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**Business & Financial Services Committee**

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**HB 1872**

**Brief Description:** Addressing credit unions' capital.

**Sponsors:** Representative Ryu.

**Brief Summary of Bill**

- Permits state-chartered credit unions to take on secondary capital accounts.
- Includes secondary capital accounts in the calculation of capital.

**Hearing Date:** 2/11/15

**Staff:** David Rubenstein (786-7153).

**Background:**

Credit unions doing business in Washington can be chartered by the state or federal government. The National Credit Union Administration regulates federally-chartered credit unions and the Department of Financial Institutions (Department) regulates state-chartered credit unions. State law provides for the organization, regulation, and examination of state credit unions.

Under federal law, a state-chartered or federally chartered credit union insured by the National Credit Union Share Insurance Fund (NCUSIF) must maintain a certain level of net worth, meaning its retained earnings balance consisting of undivided earnings and regular reserves. If the credit union's ratio of its net worth to total assets falls below 6 percent, it is deemed undercapitalized and must take prompt corrective action. A similar definition appears in state law.

Secondary capital refers to an account or debt taken on by the credit union that does not provide a membership stake in the credit union, is uninsured, and is subordinate to all other debt borne by the credit union. For most credit unions, secondary capital may not be counted toward capitalization, or net worth ratio.

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Low-income credit unions, however, are permitted to take secondary capital accounts, and the funds held in those accounts may be counted as net worth under federal law. Secondary capital accounts taken on by low-income credit unions must be over \$100,000 in value, nontransactional, owned by a business entity, and subordinate to all other creditor claims.

**Summary of Bill:**

A credit union may receive payments on secondary capital accounts and instruments that:

- are not shares or deposits;
- do not convey a membership or voting right to the holder;
- do not alter the cooperative nature of the credit union;
- are subordinate to the claims of all creditors of the credit union, including those of shareholders, depositors, and federal insurers;
- are not insured under NCUSIF or another program; and
- are available, without reimbursement, to cover operating losses of the credit union that exceed its retained earnings.

The Department has rulemaking authority over secondary capital accounts.

Secondary capital accounts are counted toward the credit union's capitalization.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.