

AMENDED IN ASSEMBLY APRIL 17, 2007

AMENDED IN ASSEMBLY APRIL 9, 2007

CALIFORNIA LEGISLATURE—2007—08 REGULAR SESSION

**ASSEMBLY BILL**

**No. 1518**

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**Introduced by Committee on Banking and Finance (Lieu (Chair),  
Gaines (Vice Chair), Coto, Mendoza, Parra, Swanson, Torrico,  
Walters, and Wolk)**

February 23, 2007

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An act to amend Sections ~~14254.5~~, 14257, 14353.5, 14405, 14408, 14453, 14456, 14750, 14807, 14950, and 15100 of the Financial Code, relating to credit unions.

LEGISLATIVE COUNSEL'S DIGEST

AB 1518, as amended, Committee on Banking and Finance. Credit unions.

Existing law provides for the regulation of credit unions by the Commissioner of Financial Institutions. ~~Existing law prohibits a credit union incorporated in this state from establishing a branch office in another state without the approval of the governmental authority with jurisdiction to license or charter credit unions in that state.~~ Existing law provides that investigation and examination of reports prepared by the commissioner's duly designated representatives are not public records but authorizes those records to be disclosed to certain personnel of the credit union. Existing law requires the commissioner to annually levy a specified assessment on credit unions and authorizes the commissioner to charge a fee of \$75 whenever the commissioner makes an extra examination of a credit union. Existing law authorizes a credit union to make certain types of investments and to become a member of

specified organizations. Existing law prohibits a credit union from making any gift or donation in excess of \$1,000 unless the gift or donation is in the best interest of the credit union and specified conditions are satisfied. Existing law authorizes the board of directors of a credit union, with written approval of the commissioner, to appoint an executive committee for specified purposes and to delegate the power to approve applications for new membership to certain individuals if the board reviews those approved membership applications quarterly. Existing law makes it a misdemeanor for specified officers, directors, committee members, certain loan officers, or employees of a credit union to knowingly permit or participate in the creation of an obligation with a nonmember of the credit union. Existing law authorizes a credit union to issue shares and enter into certain obligations with members of the credit union.

~~This bill would authorize a credit union to establish a branch on an Indian reservation located within the borders of California. The bill would authorize the investigation and examination reports prepared by the commissioner's duly designated representatives to be disclosed to internal and external auditors and attorneys of the credit union. The bill would authorize the commissioner to charge a reasonable fee, instead of a \$75 fee, whenever the commissioner makes an extra examination of a credit union. The bill would authorize a credit union to become a member of an organization composed of community economic development entities and business or trade organizations. The bill would change the \$1,000 limit on credit union gifts or donations to an unspecified amount and would authorize the board of directors of a credit union to establish a budget for gifts and donations. The bill would authorize the board of directors of a credit union to appoint an executive committee to act as expressly approved by the board, as specified and to delegate the power to approve applications for new membership to specified individuals as long as the board reviews a report of membership applications at least quarterly. The bill would provide that a member who is withdrawing membership in a credit union may be required to give specified notice of intention to withdraw shares. The bill would authorize a credit union to issue shares and enter into obligations with nonmembers if they are a joint applicant or coobligor with a member of the credit union.~~

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     ~~SECTION 1. Section 14254.5 of the Financial Code is amended~~  
2 ~~to read:~~

3     ~~14254.5. (a) Except as provided in subdivisions (b) and (c),~~  
4 ~~within 10 business days of opening, closing, or relocating a branch~~  
5 ~~office, a credit union shall notify the commissioner in writing of~~  
6 ~~the action, including the street and mailing addresses of the branch~~  
7 ~~office.~~

8     ~~(b) A credit union shall not establish a branch office in another~~  
9 ~~state of the United States without the approval of the governmental~~  
10 ~~authority with jurisdiction to license or charter credit unions in~~  
11 ~~that state. "State" has the meaning set forth in Section 146.7.~~

12     ~~(c) A credit union shall not establish a branch office in a foreign~~  
13 ~~nation without the prior written approval of the commissioner.~~  
14 ~~"Foreign nation" has the meaning set forth in Section 139.3.~~

15     ~~(d) Notwithstanding any other provision of law, a credit union~~  
16 ~~may establish a branch on an Indian reservation located within the~~  
17 ~~borders of California.~~

18     ~~SEC. 2:~~

19     ~~SECTION 1. Section 14257 of the Financial Code is amended~~  
20 ~~to read:~~

21     ~~14257. Investigation and examination reports prepared by the~~  
22 ~~commissioner's duly designated representatives shall not be public~~  
23 ~~records. The reports may be disclosed to the officers, directors,~~  
24 ~~members of the supervisors committee, members of the credit~~  
25 ~~committee, internal and external auditors, attorneys, and key~~  
26 ~~management personnel of a credit union which is the subject of a~~  
27 ~~report for the purpose of corrective action by those persons. The~~  
28 ~~disclosure shall not operate as a waiver of the exemption specified~~  
29 ~~in subdivision (d) of Section 6254 of the Government Code.~~

30     ~~SEC. 3:~~

31     ~~SEC. 2. Section 14353.5 of the Financial Code is amended to~~  
32 ~~read:~~

33     ~~14353.5. Whenever the commissioner finds it necessary or~~  
34 ~~advisable to make an extra examination of a credit union, the~~  
35 ~~commissioner may charge the credit union a reasonable fee~~  
36 ~~determined by the commissioner, not to exceed actual costs, and~~  
37 ~~published annually for each examiner engaged in the extra~~  
38 ~~examination, and the credit union shall, within 10 days after the~~

1 mailing or other delivery of a statement by the commissioner, pay  
2 the fee charged by the commissioner.

