize as a credit union.

In 2012, the Northwest Credit Union Association formed a Washington State Model Act subcommittee to identify and provide recommendations to amend WSCUA in order to advance the charter and operating environment for credit unions in the state. The subcommittee's recommendations incorporate substantive changes to WSCUA's corporate governance and investment provisions.

Summary of Bill: Special Membership Meetings. The secretary of the credit union must designate a time for a special membership meeting no later than 90 days after the request for such meeting has been received. The secretary must give at least 30 days' notice before the special membership meeting or within such reasonable time as provided by the bylaws. The notice must include the purpose for which the special membership meeting is being called and if the meeting is being called for the removal of a director, the notice must include that director's name.

Minimum Regular Board Meetings per Calendar Year. The board must have at least six regular board meetings per year with at least one meeting occurring per quarter. The director

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may also require additional meetings of the board if it is deemed necessary to address issues noted in any examination by DFI.

Director's Duty to Attend Regular Board Meeting. A director has a duty to attend all regular board meetings. If a director is absent from more than a quarter of such meetings in a 12 month term without being reasonably excused by the board of directors, the director will be disqualified from serving in such role for the remaining period of the term.

For-Cause Suspension of a Board Member or Member of the Supervisory Committee. The board of directors may suspend a member of the board or a member of the supervisory committee for cause until a special membership meeting is held to adjudicate such matters. The special membership meeting must be held within 60 days after the suspension has been made.

Directors and Supervisory Committee Members Compensation. A credit union may pay its directors and supervisory committee members reasonable compensation for their services. A credit union may also provide its directors and supervisory committee members gifts of minimal value, insurance coverage or incidental services available to employees generally, and reimbursement for reasonable expenses incurred by such individuals and their spouses in the performance of their duties.

Loans to Directors, Supervisory Committee Members, and Credit Committee Members. A credit union may make secured and unsecured loans to its directors, supervisory committee members, and credit committee members so long as such loans are made under the terms and conditions as those made to members generally.

Investment of Credit Union Funds. A credit union may invest in mutual funds so long as the investment portfolio is restricted to investments and investment transactions that are authorized for credit unions.

Investment in Real Property. A credit union may invest in real property or leasehold interest including, but not limited to, structures and fixtures attached to real property for its own use or the use of a credit union service organization in conducting business subject to statutory limitations.

Specified time requirements for occupancy of the property must be adhered to if the real property or leasehold property interest is acquired for future expansion. The credit union must partially occupy the premises within three years after making the investment if the property is improved at the time of acquisition. If the premises are not improved at the time of acquisition, the credit union must occupy the premises within six years after making such investment.

Voting Requirements for Mergers. A credit union may be merged with another credit union if such merger is approved by the director, a majority vote of the board of both credit unions, and a two-thirds vote from the members of the merging credit union voting on the merger at a membership meeting.

Director's Authority to Call a Special Meeting of the Board. The director may request a special board meeting if it is necessary for the welfare of the credit union. The director's request for a special board meeting must be made in writing to the secretary of the board. The secretary must designate a time and place for the special board meeting which must be held within 30 days after the secretary's receipt of the request from the director.

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: The 109 credit unions in this state currently serve approximately 43 percent of Washington's population and approximately 22 percent of the market share. Credit unions need the tools to continue to serve Washington communities. In 2012 the Washington model act taskforce looked at the entire WSCUA to identify the barriers credit unions face today and the possible statutory changes that could be made to improve WSCUA. The bill before the committee represents the taskforce's recommendations for improving WSCUA.

OTHER: The credit unions provided DFI with the proposed amendments to the WSCUA. DFI worked with the credit unions and provided technical advice. The language in this bill provides the regulatory tools to ensure credit unions continue to be safe and sound. If the bill passes, DFI will be able to successfully implement it.

The Washington Bankers Association (WBA) initially expressed concerns regarding provisions in earlier drafts that dealt with supplemental capital. WBA would appreciate the removal of those provisions and pending such removal, WBA would no longer have an objection to the bill. The Community Bankers of Washington also appreciate the removal of the supplemental capital provisions and are now neutral on the bill.

Persons Testifying: PRO: Troy Stang, NW Credit Union Assn.; Christina Lethlean, Gesa Credit Union; Harold Scoggins, Farleigh Wada Witt.

OTHER: Linda Jekel, DFI; Denny Eliason, WA Bankers Assn.; Brad Tower, Community Bankers of WA.