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SENATE BILL 5757

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State of Washington

64th Legislature

2015 Regular Session

By Senators Benton and Mullet

Read first time 02/02/15. Referred to Committee on Financial Institutions & Insurance.

1 AN ACT Relating to credit unions' corporate governance and  
2 investments; and amending RCW 31.12.255, 31.12.365, 31.12.418, and  
3 31.12.436.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 31.12.255 and 2001 c 83 s 8 are each amended to read  
6 as follows:

7 The business and affairs of a credit union shall be managed by  
8 the board of the credit union. The duties of the board include, but  
9 are not limited to, the duties enumerated in this section. The duties  
10 listed in subsection (1) of this section may not be delegated by the  
11 credit union's board of directors. The duties listed in subsection  
12 (2) of this section may be delegated to a committee, officer, or  
13 employee, with appropriate reporting to the board.

14 (1) The board shall:

15 (a) Set the par value of shares, if any, of the credit union;

16 (b) Set the minimum number of shares, if any, required for  
17 membership;

18 (c) Establish ~~((the loan))~~ policies ~~((under which loans may be~~  
19 ~~approved))~~ governing the operation of the credit union;

20 (d) Establish the conditions under which a member may be expelled  
21 for cause;

- 1 (e) Fill vacancies on all committees except the supervisory  
2 committee;
- 3 (f) Approve an annual operating budget for the credit union;
- 4 (g) Designate those persons or positions authorized to execute or  
5 certify documents or records on behalf of the credit union; and  
6 (h) Review the supervisory committee's annual report(~~(; and~~  
7 ~~(i) Perform such other duties as the members may direct~~)).
- 8 (2) In addition, unless delegated, the board shall:
- 9 (a) (~~(Act upon applications for membership in the credit union;~~  
10 ~~(b))~~) Determine the maximum amount of shares and deposits that a  
11 member may hold in the credit union;
- 12 (~~(c) Declare dividends on shares and set~~) (b) Set the rate of  
13 interest on deposits and the rate of dividends on shares and  
14 authorize the payment of dividends on shares;
- 15 (~~(d) Set the fees, if any, to be charged by the credit union to~~  
16 ~~its members for the right to be a member of the credit union and for~~  
17 ~~services rendered by the credit union;~~
- 18 ~~(e) Determine the amount which may be loaned to a member together~~  
19 ~~with the terms and conditions of loans;~~
- 20 ~~(f) Establish policies under which the credit union may borrow~~  
21 ~~and invest;~~) and
- 22 (~~(g))~~) (c) Approve the charge-off of credit union losses.

23 **Sec. 2.** RCW 31.12.365 and 2013 c 34 s 6 are each amended to read  
24 as follows:

25 (1) A credit union may pay to its directors and supervisory  
26 committee members reasonable compensation for their service as  
27 directors and supervisory committee members. Irrespective of whether  
28 it pays compensation to its directors or supervisory committee  
29 members, a credit union may (~~(also)~~) provide to its directors and  
30 supervisory committee members:

31 (a) Gifts of minimal value;

32 (b) Insurance coverage or incidental services, available to  
33 employees generally; and

34 (c) Reimbursement for reasonable expenses incurred on behalf of  
35 themselves and their spouses in the performance of the directors' and  
36 supervisory committee members' duties.

37 (2) The director may adopt rules to interpret this section.

1       **Sec. 3.** RCW 31.12.418 and 1997 c 397 s 33 are each amended to  
2 read as follows:

3       Dividends may be (~~declared from the credit union's earnings~~  
4 ~~which remain after the deduction of expenses, interest on deposits,~~  
5 ~~and the amounts required for reserves, or the dividends may be~~  
6 ~~declared in whole or in part~~) paid from current undivided earnings  
7 which remain after deduction of expenses and the amounts required for  
8 reserves, or from the undivided earnings that remain from preceding  
9 periods.

10       **Sec. 4.** RCW 31.12.436 and 2013 c 34 s 8 are each amended to read  
11 as follows:

12       (1) A credit union may invest its funds in any of the following,  
13 as long as the investments are deemed prudent by the board:

14       (a) Loans held by credit unions, out-of-state credit unions, or  
15 federal credit unions; loans to members held by other lenders; and  
16 loans to nonmembers held by other lenders, with the approval of the  
17 director;

18       (b) Bonds, securities, or other investments that are fully  
19 guaranteed as to principal and interest by the United States  
20 government, and general obligations of this state and its political  
21 subdivisions;

22       (c) Obligations issued by corporations designated under 31 U.S.C.  
23 Sec. 9101, or obligations, participations or other instruments issued  
24 and guaranteed by the federal national mortgage association, federal  
25 home loan mortgage corporation, government national mortgage  
26 association, or other government-sponsored enterprise;

27       (d) Participations or obligations which have been subjected by  
28 one or more government agencies to a trust or trusts for which an  
29 executive department, agency, or instrumentality of the United States  
30 has been named to act as trustee;

31       (e) Share or deposit accounts of other financial institutions,  
32 the accounts of which are federally insured or insured or guaranteed  
33 by another insurer or guarantor approved by the director. The shares  
34 and deposits made by a credit union under this subsection (1)(e) may  
35 exceed the insurance or guarantee limits established by the  
36 organization insuring or guaranteeing the institution into which the  
37 shares or deposits are made;

1 (f) Common trust or mutual funds whose investment portfolios  
2 consist of securities issued or guaranteed by the federal government  
3 or an agency of the government;

4 (g) Up to five percent of the capital of the credit union, in  
5 debt or equity issued by an organization owned by the (~~Washington~~  
6 ~~credit union league~~) Northwest credit union association or its  
7 successor credit union association;

8 (h) Shares, stocks, loans, or other obligations of organizations  
9 whose primary purpose is to strengthen, advance, or provide services  
10 to the credit union industry or credit union members. A credit union  
11 may (~~in the aggregate~~) invest (~~an~~) in or make loans to  
12 organizations under this subsection (1)(h) in an aggregate amount not  
13 to exceed (~~one~~) five percent of its assets (~~in organizations under~~  
14 ~~this subsection (1)(h)~~). ~~In addition, a credit union may in the~~  
15 ~~aggregate lend an amount not to exceed one percent of its assets to~~  
16 ~~organizations under this subsection (1)(h)~~. ~~These limits do~~). This  
17 limit does not apply to investments in, and loans to, an  
18 organization:

19 (i) That is wholly owned by one or more credit unions or federal  
20 or out-of-state credit unions; and

21 (ii) Whose activities are limited exclusively to those authorized  
22 by this chapter for a credit union;

23 (i) Loans to credit unions, out-of-state credit unions, or  
24 federal credit unions. However, the aggregate of loans issued under  
25 this subsection (1)(i) is limited to twenty-five percent of the total  
26 shares and deposits of the (~~lending~~) credit union making the loans;

27 (j) Key person insurance policies and investment products related  
28 to employee benefits, the proceeds of which inure exclusively to the  
29 benefit of the credit union;

30 (k) A registered investment company or collective investment  
31 fund, as long as the prospectus of the company or fund restricts the  
32 investment portfolio to investments and investment transactions that  
33 are permissible for credit unions; or

34 (1) Other investments approved by the director upon written  
35 application.

36 (2) If a credit union has lawfully made an investment that later  
37 becomes impermissible because of a change in circumstances or law,  
38 and the director finds that this investment will have an adverse  
39 effect on the safety and soundness of the credit union, then the

1 director may require that the credit union develop a reasonable plan  
2 for the divestiture of the investment.

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