



**ARIZONA STATE SENATE**  
*Fifty-Sixth Legislature, Second Regular Session*

FACT SHEET FOR S.B. 1296

credit unions; formation; loans; membership

Purpose

Modifies credit union duties, membership eligibility, expulsion and suspension procedures and loan reporting thresholds.

Background

The Department of Insurance and Financial Institutions (DIFI) has statutory authority over state-charter banks and state-chartered credit unions. A *credit union* is a cooperative nonprofit association that is incorporated for the purposes of encouraging thrift among its members and creating a source of credit and other financial services at fair and reasonable cost. Seven or more adults residing in Arizona who have a common bond of interest or association may apply to the Deputy Director of the Financial Institutions Division of DIFI (Deputy Director) for permission to organize a credit union. The incorporators must prepare, adopt and execute a certificate of organization and bylaws as outlined. The incorporators may not transact any business in the credit union's name until the certificate has been issued by the Arizona Corporation Commission and the application and bylaws have been approved by the Deputy Director (A.R.S. §§ [6-501](#) and [6-506](#)).

A credit union's membership consists of the incorporators and other persons who are within the field of membership as prescribed in the bylaws. Each member may own only one membership share. Persons in the field of membership of a credit union may include: 1) an organization comprised primarily of persons eligible for membership; 2) a corporation with a majority of stockholders eligible for membership; and 3) an organization whose principal function is providing services to persons eligible for membership. A credit union may accept, as a member, any other credit union organized under law (A.R.S. §§ [6-521](#) and [6-522](#)).

A credit union board of directors (credit union board) has the authority and responsibility for directing the business affairs, monies and records of the credit union. Credit union board directors may vote by telephone conference if all present directors can speak to and be heard by the other directors during the telephone conference. A credit union board must meet at least 10 times during each calendar year in 10 different months ([A.R.S. § 6-531](#)).

There is no anticipated fiscal impact to the state General Fund associated with this legislation.

Provisions

***Credit Union Loans***

1. Allows a credit union to make loans to credit union members for purposes and conditions prescribed by the credit union board, rather than the credit union bylaws.

2. Reduces, from 10 percent to 5 percent, the minimum interest rate of a loan's principal balance that is retained by a credit union.
3. Requires a credit union board's approval for any loan that would result in an official becoming obligated as a direct obligor, endorser, cosigner or guarantor in an aggregate amount of more than one percent of the credit union's net worth.
4. Requires a credit union to provide the Deputy Director a list of each official's credit obligations whose aggregate obligations to the credit union are more than \$50,000 or one percent of the credit union's net worth, whichever is less.
5. Eliminates the requirement that applications for loans in the aggregate of \$20,000 or more or a greater amount as determined by the Deputy Director on which a credit union official will be a direct obligor, endorser, cosigner or guarantor must be initially acted on by the board.
6. Removes the authorization to charge prepayment penalties on membership business loans and authorizes prepayment penalties on loans not made for personal, family or household purposes.

#### *Credit Union Responsibilities*

7. Modifies a credit union's general powers by:
  - a) specifying that a credit union may purchase all or a portion of assets and assume all or a portion of liabilities of a credit union chartered under any state, a federal credit union or a bank or an out-of-state bank; and
  - b) removing the specification that a credit union may hold membership in the Arizona Credit Union League or in organizations controlled by or fostering the interest of credit unions.
8. Adds, to the list of credit union purposes included in the definition of *credit union*, assisting members to manage and control their financial resources to improve their social and economic conditions.
9. Allows credit union board directors to vote electronically if all directors participating can speak to and be heard by all electronic meeting participants.
10. Requires a credit union board to meet at least once every two months, rather than 10 times during each year in 10 different months and allows the Deputy Director to direct the board to meet more frequently to address specific matters.
11. Removes, from a credit union board's duties, the requirement to borrow or lend money to carry on the functions of the credit union.
12. Removes the authorization for a credit union to establish and maintain automated teller machines at locations other than the credit union's place of business.
13. Removes automated teller machine notification requirements.
14. Specifies the requirement for a credit union's bylaws to provide a proposed field of membership must consist of one or more groups having a common bond as specified, consistent with credit union purposes.

15. Repeals the specification that the fiscal year of each credit union ends on December 31.

***Credit Union Membership, Suspension and Expulsion Processes***

16. Modifies eligibility for a credit union field of membership to include:

- a) an organization for which a majority of owners, rather than stockholders, are eligible for credit union membership; and
- b) an organization that is located within the credit union's membership area, if applicable.

17. Allows a credit union to deny membership based on policies established by the credit union's board.

18. Stipulates that a person who is denied membership by a membership officer and who plans to appeal the denial must submit the appeal to the credit union board within 30 days after the denial.

19. Allows a credit union board's management, if delegated authority by the board, to expel a member pursuant to a written policy adopted by the board.

20. Removes the requirement for a credit union member to receive notice of potential expulsion within 10 days before board consideration.

21. Requires a person who has been expelled from a credit union to be informed of the reasons for the expulsion and allows the person to seek reconsideration by submitting a written request to the credit union board within 30 days after the notice of expulsion is issued.

22. Specifies that either the supervisory committee or the credit union board may suspend a director, officer or committee member by a majority vote, rather than a two-thirds vote, unless otherwise provided by credit union bylaws.

23. Specifies that a director, officer or committee member, within 10 days after notice of suspension, may request a special meeting to consider the suspension.

24. Clarifies that a credit union board must call a special meeting after receiving a director's, officer's or committee member's request and requires the board to hold the special meeting within 30 days, rather than 21 days.

25. Deems a director, officer or committee member removed from office if the director, officer or committee member does not request a hearing within 10 days after suspension notice or there is an approval of suspension by the credit union board following a requested hearing.

***Miscellaneous***

26. Makes technical and conforming changes.

27. Becomes effective on the general effective date.