

# SENATE BILL REPORT

## HB 1165

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As of March 16, 2021

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

**Brief Description:** Concerning the Washington credit union act.

**Sponsors:** Representatives Ryu, Vick, Santos, Hoff and Harris-Talley.

**Brief History:** Passed House: 2/3/21, 93-2.

**Committee Activity:** Business, Financial Services & Trade: 3/16/21.

### Brief Summary of Bill

- Authorizes credit unions to invest in the equity interest of corporations that are engaged in or planning activity incidental or complementary to a credit union's operations.
- Allows credit unions to acquire real property without occupying the property within a designated period of time.
- Modifies certain powers and authorities of state-chartered credit unions.

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### SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

**Staff:** Clinton McCarthy (786-7319)

**Background:** Credit unions are cooperative, nonprofit organizations created for promoting thrift among their members and providing a source of credit to them. Credit unions may be chartered under state or federal law. The National Credit Union Administration regulates federally chartered credit unions.

The Department of Financial Institutions (DFI) regulates state-chartered credit unions. State law provides for the organization, regulation, and examination of state-chartered credit unions. The director of the DFI (director) may, by rule, provide relief from certain state

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laws and rules to small credit unions, which are defined as credit unions with up to \$10 million in total assets. There are no credit unions with less than \$10 million in total assets.

Credit Union Authority. State-chartered credit unions have all of the powers and authorities held by federal credit unions on December 31, 1993, or a subsequent date not later than July 28, 2019. State credit unions may have all of the powers and authorities held by federal credit unions after that date, if the director finds the exercise of the power and authority serves the convenience and advantage of credit union members and maintains the fairness of competition and parity between state credit unions and federal credit unions. State credit unions also have all powers and authorities of out-of-state credit unions, except membership, so long as insurance and other requirements are met.

Credit Union Services and Charges. Credit unions may provide a variety of financial services to members, including accepting deposits, making loans, and paying interest or dividends. Credit unions may impose reasonable charges for services provided to members.

Investment of Credit Union Funds. Credit unions may invest funds in a variety of investment types so long as the investments are deemed prudent by its boards of directors. Examples include:

- loans held by other credit unions;
- fixed income securities such as bonds;
- mutual funds with a portfolio of securities issued or guaranteed by the federal government;
- shares of stocks in organizations whose primary purpose is to strengthen, advance, or provide services in the credit union industry or for the credit union's membership; and
- insurance policies and investment products related to employee benefits.

Real Property Interests. With some limitations, credit unions may invest in real property or leasehold interests if used in conducting its business or the business of a credit union services organization. Credit unions must partially occupy real property acquired for future expansion within three years of the investment if property improvements are made at the time of acquisition, or within six years if no improvements are made.

**Summary of Bill:** Credit Union Authority. DFI is provided rule making authority to establish a definition for the term small credit union.

Credit unions may impose reasonable charges for the services it provides to both members and non-members. The list of services that a credit union can provide is expanded to include cashing checks, money orders, and other payment instruments for members and persons who are eligible for membership in the credit union.

State-chartered credit unions may have all of the powers and authorities held by federal credit unions as of December 31, 1993, or a subsequent date not later than the effective date of this act.

Investment of Credit Union Funds. The principal business of the corporation or entity does not have to be related to the credit union's business, but the corporation or business must be engaged in or planning activity that will be performed for or provided to the credit union or its members. An equity interest is defined as a stock, membership in a limited liability corporation, or a limited partnership interest in which the credit union's liability is limited to the amount of the investment and the credit union does not take on general liability. A credit union's investments in equity interests may not exceed the lesser of 50 percent of the credit union's net worth or, when combined with investments in credit union service organizations, 10 percent of the credit union's assets. Credit unions may not invest in a federal or state depository institution or a bank or savings bank holding company.

A credit union may engage in investment activity only with prior authorization from the director, and investment activity is subject to any requirements, restrictions, or other conditions adopted by the director. When approving or denying a proposed investment, the director must consider the financial and management strength of the credit union and the relationship of the activity to the credit union's operations.

Real Property Interests. The requirement that credit unions partially occupy property acquired for future expansion within a designated amount of time from acquisition is removed.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: This bill expands the services that credit unions can provide. DFI is given flexibility to provide relief to small credit unions. This bill provides more flexibility to credit unions on how to deal with its property interests. Check cashing for non-members is important and credit unions would like to help people that are in need. The definition of small credit unions needs to be changed in order to provide meaningful regulatory relief for smaller credit unions. Credit unions service organizations must primarily serve credit unions and be owned by credit unions. With the rise of fintech, there are lots of businesses that could provide important tools for credit unions that do not want to be limited to working with credit unions. Credit unions want a seat at the table with these entities at the forefront of providing personalized financial services. Investing in entities could also result in better terms for transactions with members. The bill provides tools to the DFI director to provide oversight. The financial well being of members is paramount to BECU. Section 4 of this bill would provide BECU the ability to invest in fintech. This is important because of how members are interfacing

with the credit union is trending towards the use of technology. Equity investment would enable credit unions to be early adapters to emerging technology and procure savings through favorable terms with vendors. BECU wants to keep pace with global digital demand and continue to serve their members.

CON: Opposition from banks is limited to section 4 of the bill. Bank regulation on equity investment is regulated at the federal level and is very prescriptive. Credit unions would have much greater flexibility to invest in equities than banks do. The state's largest credit union would have the ability to invest \$1.3 billion. The largest investment by a bank in this space was approximately \$3 million.

OTHER: This is a very complicated issue. DFI pledges to work with all parties over the interim to reach a compromise over the bill that will allow for equity investments.

**Persons Testifying:** PRO: Representative Cindy Ryu, Prime Sponsor; Joe Adamack, Northwest Credit Union Association; Alison Phelan, BECU.

CON: Trent House, Washington Bankers Association.

OTHER: Drew Bouton, Washington State Department of Financial Institutions.

**Persons Signed In To Testify But Not Testifying:** No one.