

## CHAPTER 80

[House Bill No. 136]

## INTEREST RATE IN ABSENCE OF AGREEMENT

AN ACT Relating to interest rates where no rate is agreed to in writing between the parties; and amending section 1, chapter 80, Laws of 1899 and RCW 19.52.010.

Be it enacted by the Legislature of the State of Washington:

Section 1. Section 1, chapter 80, Laws of 1899 and RCW 19.52.010 are each amended to read as follows:

Every loan or forbearance of money, goods, or thing in action shall bear interest at the rate of ~~((six))~~ twelve percent per annum where no different rate is agreed to in writing between the parties. The discounting of commercial paper, where the borrower makes himself liable as maker, guarantor, or indorser, shall be considered as a loan for the purposes of this ~~((act))~~ chapter.

Passed the House March 30, 1981.

Passed the Senate April 21, 1981.

Approved by the Governor May 8, 1981.

Filed in Office of Secretary of State May 8, 1981.

## CHAPTER 81

[House Bill No. 143]

## CREDIT UNIONS

AN ACT Relating to credit unions; amending section 3, chapter 23, Laws of 1957 as last amended by section 1, chapter 8, Laws of 1973 1st ex. sess. and RCW 31.12.020; amending section 4, chapter 23, Laws of 1957 and RCW 31.12.030; amending section 4, chapter 173, Laws of 1933 as last amended by section 1, chapter 41, Laws of 1980 and RCW 31.12.080; amending section 9, chapter 173, Laws of 1933 as last amended by section 3, chapter 41, Laws of 1980 and RCW 31.12.130; amending section 15, chapter 173, Laws of 1933 as last amended by section 4, chapter 41, Laws of 1980 and RCW 31.12.190; amending section 18, chapter 173, Laws of 1933 as last amended by section 5, chapter 41, Laws of 1980 and RCW 31.12.220; amending section 8, chapter 23, Laws of 1957 as last amended by section 9, chapter 8, Laws of 1973 1st ex. sess. and RCW 31.12.245; amending section 20, chapter 173, Laws of 1933 as last amended by section 5, chapter 222, Laws of 1975 1st ex. sess. and RCW 31.12.260; amending section 12, chapter 23, Laws of 1957 as last amended by section 7, chapter 41, Laws of 1980 and RCW 31.12.280; amending section 13, chapter 23, Laws of 1957 as last amended by section 13, chapter 8, Laws of 1973 1st ex. sess. and RCW 31.12.290; amending section 25, chapter 173, Laws of 1933 as last amended by section 8, chapter 222, Laws of 1975 1st ex. sess. and RCW 31.12.310; amending section 27, chapter 173, Laws of 1933 as last amended by section 14, chapter 180, Laws of 1967 and RCW 31.12.330; creating new sections; and declaring an emergency.

Be it enacted by the Legislature of the State of Washington:

Section 1. Section 3, chapter 23, Laws of 1957 as last amended by section 1, chapter 8, Laws of 1973 1st ex. sess. and RCW 31.12.020 are each amended to read as follows:

A credit union is a cooperative society incorporated for the two-fold purpose of promoting thrift among its members and creating a source of credit for them (~~((at legitimate rates of interest not to exceed one percent per month on the unpaid balance or the equivalent thereto,))~~) for provident, productive, and educational purposes. Credit unions, in the event of default of such credit, may impose financing and reasonable late charges in accordance with their bylaws and may recover reasonable costs and expenses incurred in the collection of any sums due if provided for in the note or agreement signed by the borrower.

Sec. 2. Section 4, chapter 23, Laws of 1957 and RCW 31.12.030 are each amended to read as follows:

A corporation organized under this chapter shall include in its name the words "credit union," and other distinguishing words may be used, and an exception is made for a sole proprietorship, partnership or corporation which is solely in the business of managing one or more credit unions. No person, partnership, or association and no corporation except one incorporated under this chapter shall receive payment on shares or deposits from its members, or loan such payment on shares or deposits in the manner provided hereby, or transact business under a name or title containing the words "credit union," without compliance with the provisions hereof. Exception is made of an organization incorporated and composed of corporations organized under this chapter or under federal laws. Nothing herein shall affect corporations organized under federal laws, nor shall this chapter repeal, amend, or affect laws relating to savings and loan associations.

