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House Bill 6284 (Substitute H-1 as passed by the House)
Sponsor: Representative David Palsrok
House Committee: Commerce
Senate Committee: Banking and Financial Institutions

Date Completed: 12-2-04

CONTENT

The bill would amend the Credit Union Act to do all of the following:

- Require domestic credit unions to follow generally accepted accounting principles.**
- Extend certain requirements regarding credit union directors and supervisory or credit committee members to members of other credit union committees.**
- Reduce the minimum base fee used to determine a credit union's annual operating fee.**
- Require, rather than allow, a domestic credit union to consider certain factors in establishing interest rates on loans.**
- Extend the Act's prohibition against more favorable loan rates or terms for credit union officials to people who had a particular business relationship with credit union officials or their family members.**
- Limit the amount a credit union could loan a borrower or affiliates of that borrower.**
- Revise notice requirements for a credit union's proposed conversion to another type of financial institution.**

Credit Union Operations & Officials

Accounting Principles. The bill would require a domestic credit union to follow generally accepted accounting principles in its accounting, unless a different accounting standard was required by State or Federal statute, rule, or regulation.

Credit Union Officials' Qualifications. Under the Act, each individual elected or appointed to serve as a director, credit committee member, or supervisory committee member of a domestic credit union must meet certain criteria. If an individual serving in any of those capacities no longer meets the requirements, he or she immediately is removed from office without further action of the members or credit union board. The bill would include in those provisions an individual elected or appointed as a member of any other committee that performed significant ongoing functions relating to the ongoing operations of the credit union.

Service without Compensation. Under the Act, a member of the board of a credit union or of a credit or supervisory committee may not receive compensation for his or her service as a board or committee member. The bill provides, instead, that an individual elected or appointed to serve as a director, supervisory committee member, or credit committee

member, or as a member of any other committee that performed significant ongoing functions relating to the credit union's ongoing operations could not receive compensation for his or her service in that capacity.

Removal from Office. The Commissioner of the Office of Financial and Insurance Services (OFIS) may serve upon a credit union director or officer a written notice of intention to remove the individual from office if, in the Commissioner's opinion, the director or officer committed certain violations or engaged in certain detrimental practices. The bill also would allow the Commissioner to serve such notice upon a credit union employee or any other person who participated in the conduct of a credit union's affairs.

Annual Operating Fee

Under the Act, the OFIS Commissioner must charge an annual operating fee to each domestic credit union. The amount of the fee is the greater of \$500 or the sum of certain amounts, including a base fee established by the Commissioner of not less than \$1.75 or more than \$3.50 per \$1,000 of assets up to \$500,000. Under the bill, that base fee could be not less than \$1 or more than \$3.50.

Loans

Interest Rate. Under the Act, a domestic credit union may make secured or unsecured loans to any credit union member, at fixed or variable interest rates, and take and hold any real or personal property as security. In establishing an interest rate, the credit union may consider the collateral provided, the creditworthiness of the borrower, and the duration of the loan. The bill would require, rather than allow, a credit union to consider those factors in establishing an interest rate. The Act also allows a credit union to consider any other factor it reasonably determines affects the interest rate. The bill, instead, would require that the credit union consider any other factor it reasonably determined would affect the risks related to the loan.

Loans to Credit Union Officials & Employees. Under the Act, a domestic credit union may not agree to rates, terms, or conditions on any loan or line of credit made to or endorsed or guaranteed by a director, credit committee member, or supervisory committee member or an immediate family member of one of those officials if the rates, terms, or conditions are more favorable than those for comparable loans or lines of credit to other credit union members. The Act, however, allows a domestic credit union to offer reduced rate loans and other extensions of credit to its employees, under a policy adopted by the credit union's board.

The bill would refer to "an official" rather than a director, credit committee member, or supervisory committee member in the prohibition against agreeing to more favorable rates or terms. (The Act defines "official" as a member of a credit union board or an officer, member of a credit committee or supervisory committee, or member of any other committee performing functions similar to a credit committee or supervisory committee. "Officer" means the chairperson of the board, the vice-chairperson, the secretary, the treasurer, the general manager, an individual whose title is "president" or "vice president", an assistant treasurer, or an assistant secretary of a credit union, or any other person specifically designated as an officer by a credit union board.)

In addition, the bill would prohibit a domestic credit union from agreeing to more favorable rates, terms, and conditions on any loan or line of credit to any person who had a common ownership, investment, or other pecuniary interest in a business with an official or immediate family member of an official. Also, under the bill, the provision allowing reduced loan rates to employees would explicitly exclude employees who were directors, supervisory

committee members, credit committee members, or members of any other committee that performed significant ongoing functions relating to the credit union's ongoing operations.

Loan Limits. The bill would prohibit a domestic credit union from lending more than \$20,000 or 25% of its net worth, whichever was greater, to a borrower or any affiliates of the borrower. The limit would not apply to a corporate credit union (a credit union whose field of membership consists primarily of other credit unions).

Conversion Notice

The Act allows a domestic credit union to convert to a mutual savings bank, mutual savings association, bank, stock savings bank, or stock savings and loan association, if certain criteria are met. Those criteria include a requirement that the credit union board call a special meeting of members to vote on a conversion plan. The board must mail each member a notice of the meeting and proposed conversion 90 days and 60 days before the meeting. The bill would require the mailing only 90 days before the meeting.

In addition, at least 60 days before the special meeting to vote the proposed on conversion, the credit union board would have to post a notice of the meeting in each branch, service center, or other location in Michigan where members may transact credit union business. The posted notice would have to be in at least 12-point type and be displayed prominently in an area visible to members before they transacted business.

Also, at least 60 days before the special meeting, the credit union board would have to display the information included in the notice in a conspicuous location on its website, if it conducted any member transactions through the use of an internet website.

MCL 490.102 et al.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Maria Tyszkiewicz

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.