



ARIZONA HOUSE OF REPRESENTATIVES

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SB 1296: credit unions; formation; loans; membership

Sponsor: Senator Mesnard, LD 13

Committee on Commerce

Overview

Makes various changes to credit union statutes relating to formation, powers, membership, accounts and loans.

History

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 (Board) has the authority and responsibility for directing the business affairs, monies and records of the 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 Board must meet at least 10 times during each calendar year in 10 different months ([A.R.S. § 6-531](#)).

Provisions

Credit Unions

1. 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

<input type="checkbox"/> Prop 105 (45 votes)	<input type="checkbox"/> Prop 108 (40 votes)	<input type="checkbox"/> Emergency (40 votes)	<input type="checkbox"/> Fiscal Note
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- b) removing the ability to hold membership in the Arizona Credit Union League or in organizations that are specifically controlled by or that foster the interest of credit unions. (Sec 5)
- 2. Allows the Board to vote by electronic meeting if all the directors participating can speak and be heard during the electronic meeting. (Sec. 9)
- 3. Changes the Board meeting requirements to at least once every two months, rather than at least 10 times during each calendar year in 10 different months. (Sec. 9)
- 4. Allows the Deputy Director to direct the Board to meet more frequently to address specific matters. (Sec. 9)
- 5. Removes the requirement for the Board to borrow or lend money to carry on the credit union's functions. (Sec. 10)
- 6. Requires share accounts to be subscribed to and paid for in a manner prescribed by the Board, rather than the bylaws. (Sec 12)
- 7. Removes language relating to allowing a credit union to have automated teller machines at locations other than the credit union's place of business. (Sec 3)
- 8. Adds assisting members to manage and control their financial resources to improve their social and economic conditions as a purpose of *credit unions*. (Sec 1)
- 9. Repeals statute specifying that the fiscal year of each credit union ends on December 31. (Sec 4)

Credit Union; Membership

- 10. Restates the field of membership to include:
 - a) an organization comprised primarily of individuals who are eligible for membership;
 - b) an organization for which a majority of owners, by number, are individuals who are eligible for membership; and
 - c) an organization that is located within the credit union's membership area, if applicable. (Sec. 6)
- 11. Allows a credit union to deny membership based on policies established by the Board. (Sec 7)
- 12. Permits a person who is denied membership to appeal the denial for the Board within 30 days after the denial. (Sec. 7)
- 13. Allows the Board's management, if given the authority by the Board, to expel a member. (Sec. 8)
- 14. Removes language relating to providing a person who is being considered for expulsion a written notice of the potential expulsion. (Sec. 8)
- 15. Requires a person who has been expelled to be informed of the reasons for the expulsion and be allowed to seek reconsideration by submitting a written request to the Board within 30 days after the notice of expulsion is issued. (Sec 8)

Credit Union; Suspensions and Removals

- 16. Changes the requirements and procedures, *unless the bylaws provide otherwise*, for suspending or removing a director, officer or member of a committee as follows:
 - a) lowers the voting threshold to suspend a director, officer or member of a committee from two-thirds to a majority vote of the entire membership;

- b) clarifies a special meeting to consider a suspension must be requested within 10 days after the date the director, officer or committee member was notified of the suspension;
- c) changes the maximum number of days to which a special meeting to consider a suspension must be called from 21 days to 30 days after receiving the request for a meeting; and
- d) clarifies if a hearing has not been requested within the 10-day period, the suspension is deemed a removal from office. (Sec. 11)

Credit Union; Loans

- 17. Allows a credit union to make loans to credit union members for purposes and conditions prescribed by the Board, rather than the bylaws. (Sec 14)
- 18. Specifies prepayment penalties may be charged on loans that are not made for personal, family or household purposes, rather than on member business loans. (Sec. 14)
- 19. Reduces, from 10% to 5%, the minimum interest rate of a loan's outstanding principal balance that is retained by a credit union. (Sec 15)
- 20. Restates that any loan that results in an official becoming a direct obligor, endorser, cosigner or guarantor in an aggregate amount of more than 1% of the credit union's net worth, rather than in the aggregate amount of \$20,000 or more, must be approved by the Board. (sec. 16)
- 21. Instructs 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 1% of the credit union's net worth, whichever is less. (Sec 16)

Miscellaneous

- 22. Makes technical changes. (Sec 1-3, 5-16)