659 SC FILE NO. 26

659

the further the credit union is away from the NCUA office, the better the odds are of this occurring. If a credit union is able to inexpensively call or visit the NCUA office to check on the status of an inquiry, chances are that that inquiry will receive prompt attention.

The proliferation of regulations emanating from NCUA is also of concern to me. However, I can do nothing except voice my objections, and then abide by their regulations. Example: NCUA recently passed a regulation that effectively and severely limits the sources a credit union can borrow from. Several credit unions in California have since filed a lawsuit challanging NCUA's authority to limit such transactions. Regulations have also been proposed that would further limit the debt collection practices of Federal credit unions. Why? Because, says NCUA, last year they received 59 complaints about the collection practices of Federal credit unions. Not necessarily valid complaint, just unverified complaints. That, out of almost 13,000 credit unions. I consider that a pretty darn good track record, one that credit unions can be proud of, but NCUA thinks that merits further regulations.

I'm not saying that I would recommend my credit union convert from a Federal to a state charter as soon as possible, but I would like to have that option available.

There are many conditions in Alaska that are unique, as you all recognize. The problem is that for the most part, the uniqueness of our situation is not recognized by NCUA. subsequently, requests that might be out of the ordinary to outsiders are often rejected without considering our unique situation. Several years ago the Alaska Railroad Federal Credit Union requested an amendment to our field of membership that would allow us to serve the employees of 6 small companies that are lessees and shippers of the Railroad. Each of these groups were too small by current NCUA guidelines to form their own credit union, yet we felt there was a sufficient common bond with railroad employees to justify the request. The request was denied

No consideration was given to a unique situation. An attempt to provide credit union service to those groups failed because of the unwillingness of the regulatory agency to consider an unusual situation.

The issue at hand is not whether there will be credit unions in Alaska, but whether the State will take a role in the future of the credit unions and the services they provide the citizens of the State.

I urge you to support the passage of Senate Bill 225.

Thank you for this apportunity to present my viewpoint.

THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL FILE.

Alaska State Legislature

Senate

Committee on Commerce

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

May 8, 1979

Alaska U.F.A. Federal
Credit Union
777 Juneau St.
Anchorage, AK 99501

Dear Manager:

Enclosed is the latest revised draft of the Commerce Committee Substitute for Senate Bill 225, providing for state credit unions. The context has not been changed. Also enclosed is a section-by-section analysis of the changes incorporated in the latest draft bill.

As mentioned in my letter of April 6, considerable effort was made to get this bill in final form and passed this session; however, our Division of Legal Services, which assists in drafting bills, discovered numerous legal problems resulting from the latest amendments. Consequently, we were not able to meet the deadline for passage of bills during this proposed short session.

I would appreciate receiving any comments you may have pertaining to this bill. If you have any questions, please let me know of them.

I am quite certain we will get this bill through the Senate Commerce Committee early next session since the original committee substitute bill did not pass the Legislature this year. Representative Joe McKinnon attached the original bill to CSSB 118, but it did not pass the Legislature.

Sincerely,

Brad

Brad Bradley
State Senator
Chairman
Senate Commerce Committee

Enclosures

#50

Alaska State Legislature

Senate

Committee on Commerce

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

May 18, 1979

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Sincerely,

Brad Bradley
State Senate
Chairman
Senate Commerce Committee

Enclosure

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Sincerely,

Brad Bradley
State Senate
Chairman
Senate Commerce Committee

RECEIVED
APR 11 1979
Alaska League Services,

Alaska State Legislature

Senate

Committee on Commerce

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

April 6, 1979

Mr. ~~David Chatfield~~, Manager
Alaska Credit Union League
2509 Eide, Suite R
Anchorage, Alaska 99503

Dear ~~Mr. Chatfield~~:

¶ Enclosed is the latest revised draft Commerce Committee Substitute for Senate Bill 225 providing for state credit unions. The context has not been changed. Also enclosed is a section-by-section analysis of the changes incorporated in the the latest draft bill.

¶ As mentioned in my letter of April 6, Considerable effort was made to get this bill in final form and passed this session; however, our Division of Legal Services, which assists in drafting bills, discovered numerous legal problems resulting from the latest amendments. Consequently, we were not able to meet the deadline for passage of bills during this proposed short session.

¶ I would appreciate receiving any comments you may have pertaining to this bill. ~~If you know of other agencies or individuals who may be interested in this legislation, please let me know so that I may get the benefit from all knowledgeable and interested parties.~~ If you have any questions, please let me know of them.

¶ I am quite sure we will get this bill past the Senate Commerce Committee early next session if the original bill does not pass the Legislature this session. Representative Joe McKinnon attached the original bill to CSSB 118, but it did not pass the Senate and is now in a free conference committee, the outcome of which I (do not know at this time.)

Sincerely,

Brad

Brad Bradley
State Senator
Chairman
Senate Commerce Committee

WEB:jp
Encl

~~Dave, we tried to meet the deadline of a short session, but Bill Bernice, Director of Legal Services, which drafts bills, had some problems with the legality of~~

Received 8/30/1979

ALASKA CREDIT UNION LEAGUE

2509 EIDE STREET, SUITE 4
ANCHORAGE, ALASKA 99503
(907) 278-4949

August 28, 1979

Mr. Julius J. Brecht, Director
State of Alaska
Department of Commerce and
Economic Development
Division of Banking, Securities,
Small Loans and Corporations
Pouch D
Juneau, Alaska 99811

Dear Julius:

Two items we received in yesterday's mail reminded me of our dialogue during the July 26 Senate Commerce Committee hearings on the state credit union act, concerning possible alternatives to NCUA share insurance for Alaska state-chartered credit unions. Enclosed are copies of these items for your review.

The first is a memo from Bob Bianchini, President of the Rhode Island Credit Union League, concerning an article in the July issue of "The Supervisor," the publication of the Conference of State Bank Supervisors. The article deals with threats to the dual banking system, and I share Bob's view of the similarity to current challenges to the credit union dual chartering system.

The second is a press release and copy of comments to NCUA from the National Association of State Credit Union Supervisors, expressing concern about the latest in an unending series of NCUA regulations that would usurp the prerogatives of state credit union regulators by NCUA through their share insurance function.

As we may have discussed before, my career progression included a recent two-year stint in the Washington, D. C. office of the Credit Union National Association. As part of my duties there I had frequent contact with many professional staff members of NCUA and worked with them on a wide variety of credit union issues. I'm not given to paranoia, and I'm convinced that there is a concerted attempt underway by top NCUA people to assume direct control over the large state-chartered segment of our industry. Some of them truly believe it to be in the best interests of credit unions to save them from "inept" state regulators, while others simply desire greater power and influence.

In both cases the device is the same--expanded requirements for continuation and qualification for NCUA share insurance by state-chartered credit unions through application of operational regulations that have no direct bearing on the degree of risk to the share insurance fund. These "empire builders" have accurately identified mandatory NCUA share insurance as the stranglehold needed to gain regulatory control over state-chartered credit unions.

Unfortunately, we in the credit union movement have been somewhat gullible. Accustomed in the past to a benevolent federal regulatory agency, interested in encouraging and promoting, as well as regulating credit unions, we have acquiesced to and sometimes even encouraged inclusion of provisions for mandatory NCUA share insurance in our state credit union laws. That was, I believe, an error in judgement on our parts, and will be difficult to reverse in many cases. In addition to the steady stream of NCUA regulations that limit and control the operations of state-chartered credit unions, NCUA has proposed operating the newly-authorized central liquidity facility in a manner that would undermine the movement's central credit union financial system, and my colleagues confirm that the agency exhibits ever-increasing arrogance and intransigence in dealing with credit unions and their representatives.

Julius, I see that this letter has become longer than I intended, but may help you understand our strong desire to permit established, successful alternatives to mandatory NCUA share insurance in our pending Alaska state credit union act. I think you can see that this option is key to, and has become almost as important as, the option of state chartering and regulation itself. Our dual chartering system of checks and balances is seriously out of whack, with the scales tipping precariously in the direction of Washington, D. C. We have the opportunity in Alaska to assure from the outset that you truly have the authority and responsibility to utilize your considerable talents in regulating state-chartered credit unions, without unwarranted federal interference.

Thanks for taking the time to review this letter and enclosures.

Sincerely,

Dave

David L. Chatfield
President

DLC:

Enclosures

bcc: Christian Basler

RHODE ISLAND CREDIT UNION LEAGUE 89 JEFFERSON BOULEVARD / WARWICK, RHODE ISLAND 02888 / (401) 785-0600

August 23, 1979

TO: Members of Association of Credit Union League Executives

FROM: Bob Bianchini

In the July issue of the "The Supervisor", the monthly publication of the Conference of State Bank Supervisors, Larry Kreider, CSBS Executive Vice President, discusses the dual banking system and what must be done to preserve the relative freedom inherent in the present regulatory structure. I was struck by the similarity of the problems, particularly those of a regulatory nature, facing the banking industry and those of our credit union movement. The following are excerpts from Mr. Kreider's talk along with some personal comments . . . .

The dual banking system means different things to different people; but there is one characteristic on which all proponents of the system agree: When permitted to work, it constitutes an excellent check and balance against government monopoly in bank regulation.

Today, this check and balance is being threatened more than ever before. There are well organized attacks on the McFadden concept - attacks designed to destroy the right of the states to determine the banking structure best suited to their particular needs; proposals to consolidate and centralize banking regulation into one federal superagency.

It's unfortunate but we must recognize that through our own actions we have in effect created a super federal regulatory agency in the form of the National Credit Union Administration. NCUA has responsibility for chartering, supervising, insuring and in its latest attempt to exert absolute control . . . liquidity management through the newly created Central Liquidity Facility for all federal and federally insured state chartered credit unions. The creation of the CLF is a classic example of transferring to the federal government a function which we have every capability of maintaining ourselves. The CLF is nothing more than a newly created U. S. Central except that it is controlled and managed by the federal government, along with the usual bureaucratic and regulatory entanglements.

The basic issue confronting the dual system is the threat of monopolistic centralized regulatory control over banking. Please recognize that this threat is real. Not only are we confronted with a long list of major proposals which would take us far in the direction of a federal bank regulatory monopoly, we also are confronted with more central oriented, monopolistic minded bank regulatory bureaucrats than at any time in history. Some of them want, and a few even state so openly, federal monopolistic control over banking! But alas, it tends to be these same proponents of monopoly in government who profess so conspicuously to favor absolute freedom of entry into banking, if they can control banks after they are chartered.

Monopolistic regulatory control, along with its companion, overregulation, is the real issue. Not only is it of concern to the CSBS, but also to many in Congress and in the federal agencies which have spawned the problem.

Again, through our own legislative policy, we have allowed a single federal agency excessive regulatory functions. At the same time, we are discouraging competition within regulation between state and federal agencies, by permitting one individual (The NCUA Chairman) the opportunity to impose similar regulations and controls to both federal and state chartered credit unions . . . . authority which even the comptroller of the currency is not permitted to exercise. Under present circumstances, why would any state chartered federally insured credit union want to continue to maintain a state charter, when the only result is additional regulation and examinations and little, if no opportunity, to exercise functions permitted by state law while the NCUA Chairman exercises his veto power.

Notwithstanding problems, there are positive signs. With apologies for my grammar, "we've got" lots of help in our long-run struggle to limit and reduce federal monopoly and overregulation.

First, there is a basic national inclination for freedom from inherently oppressive centralized power. Instinctively, we will always fight for freedom - unless the loss of freedom goes so far that we no longer are capable of fighting! And there increasingly is an underlying inclination in our nation - and perhaps in the entire world - toward greater personal freedom and less centralized control over our daily lives. Some Members of Congress and some in the federal bureaucracy are out of step with the national trend. In our relatively democratic society, that national trend eventually will prevail over centralized power and monopolistic inclinations of government officials. But, we will all have to work to make that happen.

Second, CSBS gets lots of help from other groups in this effort to achieve checks and balances in our regulatory system. Help now comes from the National Governors' Association, the National Conference of State Legislatures, state bankers associations and an increasing number of Members of Congress.