Sec. 3. Section 4, chapter 173, Laws of 1933 as last amended by section 1, chapter 41, Laws of 1980 and RCW 31.12.080 are each amended to read as follows:

Credit union membership shall consist of the incorporators and such other persons as may be elected to membership and subscribe for at least one share and pay the initial installment thereon and the entrance fee, if any. However, the board may establish a minimum number of shares that must be held by any one member. Any fraternal organization, partnership or corporation having a usual place of business within the state and composed principally of individual members or stockholders who are themselves eligible to membership in a credit union, may become a member of a credit union, but, except with the consent of the supervisor, the credit union shall make no loan to such a member in excess of the total of its shares and deposits therein; nor shall a credit union receive from any such member money in payment for shares or on deposit to such an amount that the total of such payment by all members of the class described in this section shall exceed at any time twenty-five percent of the assets of the credit union. Credit

union organization shall be limited to groups of both large and small membership having a common bond of occupation or association, or to groups within a well defined neighborhood, community or rural district.

Sec. 4. Section 9, chapter 173, Laws of 1933 as last amended by section 3, chapter 41, Laws of 1980 and RCW 31.12.130 are each amended to read as follows:

The capital of a credit union shall be unlimited in amount. Deposits and shares of capital stock may be subscribed and paid for in such manner as the bylaws prescribe. A shareholder may purchase shares in a credit union and may also make deposits therein to an amount in the aggregate not exceeding five hundred dollars or twenty percent of the total shares and deposits of the credit union, whichever is greater. Shares and deposits may be withdrawn for payment to the account holder or to third parties, in such manner and in accordance with such procedures as may be established by the board of directors. A credit union may require from a member ninety days' notice of his intention to withdraw any or all of his shares and sixty days' notice of intention to withdraw any or all of his deposits, except that the notices may be extended beyond such time limits with the written consent of the supervisor.

Sec. 5. Section 15, chapter 173, Laws of 1933 as last amended by section 4, chapter 41, Laws of 1980 and RCW 31.12.190 are each amended to read as follows:

The board shall have the general direction of the affairs of the corporation and shall meet as often as may be necessary, but not less than once in each month. It shall act upon all applications for membership and upon the expulsion of members, except that a membership officer may be authorized by the board to approve applications for membership under such conditions as the board may prescribe which are consistent with the provisions of this chapter, and such membership officers so authorized shall submit to the board at each monthly meeting a list of approved or pending applications for membership received since the previous monthly meeting, together with such other related information as the bylaws or the board may require. The board shall determine the rate of interest on loans subject to the limitations herein, ~~determine the rate of interest to be paid on deposits, which ((shall not be greater than one-half of one percent less than the rate at which dividends have been declared during the immediately preceding period))~~ rate may not exceed the maximum permissible dividend rate on shares, determine the types of security which shall be acceptable on loans subject to the limitations herein, and fill vacancies in the board and in such committees for which provision as to filling of vacancies is not made herein, until the next election. The board shall make recommendations to the members relative to matters upon which it deems the members should act at any regular or special meeting. The board from time to time shall set the amount of shares and deposits which any one member may hold in the credit union,

