

Date of Hearing: April 22, 2013

ASSEMBLY COMMITTEE ON BANKING AND FINANCE  
Roger Dickinson, Chair  
AB 1282 (Bonta) – As Amended: April 15, 2013

SUBJECT: Financial institutions: credit unions.

SUMMARY: Requires the amount of a state chartered credit union's annual assessment to be the greater of \$2,000 or the sum of the products determined by multiplying increments of the credit union's total assets by percentages of the base assessment rate according to a newly established table with increments of total assets up to an excess of over \$10,000,000,000. Specifically, this bill:

1) Implements a new table to determine annual assessments:

Percentage of Base Assessment Rate	Total Assets
\$0-\$3,000,000	85.0%
\$3,000,000-\$6,000,000	25.0%
\$6,000,000-\$10,000,000	13.0%
\$10,000,000-\$100,000,000	12.5%
\$100,000,000-\$500,000,000	12.25%
\$500,000,000-\$1,000,000,000	12.0%
\$1,000,000,000-\$2,000,000,000	11.5%
\$2,000,000,000-\$5,000,000,000	8.0%
\$5,000,000,000-\$10,000,000,000	3.5%
Excess over \$10,000,000,000	3.0%

EXISTING FEDERAL LAW establishes the National Credit Union Administration (NCUA) created by the U.S. Congress as an independent federal agency to regulate, insure, charter and supervise federal credit unions. (12 U.S.C. 14)

EXISTING STATE LAW

- 1) Provides that the Department of Financial Institutions (DFI) shall regulate state chartered credit unions.
- 2) Authorizes the Commissioner of DFI to annually levy on and collect from state chartered credit unions an assessment in an amount sufficient to meet the expenses for administering the California Credit Union Law in order to provide a reasonable reserve for contingencies.
- 3) Establishes the annual assessment on any credit union holding a certificate authorizing it to act as a credit union to be the greater of one thousand five hundred dollars or the sum of the products determined by multiplying increments of the credit union's total assets by percentages of the base assessment rate, according to the following table: [Financial Code,

## Section 14351]

a)

Total Assets (In millions)	Percentage of Base Assessment Rate
First \$3	85.0%
Next \$3	30.0%
Next \$4	12.5%
Excess over \$10	11.0%

FISCAL EFFECT: Unknown.

COMMENTS:

Under the dual banking system, banks and credit unions can determine whether or not to establish as a California state chartered financial institution regulated by DFI or establish as a federally chartered financial institution regulated by either the Federal Reserve, the Office of the Comptroller of the Currency or NCUA. Recent data shows, credit unions are more likely to become federally chartered than state chartered because overall it is more costly to become state chartered.

The main goal of AB 1282 is to equitably redistribute assessments paid by state chartered credit unions to DFI in order to keep them more closely aligned with federally chartered credit unions. Current law requires all state chartered credit unions to pay assessments based on asset size. These assessments provide revenue to a special fund agency in order to administer the division of DFI that regulates and examines state chartered credit unions. DFI currently needs \$7.2 million a year to operate the credit union division.

AB 1282 hopes to address the issue of larger state chartered financial institutions who pay a disproportionate amount to DFI compared to mid and small state chartered credit unions. The inequity is causing large state chartered credit unions to consider and ultimately become federally chartered over state chartered.

According to the sponsor, the California Credit Union League, "If the top three state chartered credit unions (as determined by asset size) were to opt out to move to federal charters, the DFI would lose approximately \$1.7 million out of their current approximate \$7.2 million budget. The loss of the largest credit unions would severely cut the special fund revenue generated by their assessments."

In addition, should California lose the larger state chartered credit unions, it would be the mid and small state chartered credit unions who would have to subsidize for the loss of \$1.7 million.

Currently, California has 251 federally chartered credit unions and 152 state chartered credit unions. These numbers show that it is more enticing for a credit union to become federally chartered. The five largest state chartered credit unions based on asset size in California are: The Golden 1 Credit Union, Star One Credit Union, San Diego County Credit Union, Patelco Credit Union, and Wescom Central Credit Union. It would be devastating to DFI should any of these credit unions decide become federally chartered instead.

The new assessment table proposed under AB 1282 would have new tiers, \$10m to \$100m, \$100m to \$500m, \$500m to \$1b, \$1b to \$2b, \$2b to \$5b, \$5b to \$10b, and \$10b and above. The bill would spread the assessments among all credit unions above \$3m by adjusting the percent of assets assessed per tier. Assessments will increase for 128 state chartered credit unions between 0.11% and 9.7%. All state chartered credit unions with assessment increases would still pay more for a NCUA charter, between 5.75% and 114.24%. Credit unions below \$18m (18 credit unions) would pay less for a NCUA charter. Of the 12 credit unions that will pay more for NCUA charter, the CA assessment will increase between \$18 to \$119. The largest three credit unions would pay between 0.87% and 4.45% less than a NCUA charter.

As an example, the largest state chartered credit union, the Golden 1 Credit union, currently pays \$708,419 in DFI assessments. If they were a federal charter, they would pay \$478,141 in NCUA assessments. As a state chartered credit union, the Golden 1 pays 32.5% more than if they were a federal charter.

AB 1282 will slightly increase the assessments paid by other state chartered credit unions, however the proposed redistribution will allow virtually all mid and small sized credit unions to pay less in assessments than their federally chartered counterparts.

REGISTERED SUPPORT / OPPOSITION:

Support

California Credit Union League (Sponsor)

Opposition

None on file.

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