Third, more and more support for CSBS goals reflects the fact that state banking departments are stronger and more capable of discharging their responsibilities than ever before in history. The state system overall is as capable and in some areas more capable than its federal counterparts. States have strengthened their departments and have taken the lead in techniques needed to get the basic job done more efficiently, while federal agencies have tended to become overburdened by excessive compliance examination responsibilities which, in many cases, have become cost/benefit ineffective.

We do have the ability to protect the checks and balances by encouraging and fostering the growth and development of a viable alternative to federal monopoly and centralized power. As a basic premise we should determine that one reason credit unions choose a state rather than federal charter is to minimize , if not eliminate altogether, federal control and intervention in its affairs. State chartered credit unions should be subject to regulation by the states and the states alone. With respect to the insurance function, state share and deposit insurance plans have proven they are functionally and actuarially sound, CUNA and the leagues should step up their involvement and support of existing plans and the establishment of new programs emulating those existing successful programs. Cooperative activities with the National Share and Deposit Insurance Corporation and the National Association of State Credit Union Supervisors should be increased and major goals and objectives should be established.

We can all be more effective if we have basic guides for our efforts. With this in mind, discussions were held by state bank commissioners in 1977 and 1978, culminating in the CSBS "Policies on the Presence of Federal Agencies in the Examination and Regulation of State Chartered Banks and Bank Holding Companies" which were unanimously approved by the CSBS Board of Directors last Fall. What does this policy guide say?

The "Policy" calls for equality in state and national bank examination and regulatory burdens. Redundant federal examinations and regulation of state-chartered banks must be eliminated. There is no justification for the present disparity - unless federal power per se is accepted as a valid goal.

The Office of the Comptroller and state banking departments should be primary regulators of respective national and state-chartered banks. The FDIC and FRS should maintain specialized insurance and monetary policy roles.

The FDIC should have a presence in examination and regulation for safety and soundness only as it relates to its insurance function. The FDIC presence should be essentially the same for state as for national banks and should be a specialized insurance presence, not a primary role.

We must help Members of Congress realize the merits of the checks and balances inherent in our dual system. That is an ongoing effort which has only begun.

We must study federal statutes and draft revisions consistent with our goals.

We must develop greater legislative strength at state and federal levels. Obviously, the development of practical legislative strength is a major focal point of this entire "Policy" effort.

Serious consideration should be given to the introduction of federal legislation separating the functions of NCUA in a similar manner to those of the comptroller of the currency, the FDIC and the Federal Reserve Bank, with each member of the NCUA Board assuming the administration of those separate functions. No one individual should enjoy absolute regulatory authority and control over our credit union movement . . . . de facto or otherwise.

Along with legislative efforts, we should adjust our relationship with NCUA . . . . openly and without rancor. The paternalistic relationship between NCUA and our movement is just not working and it's time we recognized that fact. We must view NCUA, as it continues to gain and expand its centralized powers as any other federal bureaucracy with its accompanying regulatory burdens. We should reaffirm our basic belief that the government should do for us only those things which we can't do as well or better for ourselves. And if it is in our best interest, in order to obtain certain services, to deal with an alternative federal agency we should not hesitate to do so. For instance, if credit union escape from monetary policy is a concern of our government officials, one suggestion would be to propose U. S. Central membership in the Federal Reserve with the extension of controls through the U. S. Central to its membership. In return, direct entry to the clearing system and discount window privileges should be granted.

Problems notwithstanding, we should not assume that our system of state/federal checks and balances is near death nor that federal bureaucrats will, in fact, gain so much centralized power and will regulate to such an extreme that we will lose many of our basic personal freedoms as well as the flexibility in banking needed to serve diverse trade areas. If we accept that assumption, it might become self-fulfilling. What we all must recognize, however, is that there are powerful forces at work, attempting to achieve a federal monopoly and overregulation.

Those forces will fail. Forceful attempts to centralize and regulate our daily lives are setting in motion even more powerful counterforces which eventually will restrain those on the Potomac who are so sure they know what is better for the citizens of far away states than do the citizens of those states working through their democratic process.

You see, what we really have in Washington, D. C. is an element of arrogance and disrespect for the democratic process, particularly at the state level. It only leads to mediocrity and is not progressive, so the argument goes. Well, we all want change where change will be useful to society; but history teaches that freedom and broadly based governmental democratic processes are a far superior way to achieve progress than an elitist government monopoly.

It shall be most interesting to watch these two basic forces act and counteract over the next decade. Bet on freedom and the democratic process! They will prevail over elitism, government monopoly and overregulation!

Our leadership at both national and state levels should recognize the CLF for what it really is . . . . a duplicate U. S. Central, performing virtually identical functions (particularly if it is granted depository powers and tax exempt status as recently proposed to Congress by NCUA) and seeking the same membership . . . . our credit unions. A competitive relationship exists between our U. S. Central and the CLF . . . so let's stop ignoring that fact and establish rational courses of action. To begin with, under no circumstances should NCUA be permitted to examine any state chartered corporate credit union or the U. S. Central (Would Chase Manhattan invite Citibank in to determine who its major customers are?). Federally chartered corporate credit unions in states where strong state laws exist should convert to state charters . . . . and as I said earlier upgrading CUNA and the leagues' working relationships with NSDGA and NASCUS should become a major priority. We must increase our efforts to acquaint our individual state regulatory agencies with NCUA's growing monopolistic centralized regulatory control over the credit union movement. Goals and objectives to preserve federal and state checks and balances should be established with our state supervisors, including necessary legislative programs.

Finally . . . . the U. S. Central represents our strongest tool for preserving a credit union movement which offers a choice, and credit union leaders throughout our nation should recognize that fact and respond accordingly.

RECEIVED
AUG 27 1979
Alaska League Services, Inc.

NATIONAL ASSOCIATION OF STATE CREDIT UNION SUPERVISORS
1001 Connecticut Ave., N.W., Washington, D.C. 20036 — (202) 452-1530

P R E S S   R E L E A S E

For Immediate Release
Contact: Bill Drohan
202/452-1530

Following extensive review of the proposed National Credit Union Administration Board(NCUA) regulation "Liquidity Reserves of Insured Credit Unions," designed to impose a uniform 5% general liquidity reserve on all federally insured credit unions, the National Association of State Credit Union Supervisors (NASCUS) adopts a position in opposition to the proposed regulation.

NASCUS officials feel that each state regulator can protect the public interest and the safety and soundness of state chartered credit unions without further intrusion by the federal government. NASCUS members have always endorsed and promoted the concept of sound liquidity management for state chartered credit unions.

The major shift in policy direction by the NCUAB which this denotes with regard to their confidence in state regulation of credit unions is unnecessary and unwarranted. The healthy relationship already established between NCUAB and the state credit union supervisors should be encouraged through continued harmony and cooperation, not with additional regulation.

continued.........

Especially onorous is the Depletion and Replenishment Section 742.4, which requires state chartered/federally insured credit unions to notify the appropriate NCUAB Regional Office when it's reserves dip below 5%. This section effectively by-passes the state supervisory authority - an obvious affront to that state's rights.

In addition, the state chartered credit unions would then be required to report to two regulatory bodies; the NCUAB Regional Office and the respective state regulatory agency. It is our recommendation that this section be applied only to federal credit unions. If, after careful examination of the issues raised, the NCUAB determines to enact this section, we propose that the state agencies be authorized to act as the supervisors and enforcers of the regulation.

Following careful consideration of the entire promulgated regulation NASCUS recommends that NCUAB should offer the 5% liquidity requirement as a recommended voluntary guideline, not as a regulation with the effective impact of law. A regulation could be implemented by administrative sanction by each state supervisors if they deemed that such a regulation is needed.

# # # # # #

NATIONAL ASSOCIATION OF STATE CREDIT UNION SUPERVISORS
1001 Connecticut Ave., N.W., Washington, D.C. 20036 — (202) 452-1530

The Honorable Lawrence Connell, Chairman
National Credit Union Administration Board
2025 M Street, North West
Washington, D.C. 20456

August 10, 1979

RE: Liquidity Reserves of Insured Credit Unions

Dear Chairman Connell:

The National Association of State Credit Union Supervisors(NASCUS), the collective voice of state credit union regulatory departments, has reviewed the proposed NCUA regulation to establish a 5% general liquidity reserve requirement for all federally insured credit unions and offer the following comments:

Proposed Liquidity Requirement

NASCUS opposes the NCUA in pre-empting states' rights in extending a 5% liquidity reserve requirement to state chartered/federally insured credit unions. We feel that such action on the part of the NCUA is not needed, not wanted and not warranted at this time. We do not recognize a demonstrated need at this time for such a sweeping regulation.

Liquidity regulations and policies exist for share drafts and overall liquidity in many states at the present time(see appendix). The NCUA's proposed regulation will result in duplication of effort and confusion among state chartered credit unions. State regulators have dealt with liquidity reserves on a formal and informal basis for many years. We can continue to protect the public interest and the safety and soundness of state chartered credit unions without the intrusion of the federal government.

Regulation is most effective at the state level. At this level, the state supervisor can use his discretion in developing regulations that reflect local market conditions or the particular problems of specific credit unions. Broad, sweeping regulations promulgated by the federal government result in rigid rules that fail to take into account the intricacies or special problems of credit unions. As an example, if National or local economic trends force an outflow of shares, state regulators are much closer to the situation than the NCUA and can react much faster, with remedial action, to stem the flow of share withdrawals.

NASCUS members have always endorsed and promoted the concept of sound liquidity management for state chartered credit unions. We feel that such management practice is prudent and in the best interest of credit union members. We constantly encourage credit union managers to employ such concepts. We do not feel that the federal government should mandate strict liquidity requirements for credit unions in place of independent management judgements.

Research Design

The economic justification provided by the NCUA does not isolate and provide an analysis of only state chartered/federally insured credit unions. In place, the data report groups the liquidity of both state and federally chartered credit unions as an aggregate figure. We feel that if NCUA desires to regulate state chartered/federally insured credit unions, it should break-out the state chartered data and provide a separate analysis of the situation.

Additionally, the data is compiled as of December 31, 1978 which is now over 7 months old. The liquidity situation may have changed significantly since that time and not be reflected in data used by the NCUA in its decision-making process. Several states have reported strong liquidity positions, i.e., North Carolina, Nebraska, Texas and Georgia(see appendix), and see no need for a federal regulation on liquidity in their states. We feel that a decision of this magnitude should be based on current data, not information that is more than 1/2 year old.

Depletion and Replenishment

We vehemently object to Section 742.4 Depletion and Replenishment, where state chartered/federally insured credit unions shall notify the appropriate NCUA Regional Office and shall replenish its liquidity reserve to the required level within 60 days, unless an extension is approved by the Administration. This section completely bypasses the state supervisory authority. Moreover, it sets up a mechanism for the NCUA to regulate and supervise state chartered/ federally insured credit unions. State chartered credit unions will have to report to two regulatory bodies, both the NCUA Regional Office and their respective state regulatory agency.

We suggest that this section apply to only federal credit unions. If the regulation is indeed approved, we recommend that the state agencies act as the supervisors and enforcers of the regulation.

Federal Pre-emption

We have not seen a discussion of the federal pre-emption question in this regulation. This regulation, if implemented, will conflict with existing statutes and administrative actions and policies in several states. As an example, Tennessee, Iowa, Utah and North Dakota have liquidity regulations mandated by statute pertaining to share drafts authorized under their state programs. This proposed regulation will result in those state chartered credit unions having to comply with a regulation for share drafts and a separate regulation for all member accounts and notes payable. Needless to say, such duplication is not needed.

The state of Georgia has had a 5% liquidity policy for several years. The Michigan Department of Financial Institutions has recently instructed all state chartered credit unions to establish a liquidity policy. Please reference the Comparative Digest of Credit Union Acts published yearly by the Credit Union National Association for additional state reserve requirements.

Alternative

NASCUS believes that the NCUA should state the 5% liquidity requirement as a recommended voluntary guideline, not as regulation with the force and effect of law.