3 ~~SEC. 4.~~

4 *SEC. 3.* Section 14405 of the Financial Code is amended to  
5 read:

6 14405. Every credit union may:

7 (a) (1) Become a member of any organization or organizations  
8 composed of credit unions, credit associations, chambers of  
9 commerce, financial institutions, community economic  
10 development entities, or business or trade organizations.

11 (2) Become a member of any nonprofit organization approved  
12 by the board of directors.

13 (b) Pay dues and assessments as may be levied upon it by any  
14 organization of which it is a member.

15 ~~SEC. 5.~~

16 *SEC. 4.* Section 14408 of the Financial Code is amended to  
17 read:

18 14408. No credit union shall make any gift or donation having  
19 a value in excess of \_\_\_\_ dollars (\$\_\_\_\_) unless the gift or donation  
20 is in the best interest of the credit union, is approved by a resolution  
21 of the board of directors and is in conformance with any regulation  
22 or order that the commissioner may issue. The resolution of the  
23 board of directors approving the gift or donation shall identify the  
24 recipient of the gift or donation, state the value of the gift or  
25 donation, and specify the basis for the board's determination that  
26 the gift or donation is in the best interests of the credit union. The  
27 board may establish a budget for gifts and donations and authorize  
28 appropriate officials of the credit union to select recipients and  
29 disburse budgeted funds among those recipients.

30 ~~SEC. 6.~~

31 *SEC. 5.* Section 14453 of the Financial Code is amended to  
32 read:

33 14453. The board of directors of every credit union shall have  
34 the general management of the affairs, funds and records of the  
35 credit union. The board may appoint an executive committee of  
36 no fewer than three directors, to serve at its pleasure, to act as  
37 expressly approved by the board of directors in accordance with  
38 the law and regulations.

1 ~~SEC. 7.~~

2 *SEC. 6.* Section 14456 of the Financial Code is amended to  
3 read:

4 14456. Unless the bylaws expressly reserve any or all of the  
5 following duties to the members, the directors have all of the  
6 following special duties:

7 (a) To act upon all applications for membership. The directors  
8 may delegate the power to approve applications for new  
9 membership to: (1) the chairperson of a membership committee  
10 or to an executive committee; or (2) any officer, director,  
11 committee member, or employee, pursuant to a written membership  
12 plan adopted by the board of directors, provided the board of  
13 directors reviews at least quarterly a report of membership  
14 applications approved by an officer, director, committee member,  
15 or employee.

16 (b) To expel members for any of the following causes:

17 (1) Conviction of a criminal offense involving moral turpitude.

18 (2) Failure to carry out contracts, agreements or obligations  
19 with the credit union.

20 (3) Refusal to comply with the provisions of this division or of  
21 the bylaws.

22 Any members who are expelled by the board of directors have  
23 the right to appeal therefrom to the members, in which event, after  
24 hearing, the order of suspension may be revoked by a two-thirds  
25 vote of the members present at a special meeting to consider the  
26 matter.

27 (c) To determine from time to time the interest rate on  
28 obligations with members and to authorize the payment of interest  
29 refunds to borrowing members.

30 (d) To fix the maximum number of shares which may be held  
31 by, and, in accordance with Section 15100, establish the maximum  
32 amount of obligations which may be entered into with, any one  
33 member.

34 (e) To declare dividends on shares in accordance with the credit  
35 union's written capital structure policy and to determine the interest  
36 rate or rates which will be paid on certificates for funds.

37 (f) To amend the bylaws, except where membership approval  
38 is required.

39 (g) To fill vacancies in the credit committee, and to temporarily  
40 fill vacancies caused by the suspension of any or all members of

1 the credit committee, pending a meeting of the members to  
2 determine whether to affirm the suspension and vacate the office,  
3 or to reinstate the member or members.

4 (h) To direct the deposit or investment of funds, except loans  
5 to members.

6 (i) To designate alternate members of the credit committee who  
7 shall serve in the absence or inability of the regular members to  
8 perform their duties.

9 (j) To perform or authorize any action not inconsistent with law  
10 or regulation and not specifically reserved by the bylaws for the  
11 members, and to perform any other duties as the bylaws may  
12 prescribe.