and set the amount which may be loaned, secured or unsecured, to any one member, all subject to the limitations contained in this chapter. At each annual, semiannual, or quarterly period the board may declare a dividend from net earnings, which shall be paid on all shares outstanding at the time of declaration, and which may be paid to members on shares withdrawn during the period. Shares which become paid up during the year shall be entitled to a proportional part of the dividend calculated from the first day of the month following such payment in full: PROVIDED, That the board may compute such full shares if purchased on or before the tenth day of any month, as of the first day of the month, and from the date of deposit to date of withdrawal. The board may borrow money in behalf of the credit union, for the purpose of making loans, and the payment of debts or withdrawals. The aggregate amount of such loans shall not exceed thirty-three and one-third percent of the credit union's paid-in and unimpaired capital and surplus except with the approval of the supervisor. It may, by a two-thirds vote, remove from office any officer for cause; or suspend any member of the board, credit committee, investment committee, or audit committee, for cause, until the next membership meeting, which meeting shall be held within fifteen days of the suspension, and at which meeting the suspension shall be acted upon by the members. Notwithstanding any other provision of this section, a director who fails to attend three consecutive regular meetings of the board and whose reason for absence is not deemed justifiable by the remaining members of the board shall be subject to removal at their discretion by majority vote; the vacant office shall then be filled as prescribed in the bylaws. The board shall make a written report to the members at each annual meeting.

Sec. 6. Section 18, chapter 173, Laws of 1933 as last amended by section 5, chapter 41, Laws of 1980 and RCW 31.12.220 are each amended to read as follows:

At the end of each accounting period and before the payment of any dividend there shall be set apart as a guaranty fund, reserves against losses ((on loans)), an amount in accordance with the following schedule:

(1) A credit union in operation for more than four years and having assets of five hundred thousand dollars or more shall set aside (a) ten percent of gross income until the guaranty fund shall equal four percent of the total of outstanding loans, then (b) five percent of gross income until the guaranty fund shall equal six percent of the total of outstanding loans.

(2) A credit union in operation less than four years or having assets of less than five hundred thousand dollars shall set aside (a) ten percent of gross income until the guaranty fund shall equal seven and one-half percent of the total of outstanding loans, then (b) five percent of gross income until the guaranty fund shall equal ten percent of the total of outstanding loans.

Whenever the guaranty fund falls below the stated percentage of the total of outstanding loans, it shall be replenished by regular contributions in

such amounts as may be needed to maintain the stated guaranty fund reserve.

The supervisor may, if deemed necessary, require the establishment of a liquidity reserve of up to five percent of unimpaired capital.

This liquidity reserve shall be in cash or investments with maturities of one year or less.

In computing total loans, credit unions may exclude to the extent of such coverage: (i) Loans secured by shares, and (ii) loans insured or guaranteed by the federal government.

Credit unions with shares insured by the National Credit Union Administration, may in the alternative comply with reserve requirements and regulations promulgated by the National Credit Union Administration. All entrance fees shall be added to the guaranty fund at the close of the dividend period, and shall never exceed five dollars for each member. The guaranty fund and the investments thereof shall be held to meet contingencies or losses in the business of the credit union, and shall not be distributed to its members, except in the case of dissolution.

Sec. 7. Section 8, chapter 23, Laws of 1957 as last amended by section 9, chapter 8, Laws of 1973 1st ex. sess. and RCW 31.12.245 are each amended to read as follows:

The board of any credit union organized under this chapter whose assets are in excess of two hundred thousand dollars may appoint such loan officers as it deems advisable for the purpose of approving certain types of loans without further authorization from the credit committee. Credit unions with assets of two hundred thousand dollars or less may appoint such loan officers: PROVIDED, That the supervisor has given his prior approval thereto.

~~((All loans not approved by a loan officer shall be acted upon by the credit committee.))~~

Sec. 8. Section 20, chapter 173, Laws of 1933 as last amended by section 5, chapter 222, Laws of 1975 1st ex. sess. and RCW 31.12.260 are each amended to read as follows:

The capital, deposits, and surplus of a credit union shall be invested in loans to members, with the approval of the credit committee or the loan officer where permitted herein, and also when required herein, of the board of directors or of the investment committee. Any capital, deposits, or surplus funds in excess of the amount for which loans may be approved, may be deposited or invested:

(a) In banks or trust companies or in state or national banks located in this state or in checking accounts of banks in other states in which accounts are insured by the Federal Deposit Insurance Corporation;

(b) In any bond or securities or other investments which are fully guaranteed as to payment of principal and interest by the United States

government, and general obligations of this state and general obligations of counties, municipalities, or public purpose districts of this state;