We have shown that the liquidity situation is not severe in several states, and that these states should not be saddled with a regulation that is intended for someone else. In effect, why should the majority of state chartered credit unions be affected by a regulation, when only a minority may be experiencing a liquidity squeeze?

Your point of sound liquidity management is well taken. We differ in the method of implementation. We feel that the states will promulgate a liquidity regulation if the situation warrants such action. As we have shown, not every state needs such a regulation.

The NCUA recommended guideline could be implemented by administrative sanction of state supervisory authorities. Each state agency, if they deemed that such a regulation was necessary in their particular state, could promulgate such a regulation.

NASCUS recognizes the legitimate interest which the NCUA has in protecting the soundness of their share insurance fund. However, the present liquidity situation is being adequately handled by the states, and we do not see a need for such a sweeping regulation.

This proposed regulation reflects a major shift in policy direction by the NCUA with respect to NCUA confidence in state regulation of credit unions. The federal/state partnership that has developed over the years between the NCUA and the state credit union supervisors has been successful. This partnership has worked well and we question the need to extend such a regulation to the states at this time.

We hope that you will take our comments into consideration when drafting your final regulation on liquidity reserves.

Very truly yours,

Oliver Barnett

Oliver G. Barnett
President

OGB/mrf

FORT WAINWRIGHT FEDERAL CREDIT UNION
P O Box 3525 ● Fort Wainwright, Alaska 99703

November 14, 1979

Senator Brad Bradley
1530 Beaver Place
Anchorage, AK 99501

Dear Senator Bradley:

On behalf of the Board of Directors and members of this credit union I wish to thank you for the time and effort you gave in helping to get "State General Fund Investments in Alaska Credit Unions." I can assure you that the funds this credit union receives will stay in Alaska and be used to loan to Alaskans.

Sincerely,

Ethel Faye Stoneman

Ethel Faye Stoneman, Manager

FEDALASKA
FEDERAL
CREDIT
UNION

ANCHORAGE
Pouch 7-505
Anchorage, Alaska 99510
W.E. SAMPLES General Manager
R.N. RICHARDSON Manager
MARSHALL ELLISON Assistant Manager
(907) 276-1011

FAIRBANKS
Box 870
Fairbanks, Alaska 99707
P.J. SCHULER Manager
(907) 456-2362

KODIAK
P.O. Box 109
Kodiak, Alaska 99615
J.T. JOHNSON Manager
(907) 487-5340

JUNEAU
Box 1307
Juneau, Alaska 99802
R.W. COOPER Manager
(907) 789-2126

April 16, 1979

Senator Brad Bradley
P. O. Box 8-Q
Anchorage, AK 99508

Dear Senator Bradley,

Thank you for your letter of April 6th in which you enclosed a copy of Senate Bill 225. In reviewing that piece of legislation I find that it is a duplicate of previous year's bill therefore I would need a copy of the redraft.

I am in great hopes that a hearing might be found on this particular Bill prior to adjournment. It we can get it through one committee we might have a better chance to get it completed next year. If it is not processed at all this year I am sure there will be difficulty concluding it next year.

W. E. Samples
General Manager

CITY OF FAIRBANKS FEDERAL CREDIT UNION

BOX 2332 • 452-0371 • FAIRBANKS, ALASKA 99701

April 18, 1979

Senator Brad Bradley
Chairman, Senate Commerce Committee
Alaska State Legislature
Pouch V
Juneau, Ak. 99811

Dear Senator Bradley:

After reviewing Senate Bill 225 which provides for State chartered credit unions, I have some comments based on my experience as Manager of our credit union.

Page 9, Section 06.40.120 - Supervisory Committee

Annual audits should be considered as opposed to semi-annual. The scope of Supervisory Committee audits is extensive therefore only once a year is necessary. For smaller credit unions, if the audit is conducted by an ourside firm, this can be an expensive proposition. If conducted by the Supervisory Committee, which consists of volunteers who may or may not have accounting backgrounds, an audit can take quite a bit of time which could have the effect of discouraging volunteers.

Also, under this Section it states that at least one-half of passbooks or accounts must be verified each year. This has some of the same ramifications as stated above, i.e., time and expense.

Page 6, Section 06.40.080 - Member Meetings

Rather than a mandatory simple majority to conduct an Annual Meeting, a stated minimum should be considered. The majority concept places a burden on credit unions to get such a majority of members to attend. If their membership is spread in several different localities or is involved in shift work, or there are no suitable facilities to accomodate a large group, the credit union is placed in the position of not conforming with the State law.

Thank you for this opportunity to comment on SB 225 and for your interest in the credit union movement in general.

Sincerely,

Penny Riccio

Penny Riccio, Manager

ALASKA CREDIT UNION LEAGUE

2509 EIDE STREET, SUITE 4
ANCHORAGE, ALASKA 99503
(907) 278-4949

April 23, 1979

The Honorable Brad Bradley
The State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Bradley:

Thanks for your recent letter and the copy of the proposed Committee substitute for Senate Bill 225, the Bill for a State Credit Union Act.

As you recall, differences between last year's bill (also introduced this year as SB 225 and HB 452) and this proposed Committee substitute were generally those suggested by Division of Banking Director Julius Brecht in discussions with our staff. We have no objections to the inclusion of provisions desired by the Banking Division to enhance the regulatory and supervision process, and are pleased to have Mr. Brecht's assistance in drafting the bill.

We keenly regret, however, that revisions caused the bill to become entangled in the logjam of proposed legislation pending review by the Division of Legal Services. This lengthy delay has apparently resulted in the bill not receiving full legislative consideration again this year. We know you agree that the bill deserves full consideration, and that decisions based on the merits of the issues should be made without further delay. Your assistance in this effort is much appreciated and will be reported to our membership at the conclusion of this year's legislative session.

We also appreciate the efforts by those involved in legislative analysis to clarify and simplify language in the Committee substitute. Most of their changes are constructive in cleaning up old "boilerplate" language. However, some of the changes they made resulted in substantive rather than technical changes to certain sections of the bill. It's unfortunate they didn't take the opportunity to contact our staff during analysis of the Committee substitute, as we suggested to Mr. Brecht and your staff, since we would have been able to explain why certain phrases and terms were used and should be retained. We appreciate this opportunity to make suggestions for changes in the proposed Committee substitute, CSSB 225.

Page 4, lines 15-19, Sec. 06.45.060. Membership. -- In modifying the Committee substitute, certain language concerning availability of membership was taken from Sec. 06.45.030. Bylaws, and inserted in this section instead. We agree with this rearrangement, but find that the section dealing with membership of organizations and associations composed primarily of members was dropped in the transition. Accordingly, we suggest that Sec. 06.45.060 (C), Page 4, lines 15-19 of CSSB 225 be changed to read as follows:

ok

> "(C) Organizations, associations and partnerships composed primarily of individuals who are eligible for membership, and corporations whose stockholders are composed primarily of individuals who are eligible for membership, may be admitted to membership in the same manner and under the same conditions as individuals."

Page 5, lines 2 and 3, Sec. 06.45.070. Powers. -- Under (6) the term "Share Certificates" was changed to "Time Certificates". Share certificates in credit unions do not have precisely the same function as time certificates in other institutions, and we disagree with this change. Further, inasmuch as share certificate and other types of accounts are separately defined in Sec. 06.45.500, we suggest that Sec. 06.45.070(6) page 5, lines 2 and 3 of CSSB 225 be changed to read as follows:

> "(6) Receive savings from its members in the form of share accounts, deposit accounts, share certificate accounts or special purpose thrift accounts;"

Page 5, line 6, Sec. 06.45.070. Powers. -- In (8) the words "an aggregate" were changed to "a total". We're concerned that this could be construed to mean that a credit union could borrow a total of 50% of unimpaired capital and surplus from one source, and could borrow similar amounts from additional sources, obviously an unsafe and unsound practice. We suggest that the words "an aggregate" replace the words "a total" on page 5, line 6 of CSSB 225 to help clarify the intent.

Page 6, line 12, Sec. 06.45.070. Powers -- In (20) following "honor requests for withdrawals of those savings" the words "in any form" were removed. We feel this phrase is important in clarifying that remote withdrawals, i.e., share drafts, automatic teller and point-of-sale terminals, correspondent credit union relationships, etc., are permitted. We suggest that the words "in any form" be inserted after the word "savings" on page 6, line 12 of CSSB 225 to help clarify the intent.

Page 15, lines 4-8, Sec. 06.45.200. Special Accounts -- Certain changes and omissions occured during legislative analysis. Inasmuch as these accounts are specifically covered under both "powers" and "definitions" sections of the bill, we suggest that this section be deleted entirely and subsequent sections be renumbered accordingly.

Page 15, line 22, Sec. 06.45.210. Multiple Party Accounts. -- Wording changes in legislative analysis help to clarify this section, but we suggest that the words "qualify as", page 15, line 22 be deleted, and the word "constitute" be substituted therefor. This will clarify that accounts listed in Sec. 06.45.210(b) are not subject to the limitations under Sec. 06.45.210(a).

Page 18, line 15-16, Sec. 06.45.250. Loans -- The words "on any business day" were deleted from (f) relating to repayment of loans without prepayment penalty. These words, taken from the Federal Credit Union Act, clarify that loan repayments will be accepted and posted as of the regular business day received. Otherwise, credit unions could be expected to post as of an evening or weekend a member's loan payment was attempted or postmarked. We suggest the words "on any business day" be inserted after the word "part" on page 18, line 15 of CSSB 225.

Page 18, lines 17-19 and 22, Sec. 06.45.250. Loans.(g) -- Here again we note the use of the word "total" in place of "aggregate". We are concerned that it could be construed that more than one loan or line of credit to a member, each of which could total 10% of the credit union's unimpaired capital and surplus could be extended. This limitation is intended to apply to the aggregate loans or lines of credit to a member, and would be more clearly stated in that manner. The following adaptation of the language from the Federal Credit Union Act is suggested to replace Sec. 06. 45.250 (g), page 18, lines 17-19 of CSBB 225:

> "(g) A loan or line of credit may not be made to a member if, upon the making of that loan or line of credit, the member would be indebted to the credit union upon loans made to him in an aggregate amount which would exceed 10 per cent of the credit union's unimpaired capital and surplus."

Page 18, line 22, Sec. 06.45.250. Loans (h) -- Again, we suggest use of the word "aggregate" in place of the words "the total".

Page 21, line 15, Sec. 06.45.300 Investments (6) -- It appears the analyst incorrectly assumed we had used abbreviations in listing the facility as "U.S. Central Credit Union" and turned it into "United States Central Credit Union" which, to our knowledge, does not exist. We suggest restoring the correct name of the institution, as incorporated under the laws of the state of Kansas, which is "U.S. Central Credit Union".

Page 21, line 24, Sec. 06.45.310. Reserve Allocations -- In changing the term "accounting period" to "calendar year", the analyst suggests that reserve allocations would not have to be made with each period for which the books are closed and dividends calculated and posted, but only at the end of the year. While we appreciate the attempt to lessen our accounting requirements (virtually all credit unions post dividends more often than annually), we suggest that good business practice dictates the calculation and posting of reserve allocations prior to declaring dividends (as required by NCUA). We suggest deleting the words "calendar year" on Page 21, line 24, and substituting the words "accounting period" therefor.

Page 23, line 14 -- We suggest use of the title "Commissioner" instead of "Department" to be consistant with the rest of the bill.

Page 24, line 3, Sec. 06.45.330. Merger.(a) -- After the words "present at" we suggest striking the "a" and adding an "s" to the word "meeting" to make it plural. This would clarify that one grand membership meeting of all merging credit unions is not required to vote on a proposed merger, rather that each credit union's membership should have a separate meeting to consider the merger, as is the custom elsewhere.

Page 24, line 14, Sec. 06.45.330. Merger (c) -- The analyst has removed the 60-day requirement for action by the Commissioner on a proposed merger, thus leaving an open-end time period. We suggest restoring the 60-day requirement by inserting the words "within 60 days of receipt" after the word "and" on page 24, line 14.

Page 25, lines 21 and 23 -- Again, the analyst has used "department". We suggest using the title "Commissioner" for consistancy with the rest of the bill.

