



State of Washington

DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF CREDIT UNIONS

P.O. Box 41200 • Olympia, Washington • 98504-1200
Telephone (360) 902-8701 • TDD (360) 664-8126 • (800) 372-8303 • FAX (877) 330-6870
<http://www.dfi.wa.gov>

September 4, 2009

“A”

Also sent by email

DCU Interpretive Letter I-09-02

Subject: Can a credit union pledge assets to the City of Lacey in lieu of buying a maintenance bond for utility improvements?

Dear “A”:

You asked if a Washington state-chartered credit union has the authority to pledge an assignment of a credit union asset to a government entity, instead of purchasing a maintenance bond.

Background

You explained that “A” built a branch at the following location:

- “B”

As part of the City’s building requirements, the City of Lacey is requiring “A” to purchase a bond for maintenance of public utility improvements. In lieu of a maintenance bond, City of Lacey said it would accept a pledge of “A’s” savings for the following terms and amounts:

- 24 month pledge in the amount of \$29,258 for maintenance of storm water improvements; and
- 18 month pledge in the amount of \$11,634 for maintenance of water and sewer improvements.

“A” holds some of its operating funds as a deposit at “C”. “C” asked “A” to verify that it has the authority to pledge to the City of Lacey a portion of “A’s” deposits held by “C”.

Analysis

The Washington Credit Union Act authorizes certain powers to a Washington state-chartered credit union, including the following:

“Engage in activities and programs as requested by the federal government, this state, and any agency or political subdivision thereof, when the activities or programs are not inconsistent with this chapter.” RCW 31.12.402 (12); and

“A”

September 4, 2009

Page Two

“Exercise such incidental powers as are necessary or convenient to enable it to conduct the business of a credit union.” RCW 31.12.402 (23).

A definition of a political subdivision includes the incorporated City of Lacey.

In order to operate a branch, “A” must comply with all requirements from the City of Lacey, including but not limited to purchasing a maintenance bond for public utilities or pledging a credit union asset in lieu of a bond.

Conclusion

The Washington Credit Union Act authorizes a Washington state-chartered credit union to pledge an assignment of an asset to a government entity, in lieu of purchasing a maintenance bond. Therefore, “A” is authorized to pledge an assignment of its savings held at “C” to secure the payment owed to the City of Lacey for the amounts and terms, as an alternative to purchasing the maintenance bonds. I suggest “A” have its legal counsel review the draft assignment of savings to City of Lacey.

Closing

The Department of Financial Institutions does not provide legal advice. This letter is intended to provide general guidance only, and is not a substitute for legal advice by counsel for the credit union. If you have questions, please contact me at 360-902-8778 or ljekel@dfi.wa.gov.

Sincerely,

Linda Jekel
Director of Credit Unions