13 ~~SEC. 8.~~

14 *SEC. 7.* Section 14750 of the Financial Code is amended to  
15 read:

16 14750. Except as provided in Section 14950, any officer,  
17 director, member of a committee of a credit union, loan officer  
18 appointed pursuant to Section 14602, or employee who knowingly  
19 permits the creation of an obligation with, or participates in the  
20 creation of an obligation with, a nonmember of the credit union,  
21 or knowingly permits the creation of an obligation or participates  
22 in the creation of an obligation which is not made in conformity  
23 with the requirements of this division, is guilty of a misdemeanor.

24 ~~SEC. 9.~~

25 *SEC. 8.* Section 14807 of the Financial Code is amended to  
26 read:

27 14807. Any member may withdraw from membership in the  
28 credit union at any time. A withdrawing member may be required  
29 to give 60 days' notice of intention to withdraw shares and 30  
30 days' notice of intention to withdraw certificates for funds except  
31 when a different period of notice is required by the commissioner  
32 for the withdrawal of shares or share certificates that may be  
33 established by the board of directors pursuant to Section 14862.

34 ~~SEC. 10.~~

35 *SEC. 9.* Section 14950 of the Financial Code is amended to  
36 read:

37 14950. (a) Every credit union may enter into obligations with  
38 its members upon the approval of the credit committee or, in the  
39 alternative, the credit manager, subject to the terms and conditions  
40 established by the board of directors pursuant to Section 15100.

1 (b) (1) The board of directors of a credit union shall adopt a  
2 policy governing the acceptance by the credit union of notes  
3 receivable from nonmembers as consideration for the sale of assets  
4 owned by the credit union through bona fide transactions.

5 (2) No credit union may accept notes receivable from  
6 nonmembers as consideration for the sale of assets owned by the  
7 credit union except in accordance with a policy adopted by the  
8 board of directors pursuant to paragraph (1).

9 (3) Transactions subject to this subdivision shall not be deemed  
10 to be loans to nonmembers for purposes of Section 14750.

11 (c) Notwithstanding subdivision (a), a credit union may permit  
12 a nonmember to participate in an obligation or extension of credit  
13 to a member as a joint applicant or coobligor. An obligation or  
14 extension of credit made pursuant to this subdivision shall not be  
15 deemed a violation of subdivision (b) of Section 14800. Except as  
16 otherwise permitted by statute or regulation, the credit union shall  
17 not extend any other benefit or service of the credit union to the  
18 nonmember solely as a result of participation as a joint applicant  
19 or coobligor unless the nonmember is thereafter admitted to  
20 membership.

21 ~~SEC. 11.~~

22 *SEC. 10.* Section 15100 of the Financial Code is amended to  
23 read:

24 15100. (a) The board of directors shall establish written  
25 policies which shall set forth the policies of the credit union with  
26 respect to any obligation that is offered to the members of the  
27 credit union. The written policies shall set forth the maximum  
28 amounts and terms for any obligation offered to the members,  
29 including, but not limited to, the following information:

30 (1) For loans, the written policies shall set out the terms for  
31 unsecured loans, the maximum amount and terms for secured  
32 loans, the schedule of interest rates established pursuant to Section  
33 15000 for each type or class of unsecured and secured loan offered  
34 to members, the maximum maturity for any loan, or, in the case  
35 of an open-end loan, the rate of repayment for any type or class  
36 of open-end loan, the limitations, if any, which shall be placed on  
37 the authority of any loan officer appointed pursuant to Sections  
38 14602 and 14603, and, subject to the provisions of subdivisions  
39 (b) and (c), the individual limits on obligations that are applicable  
40 to all members of the credit union. Any policy developed pursuant

1 to this section by the board of directors shall, insofar as possible,  
2 and, subject to individual creditworthiness, ensure equal access to  
3 funds available for obligations with credit union members.

4 (2) For obligations other than those set out in paragraph (1), the  
5 board of directors shall set out the interest rates and essential terms  
6 of the obligations offered to the members and any other information  
7 as may be required pursuant to regulations that may be adopted  
8 by the commissioner.

9 (b) Notwithstanding subdivision (a), no credit union policy shall  
10 permit a credit union to enter into obligations with an individual  
11 credit union member whereby the total obligations of that member,  
12 exclusive of amounts secured by shares or certificates for funds,  
13 exceed 10 percent of the aggregate dollar amount of the credit  
14 union’s savings capital.

15 (c) Notwithstanding subdivision (b), no credit union policy shall  
16 permit a credit union to enter into obligations with any one family  
17 whereby the total obligations of the family would be greater than  
18 the amount permitted by subdivision (b). For purposes of this  
19 article, “family” means the marital couple or any head of household  
20 together with those dependents residing with the marital couple  
21 or the head of household and those dependents attending school  
22 away from the principal residence of the marital couple or head  
23 of household.

24 (d) Notwithstanding subdivisions (a), (b) and (c), any obligation  
25 with a member that is not a natural person shall not result in  
26 liability to the credit union in excess of that member’s investment  
27 in the credit union unless an exception is authorized in the credit  
28 union’s bylaws. Any lending activity permitted pursuant to this  
29 subdivision may be terminated by an order issued by the  
30 commissioner pursuant to Sections 14200 and 14204.

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