Page 29, lines 16 and 17, Sec. 06.45.470. Exemption from Taxation. (a) -- The term "shares and deposits" is used in the exemption. To clarify that all types of accounts, as defined in Sec. 06.45.500 are to be exempt, and that the exemption is not limited only to "shares and deposits", we suggest deleting the words "shares and deposits" on page 29, lines 16 and 17, and substituting the word "accounts" therefor.

That completes our suggestions for changes in CSSB 225. Again, we appreciate the opportunity to analyze changes made by the Division of Legal Services. The many technical amendments they made that we have not discussed have improved and clarified certain sections of the bill.

We look forward to further progress on this important bill and stand ready to assist you in any way possible.

Sincerely,

Dave Chatfield

David L. Chatfield
President

DLC:sal

NATIONAL
Bank of Alaska
CORPORATE HEADQUARTERS: BOX 600 ANCHORAGE, ALASKA 99510 (907) 276-1132

April 19, 1979

Senator Brad Bradley
Chairman, Senate Commerce Committee
Alaska State Senate
Pouch V
State Capitol
Juneau, Alaska 99811

Dear Brad:

Thank you for sending me the information and the copy of SB 225 providing for state credit unions.

We continue to oppose this legislation as it basically establishes a commercial bank operating under the title of "credit union". This gives the credit union all banking powers without the regulations, taxation and protection to the depositors that the commercial banking system offers.

The arguments made by the credit unions that a state charter is necessary is misleading. At the present time to our knowledge there are no people that cannot be served under the federal chartering. To expand to state chartering will only increase our cost of government and not serve the public in any beneficial way. I would hope that this Bill would not become law this or next Session as, in my opinion, it is not a good piece of legislation, nor will it develop the free enterprise system. If credit unions want to be commercial banks, regulate them identically. The cost of doing business is the same, and the protection is afforded to the depositors.

Sincerely,

Dick

Richard T. Hall
Senior Vice President

RTH:mr

PEOPLES BANK & TRUST
POUCH 7007 • 8TH AVENUE AND G STREET • ANCHORAGE, ALASKA 99510
TELEPHONE (907) 279-7511

R. A. KENNARD
PRESIDENT

April 26, 1979

Senator Brad Bradley
Pouch 5D
State Capitol
Juneau, AK 99811

Dear Brad:

I received your letter of April 6th regarding the Senate Bill #225 providing for state credit unions and have talked to the other bankers at a meeting the other day and wanted to let you know that although you had not heard too much from the bankers, we still feel that this credit union bill would not be a good thing for the people of the State of Alaska.

We continue to feel that it is nothing but a commercial bank under the guise of being called a credit union and one that is very liberal without proper controls and without proper capitalization. We also feel that it is a type of financial institution that is unfair competition because of the fact that it does not have to pay taxes. They can compete in every way and in more ways than commercial banks but yet do not have to pay taxes.

I was mentioning this to a state person the other day that if we establish enough of these types of non-taxible entities that in time there would not be sufficient taxes to pay the salaries of the state people or legislators.

Brad, I know that you are under pressure, but really when you look at this type of legislation, it cannot be good for the community, cannot be good for the State and, of course, is very bad for the tax paying institutions of Alaska. We certainly hope that you can contain it and not allow it to become law.

Sincerely,

Dick

President

RAK/lc

BARANOFHTL JNU

TO DAVE CHATFIELD
C/O BARANOF HOTEL, JUNEAU
ROOM 518

FROM ALASKA BANK OF COMMERCE, ANCHORAGE

ALASKA BANK OF COMMERCE IS NOT OPPOSED TO THE CREDIT
UNION AMENDMENT ATTACHED TO SB NO 118.

BARANOFHTL JNU

AK BK COMM AHG

ATTN DAVE CHATFIELD

WITH REGARDS TO THE INCLUSION OF THE STATE CREDIT UNION BILL AS PART OF S B 118, THE FIRST NATIONAL BANK OF FAIRBANKS HAS NO OBJECTIONS TO THE INCLUSION OF SAME AS PART OF THE ABOVE BILL

MIKE WEIS

PLS ADVISE MR CHATFIELD OF THIS MSG HE IS IN ROOM 518
PHONE 586-2660

IMMEDIATE ADVISE PLS

FIRST NATIONAL BANK OF FAIRBANKS

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BARANOFHTL JNU

AKPAC BANK AHG

BARANOF HOTEL
JUNEAU
MR DAVID CHATFIELD
RM $518

IN RESPONSE TO YR TELEPHONE INQUIRY, ALASKA PACIFIC BANK DOES NOT OPPOSE THE INCLUSION OF THE STTE CREDIT UNION BILL AS PART OF AB SB 118.

ALASKA PACIFIC BANK

AKPAC BANK AHG
◆

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF BANKING, SECURITIES, SMALL LOANS & CORPORATIONS

POUCH D
JUNEAU, ALASKA 99811

September 17, 1979

Chris

Honorable Brad Bradley
Chairman, Senate Commerce Committee
P.O. Drawer 8-Q
Anchorage, Alaska 99508

Dear Senator Bradley:

I have just reviewed the transcript for the hearing which your committee held on July 25-26, 1979 on the proposed CS SB225, an Act providing for state-chartered credit unions.

I note from the testimony towards the end of the July 26 hearing that it would appear that you and Senator Sturgulewski would like to see draft regulations in the areas of field of membership, share drafts, and application procedures. I said, during the hearing, that the division would certainly cooperate with the committee if it wanted to become more directly involved in the review of proposed regulations, separate from the authority for the Legislature to review all regulations of State agencies. I would draw your attention to the fiscal note that was submitted along with my testimony. That fiscal note provides for funding for an individual to draft regulations and to set up procedures for the regulating of credit unions under CS SB225. It may, therefore, be premature to come up with draft regulations prior to the enactment of the bill.

I would suggest that if the committee feels strongly that certain guidelines be followed in the drafting of those regulations, that the committee adopt a Letter of Intent setting out those guidelines. I would be happy to discuss this further with you as well as members of your committee and staff. My reason for hesitating in drafting regulations at this time, is that we have no assurance that the bill that may be eventually enacted will be, in fact, that which is presently before the

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committee. In my estimation, it would be best to draft regulations after we have a firm statement from the Legislature as to what the law is going to be.

In any event, please do not hesitate to contact me if you have any further comments on the matters touched on in this letter or other matters relating to this bill.

Sincerely,

Julius J. Brecht
Director

JJB/5/7

SENATE COMMERCE COMMITTEE

MINUTES

July 26, 1979

SB225 Credit Unions

The teleconference hearing was called to order by Committee Chairman, Brad Bradley at 9:15 a.m. The only other committee member present was Senator Arliss Sturgulewski; Senator Terry Stimson was represented by Licia Piceno. Representative Terry Martin was in attendance and participated in the proceedings. Committee staff members in attendance were Christian Basler, Jon Mathison and Luci Tennison. The teleconference took place in the Legislative Information Office in Anchorage.

Attached is a transcript of the proceedings taken from a taped recording. Also attached are copies of written testimony and a list of those testifying from the various teleconference sites.

WITNESSES

SENATE COMMERCE COMMITTEE
TELECONFERENCE

July 26, 1979

ANCHORAGE

Alaska Credit Union League
David Chatfield

Alaska Pacific Bank
George Diener

FAIRBANKS

Eielson Employees Federal Credit Union
Anita Davis

Ft. Wainwright Federal Credit Union
Ethel Stoneman

Wien Employees Federal Credit Union
Mebble Hansen

First National Bank of Fairbanks
Michael Weis

KODIAK

Fedalaska Federal Credit Union
Tim Johnson

JUNEAU

Tlingit/Haida Federal Credit Union
Stephen Vlahovich

Division of Banking & Securities
Julius Brecht

The Senate Commerce Committee will come to order. Today, of course, we are taking up the state chartered credit union bill, Committee Substitute for Senate Bill 225 and we will start out with Nome. There were no witnesses or observers in Nome at that time. We'll check back with Nome later and proceed on with Sitka. There were no witnesses or observers in Sitka at that time. Proceed on to Soldotna. There were no witnesses or observers at that time. Proceed on to Fairbanks. Fairbanks had three witnesses. First witness Anita Davis from Eielson Credit Union.

"Mr. Chairman and members of the Committee, I am Anita Davis from the Eielson Credit Union and I would like to thank you for the opportunity of talking with you this morning and expressing my support to the bill that is before you. I am sure that after all of the hearings and all that you have been listening to that some of it has been very repetitious. We feel, though, that this is caused by the fact that we are all very united in our position on this bill. The strong points involving the bill are something that needs to be said time and time again. I, personally, have been with the credit union for 15 years. I believe in the credit union movement; I believe in Alaska. Thirteen of those years that I have been with the credit union have been in Alaska. I, personally, feel that the Alaskans are a proud and independent people and do not like to be placed in the position of being in the minority. We are one out of only four states left that does not have a state credit union act. I also would like to say that I feel the people of Alaska would like most certainly to avoid any further involvement by the federal government in matters that the state can handle. As I said before, I believe in the credit union, I believe in the philosophy of people helping people. I believe that people getting involved in this spirit adds quality to their lives. We have a great many people in the Fairbanks area that do not have credit union services available to them. This is caused by the federal chartering laws requiring common bond of the people forming a credit union. We are approached many times by people that would like to form credit unions that have none available to them. My own particular situation being a Department of Defense or government related credit union; they cannot join our credit union and we cannot refer them to any other credit union in the area. I am not aware of any or the present credit unions that operate within the state that are contemplating any type of a charter conversion. We all are very much aware of how much more effective we can be if we have an alternative available to us and this means a dual chartering system. Our NCUA administrator himself is a strong supporter of the dual system. He at one time was a state regulator. It has taken the credit unions a long time to be recognized as a viable financial institution. We would like very much now for the state to recognize the fact that we are here, we are real, we are serving a great many peoples' needs and we feel that the people of the state should have the opportunity to take advantage of some of the services that we have to offer. Thank you very much."

No questions were asked of Ms. Davis. Next witness was called. Ethel Stoneman, Ft. Wainwright Credit Union.

"Mr. Chairman and members of the committee, this is Ethel Stoneman from the Ft. Wainwright Credit Union. As Anita said, everything that we are all saying probably is repetitious because we feel so strongly on this. Credit unions were formed by people who have something in common. A good return on savings and low interest loans are the principal service. Because they operate without a profit motive and because all earnings are passed on to the member/owner credit members, credit unions have been and continue to be the most consumer-oriented type of financial institution. We have all heard that credit unions thrive very well in Alaska without a charter, but the reason we have is because they are consumer-oriented. There are still a lot of people in Alaska that are not eligible to be members because they do not belong to the common bond of one that is already in effect. The federal charters do not always accommodate all of the people. We, as Alaskans, are fighting very strongly at this time trying to get out from under so much federal government rule. We feel our state government can supervise much easier and as good if not better than the federal government. State control would permit more timely legislative changes when it appears necessary to adapt the law to the altering social and economic conditions. State legislators are here in Alaska and are more aware of and sympathetic to our needs. Our needs are not the same as the lower 48, therefore, we need to be able to have some control here in our state so that we have a better control of the situation. There are only four states that do not have their own act and Alaska is one of them. I just returned from two weeks at a credit union school in Wisconsin where both state credit unions, federal credit union employees and officials from all over were in attendance. Without fail, every state credit union person that I talked to showed me it was better to be in control by a state charter. They meet the individual state's needs more efficiently than federal control. At this time I do not know of any of the credit unions that plan to change their charters, but it would be much easier for credit unions to help the people that do not have charters at this time. That concludes my testimony."

Next witness was called to testify. Mebble Hansen from the Wien Credit Union.