(c) In obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 846 of Title 31 U.S.C. as a wholly owned government corporation; or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by the Federal National Mortgage Association or the Government National Mortgage Association;

(d) In participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more government agencies to a trust or trusts for which any executive department, agency or instrumentality of the United States (or the head thereof) has been named to act as trustee;

(e) In the shares, share certificates or share deposits of other credit unions or savings and loan associations organized or authorized to do business under the laws of this state or the United States, or in the notes of such credit unions in the process of liquidation;

(f) In the ICU government securities program of ICU Services Corporation owned by CUNA, Incorporated, or up to two percent thereof in a corporation owned by the Washington Credit Union League;

(g) In such other investments authorized in accordance with rules and regulations prescribed by the supervisor consistent with chapter 31.12 RCW as now or hereafter amended:

PROVIDED, That any such securities shall not be eligible for investment if they have been in default either as to principal or interest within five years prior to date of purchase.

No credit union shall carry on a banking business or carry any (~~de-~~mand;) commercial(~~(; or checking)~~) accounts(~~(; nor issue any time or de-~~mand certificates of deposit)). Investments other than loans to members shall be made only with the approval of the board or of the investment committee.

Sec. 9. Section 12, chapter 23, Laws of 1957 as last amended by section 7, chapter 41, Laws of 1980 and RCW 31.12.280 are each amended to read as follows:

Personal loans shall be payable within five years from the date thereof: PROVIDED, That loans with adequate security may be made payable within ten years. Unsecured loans may be made to members not to exceed five hundred dollars for credit unions whose unimpaired capital and surplus is less than eight thousand dollars or up to two and one-half percent of the unimpaired capital and surplus of any other credit union not to exceed four thousand dollars. Members may make share secured loans up to the full

extent of their share holdings. Additionally, other loans with adequate security may be made to members (~~(of a family community)~~) in an aggregate amount not to exceed five hundred dollars or ~~((ten))~~ five percent of the credit union's unimpaired capital and surplus, whichever is greater: PROVIDED, That personal loans not totally secured by share deposits shall not exceed, in the aggregate, twelve thousand dollars. The supervisor may waive the restrictions in this section.

Sec. 10. Section 13, chapter 23, Laws of 1957 as last amended by section 13, chapter 8, Laws of 1973 1st ex. sess. and RCW 31.12.290 are each amended to read as follows:

The total amount which a credit union may lend on the security of mortgages on, or contracts relating to, real estate shall not exceed the following limits:

(a) Ten percent of its total assets if its assets are under one hundred thousand dollars.

(b) Twenty percent of its total assets if its assets are over one hundred thousand dollars but under one million dollars.

(c) Thirty percent of its total assets if its assets are in excess of one million dollars.

All loans secured by mortgages or contracts on real estate shall be subject to the following restrictions:

(1) Loans secured by first mortgages shall be only on real estate improved by a home, a combination home and business building, or a two unit residential building in which the owner-borrower is the occupant of one unit; loans may be made for the construction of any such improvements. Additional parcels of noncontiguous, improved, habitable, residential real estate may be included in the same loan as such security together with the principal property.

(2) Any loans made on a real estate contract must be through warranty deed and assignment of the seller's interest, and the principal amount of the purchase price must have been reduced by twenty-five percent; the monthly payments must not be delinquent at time of the loan and the real estate must be such as would qualify for a mortgage loan under paragraph (1) hereof.

(3) The total amount which may be loaned on any one property or to any one (~~(family community)~~) borrower shall not exceed two and one-half percent of the assets of the credit union, or ten thousand dollars, whichever is greater, except with the prior approval of the supervisor. Such loan shall not exceed seventy-five percent of the appraised value of the real estate if there is located thereon a home or if the loan is made for the construction or completion of improvements.

All taxes and assessments must be paid currently, and all such loans must be amortized within a maximum period of twenty years by weekly, semimonthly or monthly payments, which payments, including interest,

shall be at the rate of not less than seven and one-half percent per year of the original principal.

