

Date of Hearing: April 4, 2016

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Matthew Dababneh, Chair

AB 2274 (Dababneh) – As Introduced February 18, 2016

SUBJECT: Credit unions

SUMMARY: Makes changes to the California Credit Union Law. Specifically, **this bill:**

- 1) Requires the credit union's board of directors to meet on a regular basis, not less than quarterly, as determined by the board.
- 2) Removes a requirement for the directors to, at least quarterly, review a report of membership applications approved by an officer, director, committee member, or employee to whom the directors delegated the authority to approve applications for new membership.
- 3) Requires the membership of the supervisory committee to be an odd number and would authorize, in lieu of the requirement for a supervisory committee, the establishment of an audit committee and the selection of the members of the audit committee.
- 4) Deletes a provision requiring any application for any loan or extension or guarantee of credit, to state in writing the purpose for which the loan or extension or guarantee of credit is desired and, if applicable, describe the property that is proposed to secure the loan or extension or guarantee of credit.
- 5) Permits a nonmember to participate in an obligation or extension of credit to a member as a co-borrower, surety, or guarantor.
- 6) Modifies the definition of "official" to include member of the audit committee, credit manager, president, or chief executive officer of a credit union and to remove the position of an officer.
- 7) Removes a provision that would prohibit an obligation with a member that is not a natural person and results in liability to the credit union in excess of that member's investment in the credit union unless an exception is authorized in the credit union's bylaws and approved by the commissioner.

EXISTING LAW:

- 1) Establishes the California Credit Union Law. [Financial Code, Section 14000]
- 2) Defines a "credit union" as a cooperative, organized for the purposes of promoting thrift and savings among its members, creating a source of credit for them at rates of interest set by the board of directors, and providing an opportunity for them to use and control their own money on a democratic basis in order to improve their economic and social conditions. As a cooperative, a credit union conducts its business for the mutual benefit and general welfare of its members with the earnings, savings, benefits, or services of the credit union being distributed to its members as patrons. [Financial Code, Section 14002]

- 3) Provides for the regulation and certification of state-chartered credit unions by the Department of Business Oversight (DBO). [Financial Code, Section 14003]
- 4) Defines "official" as a director, officer, or member of the supervisory committee or the credit committee of a credit union. [Financial Code, Section 15050]
- 5) Regulates loans to officials of a credit union. [Financial Code, Section 15050]

FISCAL EFFECT: Unknown.

COMMENTS:

AB 2274, sponsored by the California Credit Union League, updates various provisions of California's Credit Union Law. Credit unions operate in a dual chartering system, allowing them to be chartered by either the National Credit Union Administration (NCUA) or their state supervisory agency, for California credit unions, this is the DBO. The California credit union state charter has not been significantly modernized in over a decade and must be updated through this legislation to remain competitive with the federal charter.

AB 2274 updates and strengthens the California state charter credit union statute, giving credit unions new options in the way they are organized and allows them to better serve their members.

AB 2274 would accomplish seven goals:

- 1) Allows member business loans to exceed a member's deposits. For example, if Pete's Pizza has \$10,000 deposited at the credit union, the most the credit union may loan to Pete's Pizza is \$10,000. This bill would allow Pete's to receive a loan of more than \$10,000 (upon credit qualifying under normal business lending standards and requirements). This will give state-chartered credit unions parity with federally chartered credit unions and state chartered banks.
- 2) Eliminates board review of membership applications. This will remove an old requirement that the credit union board review a membership report at least quarterly when they have delegated membership application approval to the appropriate staff, as currently permitted.
- 3) Allows for an audit committee in lieu of a supervisory committee. Duties of the audit committee are different than those of the supervisory committee in that they are specific to the audit function. These duties include inspecting the securities, cash, and accounts of the credit union, reviewing the credit union's policies and control procedures, performing audit requirements, and filing an audit report with the Commissioner of DBO, as applicable. The duties omitted are supervisory in nature and appropriately held by the DBO or the membership. The migration to using an audit committee in lieu of a supervisory committee would require an affirmative vote by the membership.
- 4) Allows non-members to act as the co-borrower, surety, or guarantor of a loan made to a member. Clarifies existing language that permits a non-member to be a joint applicant or co-obligor on a loan by expressly identifying other similar relationships. For example, this will

allow for situations such as a member's father to be a guarantor on an auto loan. This adds to the safety and soundness of a credit union by permitting a guarantor or other responsible party on the loan.

- 5) Redefines which credit union officials' loans are subject to certain limitations and are required to be reviewed by the board. The new definition removes the term "officers" which is undefined in this section and could potentially include a significant number of staff. The revised definition provides parity with federal credit unions and restricts "officials" of the credit union to those who have authority to make decisions on the credit union's lending policies.
- 6) Allows credit union boards to determine the frequency of board meetings while still fulfilling their duties. Currently boards meet monthly. This change will allow boards to convene less frequently, but at least quarterly. The necessary credit union bylaw change would ultimately require approval from the DBO commissioner.
- 7) Removes unnecessary loan documentation requirements. Current law requires state-chartered credit unions to ask the purpose of any loan they make, including unsecured loans. The bill would remove this requirement and provide consistency with other applicable laws and regulations, including in federal Regulation Z and its definition of a lending application

As of third-quarter 2015, there were 143 state-chartered credit unions headquartered in California and 210 federally chartered credit unions (total of 353 credit unions).

REGISTERED SUPPORT / OPPOSITION:

Support

California Credit Union League (Sponsor)

Opposition

None on file.

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