SENATE BILL REPORT
EHB 1165

As of February 17, 2022

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: 1/26/22, 84-13.
Committee Activity: Business, Financial Services & Trade: 3/16/21, 3/18/21 [DPA]; 2/17/22.

Brief Summary of Bill

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

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

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unions. The director of the DFI (director) may, by rule, provide relief from certain state 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.

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: Definition of Small Credit Unions. The definition of small credit unions is clarified. For the purposes of defining these entities as they relate to generally accepted accounting principles, small credit unions will continue to be defined as having assets of $10 million or less. The director is provided the authority to determine the definition of a small credit union when making any rule to provide relief to small credit unions.

Credit Union Authority. 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.

Equity Interest in Organizations. Subject to prior authorization from DFI, credit unions are permitted to invest equity interests in corporations or other entities regardless of whether the principle business of the entity is related to the credit union's business. The entity must be engaged in activity that is incidental to or complementary to the credit union's operations. Until January 1, 2025, the initial aggregate amount of funds invested in an entity is not to exceed 2.5 percent of the net worth of the credit union. Beginning January 1, 2025, the percentage of a credit union's net worth is increased from 2.5 percent to 5 percent.

Credit unions are not allowed to invest in depository institutions or holding companies.

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 (Regular Session 2022): PRO: This bill will provide credit unions tools to help their members. The pandemic has underscored the need to make online services more available. This bill will allow credit unions to be responsive to their members. This bill will allow credit unions to invest in Fintech companies. This bill was negotiated during the interim. This bill helps credit unions meet the evolving expectations of their members. This bill addresses the needs of the unbanked and underserved. It empowers DFI to give it flexibility to assist smaller credit unions. The financial services sector is going through a transformative shift through Fintech. This bill allows credit unions to adapt to the changes that are occurring. This bill will help enhance credit unions service delivery from a digital perspective. There are times when a limited investment in Fintech companies can allow credit union members access to services. The pandemic has greatly accelerated expectations for customers to be able to access digital tools to manage their finances. Fifty-three credit unions in the state of Washington have a low-income designation.

CON: Section 4 of this bill, which gives credit unions the ability to invest in Fintech companies, should be removed. Equity investments are risky by nature, and could put the safety of credit unions at risk. Credit unions need to pay taxes back into the state. The appearance of compromise this session is a result of overreach by credit unions during the 2021 session. This is an expansion of the tax preference for the state's largest credit union. Why shouldn't the state's largest credit union not pay taxes on its profits? The bill greatly expands the nature of risky investments that credit unions can make. The primary concern is with the investment authority in section 4 of the bill. Banks cannot do these types of investments due to federal regulations. Not a dime of profits from credit unions will be paid back to the state in the form of taxes.

Persons Testifying: PRO: Representative Cindy Ryu, Prime Sponsor; Lynn Ciani, Numerica Credit Union; Alison Phelan, BECU; Joe Adamack, Northwest Credit Union

Association.

CON: Brad Tower, Community Bankers of Washington; Trent House, Washington Bankers Association.

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