

Date of Hearing: May 2, 2011

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Mike Eng, Chair

AB 1076 (Achadjian) – As Amended: April 4, 2011

SUBJECT: Credit unions.

SUMMARY: Adapts portions of the California Credit Union Law to the Federal Credit Union Act. Specifically, this bill:

- 1) Requires the money borrowed/credit extended (obligation) to be approved by the board of directors if either of the following apply:
  - a) The obligation or the aggregate is in excess of \$20,000 plus pledged shares.
  - b) The obligation is guaranteed or endorsed by the official and the obligation or aggregate of obligations are guaranteed or endorsed by the official in excess of \$20,000.
- 2) Deletes the current requirements of basing the obligation off a tiered system based on the asset size of the credit union.

EXISTING FEDERAL LAW establishes the federal Credit Union Act with the purpose to make credit available and promote thrift through a national system of nonprofit, cooperative credit unions. (12 U.S.C. Ch.14)

EXISTING STATE 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 Financial Institutions (DFI). (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)
- 6) Defines "obligation" as any contractual obligation to the credit union for money borrowed or credit extended or guaranteed from its members, including, but not limited to, loans, lines of credit, and agreements to extend credit, and lease agreements. (Financial Code, Section 14007)

FISCAL EFFECT: Unknown.

COMMENTS:

According to the sponsor, the California Credit Union League, AB 1076 would establish parity between loans to officials of state-licensed and federally chartered credit unions by removing the tiered loan limits that have applied to officials with state-chartered credit unions since the 1970's. AB 1076 would replace the outdated tiered limits with language identical to the limitations established by the federal Credit Union Act.

Credit unions are not-for-profit financial institutions that serve their members' financial needs. Credit unions are governed by a volunteer board of directors. Credit unions are either federally chartered through the National Credit Union Administration (NCUA) or licensed by the state through DFI.

In the 1970s the Legislature capped the amount of a loan that can be granted by a state licensed credit union to a credit union member who also serves on that credit union's board of directors. The loan limits are tiered based on the asset size of the credit union.

While the intent to ensure that board members do not receive special treatment of the loan caps was good, in reality the caps have been limiting and provide a disincentive for members to serve on a state-licensed credit union board. The caps have resulted in a situation where many credit union board members are unable to obtain loans, especially large loans such as a mortgage, even in cases where they meet the same loan eligibility requirements as other members.

Board members of federally chartered credit unions are not subject to these same tiered caps that apply to board members of state licensed credit unions.

Instead, the federal Credit Union Act requires the board of directors of a federally chartered credit union to approve or disapprove a loan of greater than \$20,000 to an individual official.

As a result of the lack of parity with the regulations imposed on federally chartered credit union, state-licensed credit unions are placed at a disadvantage compared when it comes to attracting qualified members to serve as volunteers on their boards.

REGISTERED SUPPORT / OPPOSITION:

Support

California Credit Union League - **Sponsor**

Opposition

None on file.

Analysis Prepared by: Kathleen O'Malley / B. & F. / (916) 319-3081