

WASHINGTON CREDIT UNIONS

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Washington State Issues Working Group 2023-27 Policy Recommendations

These concepts were developed for the Washington State Governmental Affairs Committee to consider by the Washington State Issues Working Group, which held three meetings in September and October 2022.

The proposed issues and policy objectives provide guidance for GoWest state advocacy legislative and regulatory teams to address, prepare for, or further develop between 2023 and 2027.

Modernize and digitize state's lien and auto titling program

Issue: Washington's Department of Licensing's overall processes and systems in place to manage the state's lien and titling program for vehicles is outdated. The process still includes some manual and paper-based processes and should be thoroughly reviewed and modernized to ultimately reduce errors and delays, increase efficiency, save time and money for consumers, DOL, lenders, and titling agencies, and ensure a more streamlined process.

Objective: GoWest will continue working with DOL, legislators, and credit union representatives to identify the full scope of process reforms and modernizations that can be addressed by statutory, regulatory, operational, or budgetary changes. The long-term goal remains a fully digital lien and titling process with near-term priorities focused on ensuring the department solidifies a timeline and implementation plan.

Remove barriers by eliminating field of membership restrictions

Issue: Field of membership requirements do not fit a modern socioeconomic system, especially as consumer expectations evolve, the pandemic has increased the number of people moving across state lines, and too many people remain under resourced and outside of the formal financial system. Despite having a broad statewide field of membership policy in Washington, the remaining restrictions serve as both an operational barrier for credit unions and can lead consumers to believe they cannot become a member.

Washington state-chartered credit unions are also disadvantaged compared to border states that receive statewide field of membership in Washington without reciprocal treatment in those states. This persists despite passage of 2019 legislation that explicitly grants the Washington regulator explicit authority to grant out-of-state fields of membership.

Solution: GoWest will work to remove barriers to credit unions' ability to serve the people and communities they wish to serve regardless of geographical location. GoWest will promote greater cooperation and partnerships across our six-state footprint and nationally and will work to finalize a meaningful cooperative interstate agreement, encourage DFI to fully utilize existing statutory authority to permit credit unions to serve broad communities, and identify and advocate among other state associations and regulators to ensure that assessments are paid exclusively to the prudential regulator.

Improve housing access and affordability

Issue: Housing access and affordability have become one of the most important issues facing Washington residents given the state's high housing costs, both to purchase and rent, and not enough construction of affordable units to keep pace with demand. The Legislature has done some work in recent years to address these issues and will continue putting new concepts forward to help address the issue in the coming years.

Solution: GoWest will continue to identify future or active legislative proposals that credit unions can support and participate in broader efforts to promote increased housing development. Examples that may be under legislative review in future years that align with credit union policies and operations include efforts to increase state funding for down-payment assistance and improve how those programs work and become accessible to buyers and work in concert with credit union lending.

GoWest will also continue to share with key officials the many innovative examples of work credit unions are already doing to improve housing access including the Spokane land bank efforts, ADU lending products, Open Doors Program, ITIN home loans, support for the Evergreen Impact Housing Fund, and much more to help further legislative action and conversations on the topic.

Expand state partnership opportunities

Issue: The Legislature has shown increased interest in partnering with and providing funding for programs that interact with credit unions to maximize the impact of state funding and priorities to address a range of issues.

Solution: GoWest will continue to identify and engage in legislative and rulemaking opportunities that allow credit unions to deploy or leverage state funding toward programs that benefit people and communities.

Examples could include but are not limited to a state CDFI fund, state-backed credit repair program, existing Small Business Flex Fund, rental loans, student loans, and more.

Modernize the state regulatory manuals

Issue: The state Department of Financial Institutions' how-to manuals are out of date and do not accurately reflect current processes related to starting a new credit union, merging, and conversions and do not accurately reflect modern processes and practices.

Solution: GoWest will work with DFI to update manuals to ensure that all accurately reflect current processes and align with current NCUA provisions. GoWest will additionally encourage the department to adopt a five-year review schedule of manuals.