"Mr. Chairman and members of the Committee. My name is Mebble Hansen of the Wien Employees Federal Credit Union. I appreciate this opportunity to give testimony in support of the bill that is now before your committee for consideration. In Alaska we do have 30 federal credit unions with a federal charter but we do not have a state act. Alaska is only one of four states left which does not allow its own credit union act. While a federal charter is meeting the needs of our members, there is still many unmet needs for the people of Alaska because of the federal authorities who are either unwilling or unable to recognize for our smaller population and small businesses. We believe a state act would give federal chartered credit unions more leverage when dealing with their regulatory agencies by providing an alternative to charter conversion. We at federal chartered credit unions have no options except to conform to their requests whether they are necessary or required by law. We believe that the needs of smaller credit unions can be met and better served by a state agency that would permit a much more simple administration and regulation to meet the demands of certain geographic regions. Alaska is now dependent on federal authority for administration of our consumers deposits with no control over your credit union chartering or rates. We believe that the state of Alaska would want to take a more active role in controlling the destiny of our depository institutions in Alaska. Credit unions are here and we are serving our members and will continue to do so whether the state act is enacted. Enacting a state credit union act will only help us seek a choice of Alaska's other financial institutions which is a choice of a state of federal chartering provisions. We thank you for letting us testify today in behalf of this issue and we urge your support. Thank you."

No other witnesses in Fairbanks at that time. Senator Bradley stated, for the benefit of those testifying in Fairbanks, who was present at the hearing in Anchorage. Chairman Bradley checked back with the outlying sites, but no witnesses or observes had materialized. The teleconference recognized Kodiak. Mr. Tim Johnson, Fedalaska Federal Credit Union in Kodiak.

"Mr. Chairman and members of the committee, this is Tim Johnson from Fedalaska Credit Union in Kodiak. I appreciate the opportunity to speak in support of the bill before you now. As you know, we are an island and not uncommon at all with other cities in Alaska, and particularly in the needs of its people. I would like to particularly state that this bill would give an opportunity to towns like Kodiak to develop area type credit unions to service the needs of the communities as the federal regulator is not a local person it is very difficult to accomplish the needs of the people here. For example, five years ago Kodiak did operate under an area type charter where it had the municipal, state and federal employees. However, since then, the regulating body has been shifted to remove the city, state and borough associations from our charter and make it federal only. This leaves people without a credit union to take care of their economic needs. Again, it primarily is unique to us by being far away from the regulators, not to have their support and it makes us feel detached from the whole program. That is all I have to say at this time."

Proceeded to Juneau. First witness, Brian Andrews, with Alaska State Employees Federal Credit Union.

"Chairman Bradley, members of the Commerce Committee and interested parties. My name is Brian Andrews and I am the General Manager of the Alaska State Employees Federal Credit Union. My testimony today will be very brief and pointed towards to what I feel is the most important element of this state act and why it should be enacted. That element is the flexibility and timeliness of the act which allows us to meet the changing economic conditions of today and still maintain our goal of improving the economic and social conditions of our membership. The federal regulatory body NCUA, I believe, has failed us by not changing to meet today's economic conditions. Specifically, their inability to adjust our interest ceilings. With today's inflation being the worst since World War II, there has been a tremendous pressure to maintain a profit margin which, consequently, adversely affects our services and monetary return to our membership. It is this inability of the federal government to provide an adequate profit spread which is destroying, in my mind, the very existence of the credit union movement and that is why I strongly advocate the state charter. I can assure you that if this act is enacted into law, we will be one of the first to recharter and refirm our goal of improving the economic conditions to our membership. Thank you."

Next witness was called. Stephen Vlahovich, Tlingit/Haida Federal Credit Union.

"Good morning Mr. Chairman, members of the committee. I think you all know me, I have been on this committee for many years now. My testimony today is in favor, as usual, of the state chartered credit union act. All the reasons given for the act are legitimate and valid. I do have some areas of the bill itself which I would like to address. First is in the big seven where it states that the par value of the credit union share shall be in $5 multiples of not less than $5 and no more than $25. There has been some studies done in federal credit unions on the size of the share deposit and it has been proven, statistically, that share deposits of less than $50 are a loser to the credit union itself and the credit union does not incur any benefit to its membership by holding a deposit of less than $50. It would be my recommendation that the $25 be increased to $50 and then multiples of $5 thereafter. The other part of the bill I would like to address is on page 25 section 06.45.280, Insurance, part B. All credit unions chartered under this chapter shall be required to furnish evidence of insurance coverage by a national credit union administration. In talking to the federal examiner, what happens when a state chartered credit union applies for insurance coverage for shares through the national credit union administration is, if the bill providing the chartering of state credit unions has powers which the national credit union administration feels are not warranted in their operation, they usually require that credit union, in order to provide the insurance coverage, to drop those powers. Making an agreement with the national credit union administration. This, I feel, would be an unwarranted invasion into the powers of the state to direct its own operation. I feel that there should be language added there that the credit union charter, say in the state of Alaska, would have the ability to purchase share insurance from another state chartered share insurance corporation or from a private insurance corporation. That's the end of my testimony today."

STURGULEWSKI: I do have one question if we could go back to page 7. Are you suggesting that the wording would be $5 multiples not less than $50 and then with some upward limit. What kind of wording might you suggest?

ANDREWS: The language would only have to rely on the fact that you would have a $50 minimum share, initial purchase and then multiples of $5 thereafter.

STURGULEWSKI: Thank you.

BRADLEY: Question for Mr. Chatfield for the benefit of those listening. Dave, don't some credit unions already implement this, a minimum of $50?

CHATFIELD: Thank you Mr. Chairman. To my knowledge there are no provisions in state charters elsewhere providing for that high a minimum par value on a share. Federal credit unions, by the federal act, may not increase the par value of a share above $5 at this time although there are proposals before the Congress to change that. I appreciate what Stephen is saying; I would be willing to discuss with you the possibility of increasing the allowable par value. I think perhaps a minimum of $50 might be a bit high. $5 multiples perhaps starting a $5 and with a maximum of $100 would be possible avenue to take on this.

BRADLEY: Thank you very much, David. Do you have anything further Stephen?

VLAHOVICH: Thank you Mr. Chairman, I don't.

BRADLEY: Thank you, Stephen. Proceed to next witness.

Third witness, Julius Brecht, Director, Division of Banking and Securities.

BRECHT: Good morning Mr. Chairman and members of the committee. I wish to thank you for giving me the opportunity to come forward and offer testimony on the bill before the committee on behalf of the administration. As you all know, the bill provides for the establishment of a state chartered credit union. At the present time there are approximately 33 credit unions doing business in the state. They are all federally chartered. The credit union as an institution is only one of several forms of financial institutions which are doing business in the state including commercial banks, mutual banks, bank holding companies, foreign banks, trust companies, savings and loan associations, finance companies and premium finance companies as well as credit unions. Each institution performs a service to the public and each is subject to regulation by state and/or federal agencies. I've made this statement before, but those institutions providing a wider range of services are subject to more extensive regulations. For example, commercial banks provide perhaps the widest range of services to the public, and they are also the most heavily regulated by both state and federal agencies. The regulation of a financial institution in the best interest of the public and the customers of that institution must be commersurate with the scope of services rendered and the risk of loss to depositors, shareholders and other creditors should the institution fail. I believe that if the Legislature enacts legislation providing for state chartered credit unions there must be provisions for adequate regulatory control of these financial institutions by the state commensurate with the services offered. I do have some specific comments on the draft bill which I could go through at this time at the pleasure of the committee.

BRADLEY: Go ahead please, Julius.

BRECHT: A number of these are really more in the vein of drafting type changes, but I think they should be brought to your attention at this time. The first one is on page 11 of the draft, line 11. Reference to AS 06.25.010-06.25.350. That, of course, is the trust company act. I think it should be just a reference to AS 06.25 in the event that sometime in the future that act is extended beyond section .350 and has an inadvertent omission of the appropriate change in this bill if it were to become law. Second item goes to page 16, lines 24-26. There is a reference to what might be termed wild card statute. It, in effect, allows the department to authorize state chartered credit unions to provide those services that a federally chartered credit union is allowed to provide, but which are not specifically provided for in the statute. There is a similar wild card statute that applies to other financial institutions and is found in a new chapter that was enacted by the Legislature last year. Chapter 1, entitled Administration and within that chapter I would suggest that the provisions of C on page 16 of the bill be deleted and in its place a reference be made in section 06.01.020 to the national credit union administration. In this way the same provisions of C in the bill will apply but will be put in a more logical place within Title 6. Is that clear to the committee?

BRADLEY: I think so, but hold just a moment. Do you have any comments, Dave? We have a comment from Mr. Dave Chatfield.

CHATFIELD: Thank you Mr. Chairman. Julius, we have no big problem with that. I think you have recognized the fact that the conformity provision or advantageous powers, or other names that it goes by is in the statute for other financial institutions and this would simply duplicate that for credit unions. In most cases the state credit union acts are fairly well self-contained rather than implying provisions of other parts of the banking code and things that would pertain to credit unions. I guess we have a preference to leave it in here so that this act remains self-contained, but as long as the effect is the same, we have no big problem with that.

BRECHT: The purpose of establishing Chapter 1 was to put in one place rather than in several different chapters, those provisions that would generally apply to all institutions. For instance, Chapter 1 now has provisions dealing with administrative procedures, examination policy, charging of fees for examinations and investigations and the general power of the department to use what I term a wild card statute.

CHATFIELD: We have a request for the specific statute reference of the conformitive provisions for the other financial institutions. I don't have that at hand.

BRECHT: I would suggest that national credit union administration be inserted after Federal Deposit Insurance Corporation in AS 06.01.020.

CHATFIELD: Thank you Julius, I think we have it referenced now. Again, we have no big problem with this. We would prefer the thing to be self-contained but we recognize that there are other provisions of the banking code that apply.

BRADLEY: Attorney Sharyn Campbell has a comment.

CAMPBELL: Julius, we have discussed this previously and there was a technical difference in the standards that are provided. Subsection 1 of 020 requires that one of the standards be that it serve the public convenience and advantage and if you are going to incorporate the wild card provision it has to be clear in the legislative record that the public convenience standard is not the same as it would be with respect to institutions that can serve the general public because the credit union membership is limited to its field of membership.

BRECHT: Well then an appropriate amendment could be made to paragraph 1. Or in the legislative history of the bill we could make clear that the public convenience and advantage of the membership of the credit union, but at least in that way all wild card type of statutes would appear at one place in the financial institution's title.

BRADLEY: I think I follow you, Julius, but let me see if anyone else has a comment.

STURGULEWSKI: Mr. Chairman I think what we need is to have your staff take a look at that and discuss it and draw up a possible amendment and then we can have some further input on it. I like the idea of it all being together, but I agree with Ms. Campbell's comments that it has to apply, definitely, to the credit union field of membership.

BRADLEY: Did you understand that Julius? It was from Senator Sturgulewski.

BRECHT: Yes, I understand. On pages 21, 25 and 28 there are several references to the national credit union administration. I think that there are enough references here that the acronym could be used in the term defined to decrease the verbage within the bill.

BRADLEY: I agree; I'm a great advocate for such. Spell it out the first time and use an acronym from there on because it is long terminology.

BRECHT: Specifically for the record, on page 21, line 14, page 25, lines 18, 20, 21 and 23, page 28, line 1 there is reference for returning small loans and savings and loan associations and since this work draft was based on that, the repealer was part of the work draft and it is not appropriate for the final bill.

BRADLEY: Then if I understand you, you agree that this repealer should be omitted?

CHATFIELD: That's correct because this, as a matter of fact, was dealt with with the legislature during the last session and this happened to appear on the work draft that we're now viewing, but it has been dealt with by the legislature and has no bearing to the credit union act itself.

BRADLEY: Fine, I missed that discussion between Mr. Chatfiel and Mr. Basler, the administrative assistant. Do you have anything further to add, Julius?

BRECHT: Just that the provisions of the proposed committee substitute in the context of the comments that I have made are what I view as adequate regulatory guidelines for credit unions their members, and the department. I will also submit to the committee a copy of a fiscal note that was prepared by the Division earlier this year and it should still reflect a reasonable projection of the Division for the cost of administering a credit union act. That fiscal note is dated February 23, 1979.

BRADLEY: I understand and would appreciate your submitting an up-to-date fiscal note, Julius. Would there not be some changes in the previous fiscal note?