The real estate covered by any such mortgage or contract must be inspected and appraised by an appraiser who has had two or more years experience in appraising real estate for loan purposes within the area in which the property is located. The credit union must have a policy of title insurance issued concurrently by an insurance company licensed to do business in the state of Washington, insuring the interest of the credit union in the real estate in the full amount of the loan, or must have an abstract brought up to date of the loan and certified by a practicing attorney; also with fire insurance covering at least the interest of the credit union.

Sec. 11. Section 25, chapter 173, Laws of 1933 as last amended by section 8, chapter 222, Laws of 1975 1st ex. sess. and RCW 31.12.310 are each amended to read as follows:

Dividends may be declared only from the earnings which remain after the deduction of all expenses, interest on deposits and the amounts required to be set apart to the guaranty fund and to the reserve fund, or such dividend may be declared in whole or in part from the undivided earnings of preceding years remaining after the aforesaid deductions for said years. Dividends due to a member shall, at his election, be paid to him in cash or be credited to his account in either shares or deposits. No dividend exceeding seven percent per annum shall be paid, unless the guaranty fund and undivided profits exceed ~~((fifteen))~~ five percent of assets, ~~((but))~~ except with express permission of the supervisor. Surplus earnings may be distributed to the borrowers as a patronage dividend ratably in proportion to interest paid by them.

Sec. 12. Section 27, chapter 173, Laws of 1933 as last amended by section 14, chapter 180, Laws of 1967 and RCW 31.12.330 are each amended to read as follows:

The expenses of a credit union shall be paid from its earnings. No credit union shall pay or become liable to pay in any calendar year as salaries, fees, wages, or other compensations to officers, directors, agents, attorneys, clerks, and employees and for rent, advertising, and all other operating expenses, sums of money, the aggregate of which exceeds ~~((five))~~ seven and one-half percent of the average amount of the assets of the union during such year: PROVIDED, That a credit union shall not thereby be limited in its expenditures to a sum less than six hundred dollars in any calendar year. No credit union shall pay any fee, commission, or other compensation, directly or indirectly, to a person for soliciting the purchase of or selling its shares of stock or for soliciting loans or deposits.

NEW SECTION. Sec. 13. If any provision of this amendatory act or its application to any person or circumstance is held invalid, the remainder of



the act or the application of the provision to other persons or circumstances is not affected.

**NEW SECTION.** Sec. 14. This amendatory act is necessary for the immediate preservation of the public peace, health, and safety, the support of the state government and its existing public institutions, and shall take effect immediately.

Passed the House March 12, 1981.

Passed the Senate April 20, 1981.

Approved by the Governor May 8, 1981.

Filed in Office of Secretary of State May 8, 1981.

CHAPTER 82

[House Bill No. 701]

BANKS, FINANCIAL INSTITUTIONS—DEPOSITOR CLASSIFICATION,  
INTEREST COMPUTATION, PAYMENT

AN ACT Relating to financial institutions; adding a new chapter to Title 30 RCW; and creating a new section.

Be it enacted by the Legislature of the State of Washington:

**NEW SECTION.** Section 1. The legislature finds that current rates of interest paid for deposits is significantly less than rates paid for other types of monetary instruments. The purpose of this chapter is to permit financial institutions to compete for the funds now being transferred out of state to money market mutual funds.

It is not the purpose of this chapter to deny savers or investors the highest rates of return on their savings and investments commensurate with the risk they are taking but rather to permit the financial institutions in this state to compete for such funds by offering the maximum rate of return commensurate with the risk.

It is the further purpose of this chapter to permit all financial institutions, both large and small, to establish a convenient and inexpensive way to compete adequately for deposits now being transferred out of the state, and the regulators in proceeding under this chapter should endeavor to fulfill this purpose.

**NEW SECTION.** Sec. 2. Unless the context clearly requires otherwise, definitions in this section apply throughout this chapter.

(1) "Financial institution" means any:

(a) Bank or trust company organized under the provisions of Title 30 RCW; or any

(b) "Mutual savings bank" organized under the provisions of Title 32 RCW; or any

(c) "Savings and loan association" organized under the provisions of Title 33 RCW.