SENATE BILL REPORT
SB 5757

As of February 13, 2015

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

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

Sponsors: Senators Benton and Mullet.

Brief History:
Committee Activity: Financial Institutions & Insurance: 2/12/15.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Shani Bauer (786-7468)

Background: Credit unions doing business in Washington may be chartered by the state or federal government. The National Credit Union Administration (NCUA) regulates federally chartered credit unions. The Department of Financial Institutions (Department) regulates state-chartered credit unions.

Credit Union Governance and Practices.

- *Board of Directors and Supervisory Committee.* State-chartered credit unions are governed by a board of directors and a supervisory committee, which monitors the financial condition of the credit union and the decisions of the board. Per state law, some duties may be delegated to a committee, officer, or employee with appropriate reporting to the board. Other duties may not be delegated.
- *Director and Supervisory Committee Compensation.* A credit union may pay its directors and supervisory committee members reasonable compensation and may also provide them with gifts of minimal value, insurance coverage or incidental services, and reimbursement for reasonable expenses.
- *Dividends.* Dividends may be declared from the credit union's earning after the deduction of expenses, interest on deposits, and the amounts required for reserves or may be paid from undivided earnings that remain from preceding periods.
- *Investment Authority.* A credit union may invest in any of a variety of investments, including key person insurance policies, up to 5 percent of the capital in debt or equity issued by an organization owned by the Washington Credit Union League; and 1 percent in organizations whose purpose is to provide services to the credit union industry.

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.

- *Credit Union Service Organizations.* Credit unions may own or contract with entities performing services for them, called credit union service organizations.

Summary of Bill: Duties of the board that may or may not be delegated are adjusted. The board must establish policies governing the operation of the credit union. The board may delegate the rate of dividends on shares and authorize the payment of dividends on shares.

A credit union may provide gifts, insurance coverage, and reimbursement of expenses to its directors and supervisory committee members regardless of whether it pays them compensation. Credit union dividends may be paid from current undivided earnings which remain after the deduction of expenses and the amounts required for reserves or may be paid from undivided earnings that remain from preceding periods.

A credit union may invest the following:
- in key person insurance policies and investment products related to employee benefits;
- up to 5 percent of the capital of the credit union in debt or equity issued by an organization owned by the Northwest Credit Union Association or its successor credit union organization; and
- up to 5 percent of its assets in shares, stocks, and loans with organizations whose purpose is to provide services to the credit union industry.

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: Industry has worked closely with the regulator on language. These changes will help us to improve our operations. We are aware there is some concern with increasing investment authority from 1 percent to 5 percent in Credit Union Service Organizations (CUSO). A CUSO is a company that services credit unions and is a separate entity. CUSOs perform a variety of functions. For example, there are compliance CUSOs to assist credit unions with compliance and call center CUSOs. It is a collaboration of resources in order to provide services a credit union might not be able to provide for itself.

CON: There is concern with the section of this bill that allows increased investment in CUSOs. The last credit union bill was reviewed extensively with stakeholders ahead of time. Stakeholders have not had the same opportunity with this bill and so there is some uncertainty. The language seems to allow investment in broader activities than CUSOs. We need some education on how this works.

Persons Testifying: PRO: Mark Minickiello, NW Credit Union Assn.

CON: Brad Tower, Community Bankers of WA.