BRECHT: Well, there might be some changes due to inflation, but other than that, I think that the fiscal note assumes that approximately 15 credit unions would be chartered and doing business in the state and from there makes projections as to how much time would be necessary to investigate and examine. There is an estimate for the need of one and one-half examiners to administer that program and an additional one-half examiners could easily be used to support other activities of the banking section within the division.

BRADLEY: I would appreciate your considering if there were any changes because from past experience I know from one section to another sometimes it's a frequent question that is this an updated fiscal note from one year to the next, one session to the next, so maybe to avoid any unnecessary discussion on that we might give it all the consideration that you think necessary, but if not I think I could explain it away on the floor. Mr. Chatfield has a comment.

CHATFIELD: I would like to suggest at this time that it is the committee's desire we may wish to touch on the issue raised by Stephen Vlahovich concerning an alternative for share insurance. If it is the committee's desire it might be well to do that while Julius is on the other end.

BRADLEY: Please go ahead.

CHATFIELD: I can see Stephen's concern and I think this bears on a question that Rep. Martin asked on Tuesday concerning the potential for regulation and I think that that is the only place where there might be possible dual regulation or any conflict of it arises.

For example, if the standards of NCUA concerning state chartered credit unions retaining their share insurance would be different from or in conflict with the standards that the banking division might have, so perhaps it would be a good idea to discuss at this time other options and I guess one way to do that would be to consider page 25, line 18 after national credit union administration inserting the words "or similar share insurance program approved by the commissioner." This would solve the problem as far as at least leaving the door open to alternative programs. Now we know of some other share insurance programs that do accept credit unions for insurance purposes from other states so if the words" or similar share insurance program approved by the commissioner" were inserted after the word administration on page 25, line 18, that would leave that door open and then I would suggest if that is done that to conform elsewhere in that paragraph, paragraph b on page 25, the words "national credit union administration" be changed to "insuring organization". I guess I would like to know Julius' feelings on that.

BRECHT: This question has been raised from time to time, not only in the context of credit unions, but other financial institutions. One real advantage of having a federal agency insure a financial institution is that you have the good full faith and credit of the U.S. government behind that insurance. The committee should be aware of the one decided disadvantage of stepping away from that is the possibility of getting involved in insurance problems in the context of financial institutions. Certain states have had considerable difficulty with private insurers. Maybe not necessarily in the context of credit unions, but in the context of other financial institutions and I think that the committee should be very careful about considering the possibility of insurance other than through a federal agency.

CHATFIELD: Yes Julius, I think we have considered that and we realize that there are some problems with that during the time that this has been kicked around. I think it's obvious that it would be actuarily unsound to attempt to do that, to form a share insurance organization just for Alaska credit unions because the numbers aren't large enough to be able to spread the risk properly. However there is the national share and guaranty corporation. There are other share insurance corporations which insure large numbrs of credit unions in other states. They are quasi-government agencies, they are supervised by the state agencies in those states and some of them operate on a regional basis or permit insurance and membership by credit unions in other states, so with the wording "as approved by the commissioner" in there, would you feel uneasy about at least leaving the door open that much?

BRECHT: It would, of course, be at the discretion of the Commissioner, but what you do by, it depends, you could have a hypothetical at sometime in the future where there was considerable pressure put on a future commissioner to allow private insurance in this context and maybe perhaps in other contexts involving other financial institutions. Perhaps in the long run the net effect was not in the best interest of the institutions or their customers. It could be inserted, but I would still be rather cautious about the use of any insurance other than through a federal agency.

CHATFIELD: Julius, I think we share your concerns and we know that there have been some problems with private insurance companies insuring the deposits of other financial institutions. Fortunately none of those have occurred in connection with credit unions. But I think we share those concerns and it would certainly be our desire to see credit unions financially strong and insured by financially strong organizations and this, again, would address the problem that Rep. Martin brought up on Tuesday about the potential for dual responsibilities, dual regulations. This appears to be the only area where that's possible. Where state chartered credit unions would be required to have and maintain share insurance as their only option and if the NCUA standards for that insurance prove to be different or in conflict with those of your department. I think that's the only opportunity or potential problem area as far as dual regulation is concerned.

VLAHOVICH: I have a question to ask Dave. It's my understanding that the NCUA's share insurance program is not backed by the total good faith and credit of the U.S. government; it is basically a privately funded program supported by the credit unions throughout the United States.

CHATFIELD: Stephen, that's partly true and partly a little narrower than the actual fact. The share insurance fund was developed and is sustained by assessments against the credit unions that are insured -- premiums for that type of insurance. However, it does have guarantees and draws from the U.S. treasury to maintain its liquid status.

VLAHOVICH: Thank you.

BRECHT: Well, I guess my final comment on this would be that if that language were inserted it would certainly be used with caution by the administration.

BRADLEY: Thank you Julius; any further comments.

STURGULEWSKI: Julius, several areas. First, the page that refers to the seven member aggregate, $1,000 and then it goes on on the next page and one of the things that has to be looked at by the Commissioner is that the proposed credit union is economically feasible. We've heard a lot of debate or discussion over the last couple of days of hearings regarding the fact that, in Alaska we have somewhat of a unique situation in that the groups here, for the common bond, may not be as large as outside, so we have some very unique conditions that we need to bring together and utilize a broader definition of the common bond. I'm wondering, just from a philosophical point if you might like to speak on what kind of standards you apply to see that a common bond exists and that it is economically feasible. I'm wondering what kind of standards would be developed; would they be in the form of regulations or can it be that precise?

BRECHT: Yes, Senator Sturgulewski. A part of the fiscal note envisions an appropriation for a study and for the drafting of regulations to interpret and implement an act that would become law. The question of common bond and several other questions that may be raised regarding the present bill need to be clarified.

STURGULEWSKI: In other words you don't have those standards set up and you would anticipate that they would be done by regulation. Is that correct?

BRECHT: Preferably by regulation, we would of course look to what the history had been in other states that seem to be at least somewhat similar to Alaska. We would look to the regulations and procedures of the NCUA. They certainly would have more experience in this than we would starting right off. Again, going back to the fiscal note, the study would outline what has to be done to establish an appropriate mechanism for the regulation of credit unions under the act.

STURGULEWSKI: Okay, I've been rather of the feeling that there may have been more done on that; it sounds as though you have a way to go if this bill is enacted in that area. On page 9, line 13, under section 06.45.060 on membership. I'm just wondering if the way that's laid out, including the one at the end, members of the immediate family of a member. Is that a normal standard and inclusion?

BRECHT: I believe that the substance of this bill, to a large extent, comes from the model credit union act and certain other state acts that are thought to be progressive. As to where this specific language comes from, I'd have to defer to Mr. Chatfield who might be more familiar with it.

STURGULEWSKI: Julius, if you go to page 30, line 18. Talking in that particular section about the suspension and just begin kind of an overview. It calls for an annual report. There are certain percentages listed throughout the bill as to where a credit union can put their money and the amount of loans and so on. How onerous a burden is it going to be as far as a regulatory process goes to see that credit unions, in fact, stay healthy. Have you really carefully looked at that in drawing up your fiscal note. Because I think that if this bill passes, we're saying to the public that we are going to take over a certain responsibility and I'm frankly pretty shocked in some of our sunset reviews to find that our ability to enforce and police the laws and regulations that are enacted is extremely weak. My concern here is, are we holding out that we are going to do a job and then find that we don't have the resources to do it. I'd like some comment on that.

BRECHT: We have tried to address that in the fiscal note. We tried to estimate how much time it would take to do a typical examination and took our own experience in examining other types of financial institutions and drawn on the experience of certain other states in their experiences in examining institutions. We have that as a basis for our estimate. We are also estimating that we would have approximately 15 credit unions that would either charter or convert. If it was a much larger number, then obviously we would be saturated with business in that respect and would go beyond the projections of the fiscal note.

STURGULEWSKI: Julius, in the matter of financial institutions that are regulated by the state charter, do you have a specified time that you go on annual inspections. If the answer is yes, would you anticipate in the credit unions that you would actually go and make an inspection or is it just as a report to you. Do you go out in the field and verify that?

BRECHT: Our policy, let's say with respect to other financial institutions, would be to do a field examination. On a periodic basis. We would do the same with credit unions if this bill becomes law. In fact, I think this bill specifies an annual examination so we would be required to do an examination at least once a year. There might be a need for special examinations if there were particular problems with a specific credit union.

STURGULEWSKI: Julius, one other question. There was some discussion at the earlier hearing that you didn't have an opportunity to hear. There was talk about possible adoption of a fee schedule that would go a long way toward funding the necessary staff to regulate. What is your feeling on that as far as credit unions meeting part of the cost of the operation of your department?

BRECHT: The fee schedule that had appeared in a previous version of this bill would generate fees that would not come close to paying the cost of doing an examination and the reason why the credit unions will pay the full cost incurred by the department in conducting an examination is to put them on a par with other financial institutions with respect to payment of fees. Under the present law, under AS 06.01.010, any financial institution that is subject to the regulation of the department must pay the costs incurred by the department in examination or investigations. It's pretty clear as to how far that goes. It includes the cost of the examiner, the salary and benefits of the examiner, plus travel and per diem if it's a field examination. During the course of the on-site examination and including the time necessary to write up the examination report with the investigative report after the examiner returns from the field. That is a large portion of the cost of administering the program. Rough figures, 25% or so. I would say that if we're going to have some sort of administrative fee or assessment for administrative costs that it should be applied across the board on all financial institutions.

STURGULEWSKI: Julius, I'm afraid I'm a little bit lost. You refer to .010 where you have the full cost. Does it mean then that with this bill we're covered for the field examination and all the attendent costs. But it does not go beyond that, is that basically what you said?

BRECHT: That's right, it does not cover, for instance, the time that would be spent by an examiner in answering a consumer complaint or the time spent in preparing statistics in response to inquiries from the public or from legislative personnel or whatever. There are certain administrative costs that are involved in administering the bank and financial institutions titles that no institution at the present time pays for. It's the taxpayer that pays for it.

STURGULEWSKI: Okay, but what is in the law now. It's consistent with other financial institutions so credit unions would just fit in and pay the same fees or same proportions.

BRECHT: Alright, I said I didn't know the exact citation, but there is a provision for examination for financial institutions.

Here, for example, section 06.45.450 on page 34 makes reference to the cost of the investigation incurred in making application for a branch by the department shall be paid by the applicant in accordance with AS 06.01.010. That ties directly into that statute. There is a similar provision for processing an application for a new association probably closer to the bill.

CHATFIELD: At the bottom of page 16 and the top of page 17 there are references to that statute and the fact that the credit union shall be required to pay the fees necessary for investigations and examinations. Let me say that it is our intention that the supervision of credit unions be self-sustaining. That is the case with the NCUA; that agency has no appropriation from the general fund of the United States. They are strictly self supporting based on examination and investigation fees. That is our intention here although we realize that it might work some burden on smaller credit unions. I think we do not wish to take issue with the fiscal note that Julius has done, however, he may have been a little optimistic in the number of credit unions and I think his fiscal note includes some start-up costs for the initial guidelines and regulations that would be required. We have, and I will provide you with, a copy of a survey of state regulators of all the various states and I believe it includes the Canadian provinces as well, which may be of less significance, showing the number of financial institutions that each of them supervises and the number of persons that they have employed to do that. Again, it is our intent to be self-supporting, we are self-supporting on the national level; we intend to pay the fees necessary to support proper supervision of credit unions under this act.

STURGULEWSKI: Julius, one further question. What type of magic hat did you use to arrive at your figure of some 15. I'm just curious; I'd like to think about if this bill passes, what happens in the state to the credit unions. We have had quite a bit of testimony from people stating that they feel that there will not necessarily be a mass change from federal to state. Of course they have to wait and see how regulations and so on are developed under the new law, but what basis, if any, did you use for picking that figure and what's your feeling as to what will happen in the credit union field in Alaska if this bill, in fact, does become law?

