

# HOUSE BILL REPORT

## HB 1053

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**As Passed House:**  
February 1, 2017

**Title:** An act relating to the Washington state credit union act.

**Brief Description:** Addressing the Washington state credit union act.

**Sponsors:** Representatives Reeves, Vick, Kirby, Ormsby, Gregerson and Tarleton.

**Brief History:**

**Committee Activity:**

Business & Financial Services: 1/10/17, 1/11/17 [DP].

**Floor Activity:**

Passed House: 2/1/17, 96-1.

**Brief Summary of Bill**

- Modifies credit union governance provisions related to supervisory committees and special membership meetings.
- Modifies low-income credit union designations and secondary accounts.

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### HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

**Majority Report:** Do pass. Signed by 11 members: Representatives Kirby, Chair; Reeves, Vice Chair; Vick, Ranking Minority Member; J. Walsh, Assistant Ranking Minority Member; Barkis, Bergquist, Blake, Jenkin, McCabe, Santos and Stanford.

**Staff:** Robbi Kesler (786-7153).

**Background:**

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

Board of Directors.

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*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.*

State-chartered credit unions are governed by a board of directors consisting of between five and 15 members. The credit union's bylaws must prescribe the manner in which the business of the credit union will be conducted, including the frequency of regular meetings and the manner in which special meetings may be called.

#### Supervisory Committee.

A supervisory committee monitors both the financial condition of the credit union and the decisions of the board of directors. The supervisory committee must have at least three members, elected at the annual membership meeting. The supervisory committee must meet at least quarterly, arrange or perform a complete annual audit of the credit union and verification of members' accounts, and report all findings to the board of directors. It must make an annual report to the members at each annual membership meeting.

#### Special Membership Meeting.

For most purposes, a special membership meeting may be called by a majority of the board of directors, a majority vote of the supervisory committee, or upon written application of at least 10 percent or 2,000 members, whichever is less. A special membership meeting may also be called by unanimous vote, for cause, by the supervisory committee for purposes of suspending a member of a committee or a member of the board of directors. "For cause" includes: demonstrated financial irresponsibility, a breach of fiduciary duty to the credit union, or activities that threaten the safety and soundness of the credit union. The secretary shall give notice of the special membership meetings at least 30 days in advance and include the purpose of the meeting.

#### Low-Income Credit Unions.

A credit union may apply to the DFI for designation as a low-income credit union based on the following criteria:

- at least 50 percent of the substantial and well-defined segment of the credit union's members or potential primary members are low-income members;
- the credit union submits an acceptable written plan on marketing to the DFI; and
- the credit union agrees to submit other information and satisfy other criteria as required by the director.

Low-income credit unions may issue secondary capital accounts (if approved by the DFI in advance) and accept shares and deposits from non-members. Secondary capital accounts are accounts over \$100,000, non-transactional, owned by a non-natural person, and subordinate to other creditors.

#### **Summary of Bill:**

#### Supervisory Committee.

The supervisory committee must:

- perform or arrange for additional audits as requested by the board of directors, management, or as deemed necessary by the supervisory committee;
- share audit finding with the board of directors when the supervisory committee deems appropriate;
- monitor the management's responses to material adverse findings in audits or regulatory examinations;
- implement a process for receiving and responding to whistleblower complaints;

- retain, at the credit union's expense, independent counsel or other professional advisors or consultants as necessary to perform the supervisory committee's required duties; and
- perform any additional duties as assigned by the board of directors or contained in the bylaws.

The supervisory committee is no longer required to meet quarterly.

Members of the credit union may remove a supervisory committee member at a special membership meeting called for that purpose under the guidelines identified. At the same meeting a supervisory committee member is removed a replacement supervisory committee member may be elected as an interim member to complete the removed member's term.

At least one supervisory committee member may attend each regular board of directors meeting.

A credit union may establish an audit committee in lieu of a supervisory committee. An audit committee and its members have the same duties and powers, and are subject to the same limitations, as a supervisory committee.

#### Special Membership Meeting.

Requests for a special membership meeting must be made in writing to the secretary of the credit union and must state the specific purpose of the meeting. At the meeting only the agenda items specified in the notice may be considered.

#### Low-Income Credit Unions.

Low-income credit unions are no longer required to submit a marketing plan and an annual report to the DFI. Specific requirements for secondary capital account (accounts over \$100,000, non-transactional, owned by a non-natural person, and subordinate to other creditors) are removed.

#### Other modifications.

The fiduciary duty for directors and officers is modified to include all credit union officials. The definition of "membership share" is removed and language throughout the bill is modified to conform with this change.

**Appropriation:** None.

**Fiscal Note:** Available.

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

#### **Staff Summary of Public Testimony:**

(In support) Credit unions are not-for-profit financial cooperatives that serve an important need in Washington state. Credit unions throughout the state worked together on this bill. It is important to update the Credit Union Act often to keep pace with the changing financial

landscape affecting credit union members and the way credit unions operate. Most changes in this bill are related to credit union governance. The supervisory committee and special membership meeting changes provide clarity. This bill standardizes the fiduciary duties section to cover all credit union officials. The federal parity provision is updated to incorporate all rules to the date specified. Federal parity is important because it makes the state charter attractive. The credit unions are aware that there are pending lawsuits concerning recent national credit union rules and know that they will be bound by the outcome of those lawsuits. The changes made to low-income credit unions are included because the DFI is already visiting and monitoring the credit union practices.

(Opposed) None.

(Other) Still looking at this bill. With regard to the parity provision in Section 10, there is concern that recent national credit union rules that will be incorporated include subjects at issue in two pending lawsuits. Specifically, the rule regarding member business lending is controversial. It is problematic that the date included in the bill incorporates the rules in dispute.

**Persons Testifying:** (In support) Representative Reeves, prime sponsor; Scott Adkins, Inspirus Credit Union; Bert Fisher, Our Community Credit Union; Tonita Webb, Seattle Metropolitan Credit Union; Pauoa Sardinias, Northwest Credit Union Association; and Hal Scoggins, Farleigh Wadda Witt

(Other) Linda Jekel, Department of Financial Institutions; and Brad Tower, Community Bankers of Washington.

**Persons Signed In To Testify But Not Testifying:** None.