Exam clarity and consistency

Issue: As state and federal regulators seek to determine the best ways to conduct future exams in-person, remotely, or in a hybrid manner, it remains critically important to ensure that expectations and processes are well-organized and utilize established relationships between credit unions and examiners when feasible.

Solution: GoWest will continue working with DFI and the NCUA to improve exam processes in this new environment and ensure expectations are clearly communicated to credit unions in advance. We will advocate for maintaining a strong dual charter and increasing clarity about what is insurance related and what is wholly in the purview of state regulatory agencies. GoWest will continue to advocate for NCUA to reduce regulatory overreach related to rules that are applied to state charters as an insurance requirement but do not relate to insurance.

Regulatory relief opportunities for small credit unions

Issue: Legislation passed in 2022 modernized the definition of small credit union in the Washington State Credit Union Act to allow the regulator to set a specific threshold based on the type of regulatory relief under consideration.

Solution: GoWest will work with DFI and small credit unions to identify and prioritize a recommended list of regulatory relief policies for small credit unions and once identified will work on rulemaking to define small credit unions.

Modernize Linked Deposit Program

Issue: Washington's Linked Deposit Program, which allows the state Treasurer to accept reduced returns on a certain amount of state funds in return for financial institutions passing along reduced lending rates to certified women, minority, and veteran-owned businesses, may not best leverage state dollars for maximum impact based on the current program design. The effectiveness of the mechanism is also greatly reduced during periods of low rates and/or high government grants as was experienced during the pandemic.

Solution: GoWest will work with the State Treasurer's Office, lawmakers, the Office of Women and Minority Business Enterprise, and credit union leaders, to identify program modernization policies to ensure the greatest impact.

Public deposits system upgrades

Issue: The system for reporting monthly balances and other information required for approved public depositories through the State Treasurer's Office is not the same for all credit unions and lacks some of the modernized reporting capabilities available to banking institutions.

Solution: GoWest will work with the State Treasurer's Office to ensure the reporting system is upgraded and provides fully online reporting capabilities for all credit unions.

GoWest will work with financial services providers, the State Treasurer's Office, and members of the Public Deposit Protection Commission to assess if current collateralization levels and practices should be modified and if so work to update program requirements either through rule or a change in statute.

Encourage state adoption of digital identification technology

Issue: An increasing number of states have implemented or are considering the creation of a state-based system for digital state identification, which can be stored on a mobile device, and provides an internal identity verification process.

Solution: GoWest will discuss the issue with DOL and other stakeholders to assess broader interest in Washington creating a state-based digital identification product and support efforts to implement to ensure credit unions have modern tools to adequately verify the identity of members in-person and remotely.

Update automatic federal parity

Issue: Automatic parity for Washington state charters to the federal credit union charter was updated most recently in 2022 with the current statute allowing automatic parity up through June 9, 2022.

Solution: GoWest will update the automatic federal parity strike date the next time the state charter is amended as has become normal course of business in any charter update or modernization effort.

Allow compensation for associate board members

Issue: While state statute is clear on allowing credit union to compensate board members the act is silent on whether associate board members can receive compensation. Previous interpretive letters from DFI – most recently in 2015 – have not allowed compensating associate board members beyond expense reimbursement for training and travel costs. However, DFI is supportive of the use of associate board members and credit unions having the option to compensate them.

Solution: Given the increased number of credit unions utilizing associate board members GoWest will advance amend the state statutory to allow credit unions to compensate associate board members the next time the credit union charter is amended.

Excess share insurance

Issue: While the issue remains between Excess Share Insurance and the Washington State Office of the Insurance Commissioner, adequate coverage is not available to Washington credit unions.

Solution: Go West will communicate with ESI as they navigate conversations with OIC and support as is helpful efforts to modernize the excess share insurance requirements by increasing the insurance limits and allowing for individual accounts to be insured.