BRECHT: The figure 15, I must admit, is an arbitrary figure. But it's based in some respect on the general interest in this legislation. The sustained interest over the past three years that I have been associated with it and even before that. And, in fact, in previous times there was more talk about conversion to state charter. There was one person who testified that they would be very likely to submit an application for conversion to state charter. I think that those other federal credit unions that have testified obviously letting their present regulators know that they are just chafing at the bit to convert once the state charter legislation was provided. In any case, I think that it would take at least one examiner, a very conservative estimate, to handle the necessary examination of the institutions. Obviously if we have one or two new institutions and no more, that's a different story from 10 to 15. But if we get something like 10 to 15 we're going to be talking about keeping one examiner busy pretty much full time and very likely more than one examiner, one and one-half examiners. I'm not suggesting that the department

BRADLEY: Thank you very much, Mike. Mr. Buzz Hoffman, your current president of the Alaska Bankers Association has insisted that we have one more hearing when your lobbyist, Wes Coyner, arrives back from his vacation. So, in all fairness, I think we possibly will have to have one more and so at that time you will have another opportunity to testify.

Fairbanks testimony was concluded.

CHATFIELD: First of all, I think that the testimony that you've heard over the two days of hearings has been beneficial to us as well as to yourselves. I think there were many good points brought out; a lot of questions raised and perhaps it would be best to address a couple of those now. On Tuesday there were a couple of questions concerning the function of the central credit union provided for in this bill. It was mentioned again that it is a credit union for credit unions. It serves a corporate function in correcting liquidity mismatches in essence. Shifting funds from credit unions that are in a liquid position to those that have needs to borrow. These tend to be seasonal things and the example was used of teachers credit unions that have surpluses at times of the year when agricultural or other credit unions may have needs for borrowing. As far as what happens now, I believe that was asked. There is some informal interlending between credit unions in the state to serve this liquidity mismatch problem. However, it is informal and most of this activity flows to and from the Westcorp Federal Credit Union which is a corporate central credit union in California that has agreed to serve this region. If there is no state act, then, in fact, we will file for a federal corporate central charter would just run off and immediately hire two additional examiners. We would hire additional examiners as the workload required.

STURGULEWSKI: Thank you Julius. Just a final question. If you turn to page 23, line 8. I'm sure that this is a question that will be answered by some of the people here, but are those standard percentages for real estate loans; are you comfortable with those?

BRECHT: I believe that that was standard language from another act. Mr. Chatfield might be able to answer that.

STURGULEWSKI: Mr. Chatfield indicates that those are federal regulations. Thank you very much, Julius.

Testimony was concluded from Juneau. Chairman Bradley checked back with the other sites for additional witnesses. Fairbanks had one witness, Michael Weis from First National Bank of Fairbanks.

WEIS: I would just like to emphasize that I am speaking on behalf of the 1st National Bank of Fairbanks and the banking industry in general. We at the 1st National Bank of Fairbanks, as we have indicated to numerous members of the credit union association, do, in principal, agree with the bill that is now before the legislature. We feel that the bill is consistent with the existing financial system of dual structure that was established within the constitution of the United States and we also feel that the increased competitive nature of the bill for the benefit of the Alaskan consumer is welcomed by our bank in enabling us to sharpen our skills and better benefit those individuals.

because we feel this is an important function that is not yet served in Alaska. I have had the papers on my desk for several months to file an application for a federal corporate central charter and I have not submitted those pending resolution of what happens with the state act. It would be our desire to have state supervision for the other reasons that have been stated. For the corporate central as well as for the individual credit unions that might come under the act.

STURGULEWSKI: On that issue, are there other functions that they fill such as in the case of a suspension or one that's in temporary financial problems or is this liquidity mismatch the primary reason for the establishment of the credit union's credit union.

CHATFIELD: There are perhaps some other functions that the central would fill in terms of settlement and wire transfers and some other needs that occur to the corporate function of the credit union. However, some central credit unions serve as liquidating agents but they are generally those credit unions that also serve individual members and since this credit union is intended to serve a corporate function only, I rather doubt that it would engage its services as a liquidating agent although that's possible, but this is not intended to be an individual member type credit union. This association would have corporate members consisting of credit unions within the state that choose to join. Perhaps now we could move on to address the questions on the field of membership and Sen. Sturgulewski and others may have raised some questions on this. Julius Brecht

d make reference to it, but we might talk now about section 60 concerning the field of membership of credit unions. This generally follows federal procedures, however, the federal credit union act itself is rather narrow about what is says about field of membership. It permits, for example, the kinds of gathering together of similar groups that we have talked about in this bill. The problem has been in the regulations, so what we have here is an enumeration of the types of credit unions that could be formed. The main difference between this and what is currently available from the national credit union administration is in the term "employees of related or neighboring industries". This is an issue which NCUA has gone back and forth on and sometimes been inconsistent. Sometimes they say yes you can charter a credit union to serve everybody in this industrial park and next year they say no we're not doing that anymore. So we're talking here about related employee groups, related fields of membership, related people to serve such groups as the bar association that you heard from, the broadcaster's association, which you heard from which is composed of small employer's in a wide field, but without sufficient numbers to form their own credit union so we're clearly talking about a situation that is not unique to, but more serious in Alaska than some other places. We're talking about small groups of employees and a way to serve those by this language "employees of related or neighboring industries" and the neighboring industries, the industrial park example, might be an example of how you would serve some small employers through that provision. Senator Sturgulewski, have Julius' and my comments answered your questions?

STURGULEWSKI: I think the area I would be interested in taking a look at would be the regulations because these words are certainly broad enough to bring in and meet some very specific needs, but from the safety of the individual deposit, obviously, those standards that are used to determine the economic health of it are terribly important as well as the ongoing regulations to be sure that it continues to be a viable organization.

CHATFIELD: Yes, I appreciate that and I was going to address this economic viability question next, but I think that you have brought up some very good points in noting that the field of membership includes members of the immediate family and that's further defined within that section and I think the fact that this closely follows the federal credit union provisions except for those we have talked about for neighboring and related industries particularly to serve the needs of Alaskans.

MARTIN: I have concerns similar to Sen. Sturgulewski on the start-up costs, Mr. Chatfield, and sometimes in the testimony that's given I feel that we're promising that golden light for everybody; here's the answer to all your financial worries in the world and the start-up costs, now that we've gotten more into it, seem to be prohibitive for certain groups, especially with the regulations seems to be a deal where the people want to fund their own organization even though they will be paying the government for services. Seems we're developing false pretenses to begin with; there are only so many groups that you can divide up into to take care of yourself. We can have the Scandinavians of Alaska, we can have the Cuban groups of Alaska, and all these would be viable people saying we deserve to be recognized but yet they can't pay for themselves. Is there anything to protect the taxpayers from saying well, we have a discriminatory law here, therefore these groups who cannot fund themselves will be exempt from these regulatory start-up costs and perhaps because these people are what they are and their economic conditions, we will waive the cost. How do you feel about that?

CHATFIELD: First of all, just as a matter of information, there are credit unions in various parts of the country serving groups such as the Cubans located here or the Scandinavians located there. Those kinds of things do exist although thus far not in Alaska. We're talking about the economic viability, and it's been noted that the Commissioner is charged with the responsibility of determining that, and Julius listed the ways in which they would attempt to do that. We're also talking about start-up costs that can be amortized over a certain period and that's the way it's done now. When credit unions are formed there are certain start-up costs that are incurred and those are amortized over an accounting period so that they need not be expensed off all at once with the accompanying burden that that would bring on the credit union. But I can tell you that we are also not interested in forming a lot of marginal credit unions that would require constant work and struggle to keep them active, because as the state trade association of credit unions, that function would fall upon us and we don't have the resources nor the desire to see a bunch of credit unions brought into being that would require constant handholding on a long term basis. We don't have the resources to do that and that is our responsibility should it occur, so we have a definite interest in saying credit unions formed have good economic potential, that have solid leadership and that we can guide in their growth periods and that can become successful credit unions.

Juneau came back on-line with a comment from Julius Brecht.

BRECHT: I thought I might make one statement here to make sure there isn't a misunderstanding. When we were going through the administrative costs as opposed to the cost of examination and investigation, I want to make clear that the cost of developing regulations or guidelines to regulate credit unions would not be charged to the individual credit unions, chartered or in the process of being chartered under the state law. That would be a good example of an administrative cost that would be borne by the taxpayer. The only cost that would be borne by the credit unions themselves are the costs incurred directly to the examining or investigative effort on that specific credit union.

CHATFIELD: Let me say that that differs, and I can't speak to banks but I can speak to what happens now with federal credit unions, since the NCUA is only chartered to supervise, examine and otherwise keep track of credit unions then there is no problem, therewith passing administrative costs as well as direct examination costs on to credit unions and their examination schedule, which, by the way, was the examination schedule that Julius referred to which was in an earlier version of this bill. It was the same examination schedule as for federal credit unions. However, we realize that they have certain economies of scale because of their nationwide operation that perhaps those same rates would not result in self-sustaining supervision in Alaska. In the case of federal credit unions those costs, all costs, including administration, are reflected in the examination and investigation fees that are used to support the entire agency and again that agency does not have an appropriation from the general fund of the United States; it is completely self-sustaining and the administration costs are levelled out and included in the cost of supervision.

STURGULEWSKI: I can see the tremendous interrelationship between that economic standard and the field of membership. I would hope that if this bill passes that indeed it can be adapted more to the Alaskan conditions that we might take in, for example, the bar membership is good, not just the bar association, but the firms and employees. I don't think that it's going to be an easy task necessarily, to go to what has happened in other areas to give us too much in the way of guidelines on setting up those economic standards. We might well have to develop new ones. I think that is of sufficient interest that I would hope that it is not out of line to ask that, possibly, those regulations could be shared with the Commerce Committee so that we could take a look at that to see that we're not unduly restricting, putting impositions, on the membership and the groups can go ahead and form. I think that's going to be terribly important as to how this whole act works. The interrelationship between the economic health and the field of membership.

CHATFIELD: It is certainly out intent to try to work very closely as closely as conditions require and will permit, with the Division of Banking, with this committee, and with other interested parties in making the thing to work to its best advantage so that there are successful credit unions so that the needs of the members are properly served and that the credit unions are financially stable. We would be happy to have some input into the regulations; we would also be pleased to assist the Department in its charter investigation as we now do with the NCUA. We submit an investigation report for proposed credit unions to assist them in making their decisions. We would be pleased to do that for the Department.

BRADLEY: Dave and Julius, on the first page of the bill it's mentioned it only takes seven people and $1,000 to form a credit union. That obviously would not be a viable credit union. That's all it takes to begin it, but how would we prevent one from forming with that as the initial requirement. It may not be any more than that, or a few more than that and it definitely would not be a viable credit union. You think this is misleading?

CHATFIELD: The other standards and things that the department is charged with determining as far as economic feasibility are certainly good provisions and valid provisions to have. And, again, we are not interested in seeing a bunch of credit unions form that are not economically feasible and don't have good potential for success. The seven people with the $1,000 is more restrictive than the federal act where seven people with $5 each or a total of $35 can apply for a federal credit union charter. However, that's just the beginning. There is obviously much more than that. There is an investigation there are reports rendered, the economic feasibility is determined, the proposed field of membership is examined and obviously that would be true under the state act as well. I think it's important to note the very different capital requirements of credit unions as they begin versus other financial institutions. When a bank first opens its doors it must have offices proper to house its operations and to put the desired image across to its customers, must have a full time staff, must have sufficient funds to meet its lending objectives, must have certain support facilities to service that business including such things as data processing. There are very substantial capital requirements before a bank should begin operation. Contrast that with the credit union where typically a credit union does not begin with cause for office space; it's usually operated out of a volunteer's home, it does not have paid staff for the first several years of its existence. It's operated entirely by volunteers donating their time to develop this organization for the rest of the members. It generally begins with hand posting and a couple of years down the road may graduate to a bookkeeping machine and starts out making very small loans for such things as furniture, appliances, medical and emergency needs. It has very different loan requirements and overall a very different set of capital requirements than do other financial institutions. I think it's important to note that because this seven people with the $1,000 thing has come up before and I don't think that argument recognizes the very different capital needs of the two institutions.

BRECHT: There are a number of members where the minimum might be 200 members as opposed to another area where the minimum might be 300 members, so we're talking about an institution that would have more than just the seven incorporators.

BRADLEY: Thank you, Julius. Mr. Chatfield has another comment.

CHATFIELD: I just wanted to say that those were a couple of areas that I think were left hanging from Tuesday that I did want to cover. In summary, the record will show that you have heard from representatives from 15 credit unions; those 15 credit unions represent total membership of approximately 190,000 persons, we have heard testimony from other organizations including the bar association, native corporations, broadcasters and this morning you heard from a banker in Fairbanks who said he was not opposed to the bill. Also present is Mr. George Diener, Vice President of Alaska Pacific Bank, which I believe has a similar view and I am sure Mr. Diener would be happy to answer your questions on that. In addition, I have telegrams that I would like to submit for the record which were received in May, they are in consideration of this bill and one is from a bank that was not able to appear at these hearings, Alaska Bank of Commerce, which indicated it had no opposition to the bill. I think we have had a broad, open discussion of the issue, you have heard the opinion of the banking division and I think that the hearing records will reflect a very in-depth discussion that was held. We were very happy to see these questions raised and if you have any further questions, I would be happy to try and answer them at this time.

STURGULEWSKI: Just one, and again, this is for my learning a bit more. This bill does allow for the utilization of the share drafts and I would like just a little background information; was the federal ruling not really on the issue, as to whether it was appropriate or not, but simply that it exceeded the present federal law and regulation. Is that correct?

CHATFIELD: The issue concerning share drafts for federal credit unions is a fairly complex one. The federal regulator, NCUA, permitted an experimental program some years ago for share drafts which are an improvement on the existing transaction accounts and do provide for payment of earnings or dividends on the unused funds in those accounts which can then be accessed by negotiable instrument. Permitted the experimental program and then found that after that successful experimental program it was in accordance with the statute and the best interest of the consumer to allow federal credit unions to offer that program on a wider basis and they did that and another financial organization promptly sued them charging that it did go beyond the scope of current law; the federal district court agreed with the NCUA that it was permitted under current statute, it was then appealed to the United States court of appeals in Washington, D.C. They linked it in with a couple of other related issues concerning automatic transfer from savings to checking for banks and remote service units for savings and loans. I think in linking it together that made it difficult for the court to then say well this one's okay and this one is not. That really was the key to the court's adverse opinion on April 20 of this year, that the program exceeded what was currently permitted by statute. We happen to agree with the regulator agencies' interpretation of that statute under the implied powers that this is a proper function under the statute, for credit unions to be able to perform. There are steps being taken to appeal that ruling to the United States Supreme Court, but in the meantime we are seeking legislative action before the Congress to clarify and remove the cloud from this whole program. To specifically provide for the use of share drafts by the federal credit unions. That whole thing is separate from this bill. There is wording in this bill that says that credit unions may make their withdrawals in any form and that wording would include the share drafts. It might, at some point, include such other things as automatic teller machines if the Commissioner deemed it appropriate. That is a separate issue, but we believe we are going to be successful at the federal level. We disagree with the court's decision and we feel that if the Congress does not take action in time, then the Supreme Court would, but some of those things remain to be seen.

STURUGLEWSKI: In that case, we would need, say there's no further federal ruling for some time, regulations to handle the method of withdrawal here or does that just open it totally by the wording we have in this law.

CHATFIELD: The wording in this law is that the credit unions may honor withdrawals from its share savings accounts by its members. Those withdrawals can take any form and obviously the Department, the banking division and the credit unions would draw heavily upon the successful experience the federal credit unions have with share drafts and the procedures involved in that. However, there is with this particular statute, this bill would not go beyond permitting those withdrawals in any form. Again, it would not be tied to whatever happens on the federal level.

STURGULEWSKI: I think I would like a little bit better understanding of, is the wording too broad as far as allowing withdrawals in any form; are we, in effect, allowing for complete checking privileges. What part of the statute is that?

CHATFIELD: I believe it's under the powers section, under withdrawals. On page 11, at the beginning of line 17. The last part of that paragraph says "on a request for withdrawals of these savings in any form, subject to reserves, bonds or other conditions required by the

Commissioner.

STURGULEWSKI: Is the wording complete in itself; will it need regulations to implement, if not would it be broad enough to allow full checking privileges without the conditions that were set up on the share draft?

BRECHT: My rating of paragraph 20 is that it would allow for a checking account subject to reserves, bonds, or other conditions required by the Commissioner. The Division has recently noticed the intent to adopt regulations to provide for NOW accounts or mutual banks and also for commercial banks.

STURGULEWSKI: What kind of accounts?

BRECHT: Negotiable order of withdrawal accounts. Basically a mechanism to pay interest on a demand account.

CHATFIELD: Negotiable order of withdrawal accounts are currently under consideration by the Congress for nationwide use by other thrift institutions and have been in use in New England under experimental basis for quite some time. It's important to note that the language of this paragraph would permit various forms of electronic funds transfer, electronic teller machines, perhaps point of sale terminals and other things that might be appropriate and as determined by the Commissioner under the language in the rest of this section.

STURGULEWSKI: I'd like a direct response on this. This would allow, then, far more flexibility than currently would be available if the share draft regulations were still in effect.

CHATFIELD: Yes, that is correct, but if the share drafts were found to be not appropriate and not available for use by federal credit unions, then this would be broader than that. However, I don't think anybody in Washington, D.C. seriously believes that there is going to be an interruption in the share draft program. We believe that the Congress will take action before the deadline established by the court and in failing that, the Supreme would take action. To that extent, yes, it would be broader, but those services are not broader than those currently available for federal credit unions, including share drafts, those that have automatic teller machines and there are some point of sale terminal experiments underway now. To that extent it would not be broader, but if federal credit unions were to lose share drafts then, yes, this would be a bit broader.

STURGULEWSKI: That doesn't answer my question. Let's assume that we can use share drafts on the national level if they are found to be acceptable. As I read 20, this is not constrained by those regulations that are utilized in connection with the share drafts. It is, in fact, broader than what is allowable under the share draft Is that correct?

CHATFIELD: It is my understanding that it would be as broad in terms of withdrawals in various forms as the Commissioner would deem appropriate.

STURGULEWSKI: I asked if it would be necessary to have regulations and I think it was given to me that, no, there would be maximum flexibility. It would not necessarily be subject to regulation.

CAMPBELL: I'm not sure, I think there might be a couple of things you are alluding to that probably should be addressed. The share draft regulation itself, that applies to federal credit unions, is not really that restrictive. It does require a couple of technical things. One of which is truncation. Truncation simply means that the original draft isn't returned and whether the Department wanted truncation required by state credit unions offering share drafts is something that would remain to be discussed in regulatory hearings. The essence, really, is that if there is a need for regulation the general regulatory authority would provide for it. If state credit unions, or say a federal credit union converted simply continued its existing share draft program, it would still be clearing through the banking system, it would still be offering the same type of service, it would still offer a rate of return that would be established by the board of directors and consistent with the standards that are similar to federal law in terms of classes of accounts and in order to offer credit union members the same type of thing that they can expect from other credit unions. It's likely to be comparable to the existing share draft program. The important thing to recognize is that credit unions offering any third party payment power would have to offer it consistent with Uniform Commercial Code and with the standards that the federals apply to the banking system for purposes of clearing.

STURGULEWSKI: This is an area that I would appreciate a bit more information on it and possibly that could be supplied by Julius and also by members of the credit union league. I just need to understand it and I don't. I'd like to know what the federal requirements are, how this provision likely would work

BRADLEY: While we're on this subject, since Director Julius Brecht will be providing these regulations, subject to our approval, let's let him briefly comment on it.

BRECHT: I meant to mention earlier in the hearing that the members of this committee plus the other legislators will be advised of any intent to adopt regulations pursuant to the Alaska Administrative Procedure Act, would each receive a copy of a notice of that intent, but in addition to that, if this committee wishes to have some further input in the review of these regulations we can certainly accommodate them in that respect.

BRADLEY: Any further questions? Rep. Martin has a question.

MARTIN: I'm concerned again about the starting up, and in hopes of not giving false hopes to i dividuals, is it possible to have in this bill and/or regulations other things that will be necessary for the standard procedures for starting up rather than simple minimum requirements of certai.. bodies and so many dollars. Can we present a realistic picture to them of some of the things they might face and perhaps it would be good for the administration, in the first place, to throw out applicants that aren't serious.

BRECHT: As I understand it, Mr. Chatfield has alluded to the fact that perspective credit unions could be cleared through the state league, that is if the league itself could provide some of assistance in helping groups of people who think that they would like to be able to establish a credit union to come to the realization that yes it is feasible or not it isn't. The second step would be to contact the Division and request information on the chartering of a credit union. In that respect I can say that our procedure in processing applications for other types of financial institutions is to answer questions that the individual might have to make copies of the regulations available to them so they can have a better idea as to what will be expected of them in the application process. I don't see why a drastically different procedure would be followed for credit unions; we would have the same general procedure; the Division would make itself available to answer questions. If we, in fact, had a large number of requests, it is very likely that we would have some brochure put together to answer some of the basic questions. It also brings back points on where we got the estimates for charters within the first fiscal year. I mentioned that that number was somewhat of an arbitrary figure, but it should be put in context. There are presently 33 credit unions doing business in the state. That gives us some indication of the interest in the state assuming that there was at least 50% greater interest that would amount to somewhat like 15 applications being processed. That could be a gross underestimate. I might add that in the context of the previous financing act enacted session before last, that we had estimated a certain number of institutions being licensed and what we found is that there was a much larger number of persons doing business in the state that need to be licensed and it turned out that the estimate that we gave in that respect was a real underestimate and we have been very busy in processing license applications

So I don't know that the number 15 is all that unrealistic. It could possibly be an underestimate or could be a good estimate. I don't think we can really reconsider until we get through at least one year of operations and get some better idea as to the interest from the Alaska public in this type of institution.

CHATFIELD: I don't know that 15 is unrealistic; I think that it's as good a number to use as any at this time. You've heard from two credit unions that indicated they would probably entertain the thought of converting to a state charter if this bill became law. We're aware of perhaps 3 maybe 4 other groups that would be interested in obtaining a new charter under this law. We are not aware of any definite interest beyond that, but obviously you have to hang your estimates on some kind of a figure. I wouldn't disagree with 15 as an arbitrary figure in trying to estimate those costs. I think it is also important to look at the chartering requirements and perhaps it would be helpful to include arbitrary standards within the act, but obviously the Commissioner and the Director would establish some kind of standards within regulations and then people could be aware of the requirements as Julius has said, that they could be expected to meet before they could give a credit union a charter.

BRADLEY: I've been enlightened quite a bit in that accordance with the regulations and with the Director of Banking giving the final word of approval, seems to me there are enough safeguards and I could answer any questions in that regard pretty well.

MARTIN: What would the start-up procedures be for the individual groups that would be interested, if we might not also warn them of the costs -- I am not satisfied that taxpayers would not be burdened by special interest groups -- if we feel that the administration has the potential of spending $75,000-$200,000 in getting this thing rolling that if there are 15 groups that would participate then perhaps the pie should be divided up after the $6,000 immediately is going to be used for your start-up costs and help pay the government institution that is responsible for your regulation. Is this fair?

CHATFIELD: I think, generally speaking, that would be appropriate. There will be start-up costs, it is again the intent of the credit union community to assume those costs that newly chartered credit unions would assume those costs and pay them and amortize them over accounting periods in their books. That's what they do now. Those costs may differ from costs that involved in obtaining a federal charter and they may, in fact, be higher and I suggest they will be because of the lack of the economy's scale that we talked about. That's the sort of thing we anticipated and Julius may wish to comment further.

BRECHT: As far as putting the perspective applicant on notice as to the charges that might be incurred, we do that as a matter of course right now. We try to make clear to the perspective applicant what it is they are getting themselves into in the way of financial responsibility, during the organizational process and also responsibility otherwise. There is responsibility for establishing an institution and following through on it. I don't think that would change. As for the start-up costs for