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## OLR Bill Analysis

sHB 7083 (as amended by House "A")\*

***AN ACT CONCERNING VARIOUS REVISIONS TO THE CREDIT UNION STATUTES RELATING TO NONMEMBER PAYMENTS, MEMBER BUSINESS LOANS, CHARITABLE CONTRIBUTIONS, EXTENSIONS OF CREDIT, CAPITAL AND NET WORTH.***

### SUMMARY

This bill makes the following changes to laws governing state-chartered credit unions:

1. allows them to extend credit with preferential rates or terms to insiders, employees, and governing board members if there is a written policy to do so and it will not result in financial loss (§§ 1 & 7);
2. expands the list of loans exempt from credit union business loan requirements (§ 5);
3. shifts, from a credit union's governing board to its senior management, the authority to approve the credit union's charitable contributions or gifts that fall below a certain threshold (§ 6);
4. removes regular reserves from being included in certain calculations of capital and net worth (§§ 1 & 8); and
5. allows credit unions certified as community development financial institutions to accept nonmember deposits up to certain caps based on the credit union's total assets (§§ 3 & 4).

The bill also makes minor, technical, and conforming changes, including specifying that a "loan officer" is someone who accepts loan applications or offers or negotiates the terms of personal, business, or other loan products for, or with the expectation of, compensation or gain, but not someone who acts only as a loan processor or underwriter.

\*House Amendment "A" replaces the original bill's set cap on accepting nonmember deposits (the lesser of \$1.5 million or 25% of the total share value) with a cap based on a credit union's total assets.

EFFECTIVE DATE: July 1, 2025

## **§§ 1 & 7 — CONFLICT OF INTEREST POLICY & PREFERENTIAL RATES**

By law, a credit union must have a written conflict of interest policy governing transactions involving insiders, insiders' immediate family members, or certain other individuals with a common interest to the insiders and family members.

The bill potentially narrows the applicability of these policies by limiting who is considered an "immediate family member." Currently, this individual is anyone related by blood, adoption, or marriage to someone who is in the credit union's field of membership or an appointed director. The bill ties the term only to the family relationship and specifies how far removed the relationship applies. Under the bill, only the following have the designation: a spouse; parent, child, sibling (including step or in-law relations); or grandparent, grandchild, or his or her spouse.

An "insider," under current law and the bill, is a credit union's director or appointed director, loan officer, or member of a board-appointed committee or senior management.

### ***Preferential Rates***

The bill creates an exemption from the ban on insiders and certain other individuals from (1) getting credit from the credit union with preferential rates, terms, or conditions or (2) acting as a guarantor or endorser for the credit.

The bill allows insiders and credit union employees or governing board members to get the preferential credit or act as a guarantor or endorser if it is done according to a written policy from the credit union's governing board. The policy must (1) require offering uniform preferential rates, terms, or conditions to these people and (2) prohibit

offering to extend credit if the credit union reasonably expects that, at the time of extending it, doing so would be a financial loss.

## **§ 5 — MEMBER BUSINESS LOANS**

The bill exempts loans for personal use and certain nonmember commercial loans from the law's credit union business lending requirements.

State law prohibits credit unions from making member business loans unless they have adequate net worth and a Department of Banking-approved member business loan program and policy. It sets specific requirements for these programs, including on risk control, employee lending experience, and thresholds for aggregate outstanding loan balances and individual loan-to-value ratios. The loans covered by these programs generally include those for commercial, corporate, investment property, business venture, or agricultural purposes.

The bill expands the list of loans exempt from the program, which currently includes, among others, certain fully secured loans, loans below a certain amount, and loans fully insured or guaranteed by a federal, state, or local agency. Under the bill, also exempt are (1) loans intended for personal use and (2) commercial loans to nonmembers (or participation interests in them) that a federally insured credit union lawfully acquires and that are not traded for a member business loan in order to avoid state law's limits on these loans.

## **§ 6 — CHARITABLE CONTRIBUTIONS**

One of the powers the law gives to credit unions is the ability to make charitable contributions or gifts, but it currently only allows a credit union's governing board to make these decisions. The bill shifts this authority to senior management under certain circumstances.

Under the bill, credit union senior management may approve contributions or gifts if:

1. these total contributions or gifts for the fiscal year are .01% or less of the credit union's net assets as of the prior fiscal year's end and

2. none of these are to a recipient with a director or senior management member who is also an insider of the credit union or the insider's immediate family member (see above).

The bill specifies that, as under current law, a majority of the governing board may approve contributions or gifts that exceed the above .01% threshold or are to recipients with credit union insiders or immediate family members in the above authoritative positions. But the bill requires the board's decisions to be documented in its meeting minutes, which is not currently required.

Lastly, in both cases, the bill requires the credit union to have and maintain a record of contributions or gifts it makes.

### **§§ 1 & 8 — REGULAR RESERVES**

The bill removes regular reserves from being included in a credit union's calculation of (1) capital and (2) net worth for purposes of contributions to an account for loan and lease loss allowance. Generally, regular reserves are funds set aside to cover losses.

Consequently, under the bill, a credit union's "capital" includes undivided earnings; special purpose reserves; donated equity; and accumulated, unrealized securities gains or losses. Among other things, by law, the amount of capital is a factor in determining whether a credit union may expand its membership, merge with another credit union, pay dividends, or make certain investments.

Existing law requires credit unions to have an account containing the amount of the estimated losses on loans and leases. It specifies the amount that credit unions must contribute to the account from its earnings, as net worth (the "retained earnings;" generally, assets minus liabilities). The bill removes regular reserves from this "net worth" calculation by no longer considering it part of a credit union's "retained earnings."

### **§§ 3 & 4 — NONMEMBER DEPOSITS**

The bill allows a credit union federally designated as a community development financial institution (CDFI) to accept deposits from

nonmembers, but it caps the total amount of these deposits at the greater of certain dollar amounts or percentages of the credit union's total value of all its shares (accounts) (see BACKGROUND). Its amount and percentage caps are based on credit union total assets, as shown in the table below.

**Table: Nonmember Deposit Caps**

<b>Credit Union Total Assets</b>	<b>Maximum Nonmember Deposit Amount (Greater Amount Applies)</b>
\$1 billion or more	\$25 million or 1.5% of total share value
At least \$500 million, but less than \$1 billion	\$15 million or 2% of total share value
At least \$250 million, but less than \$500 million	\$9.5 million or 2.5% of total share value
Less than \$250 million	\$6.25 million or 5% of total share value

The bill excludes public deposits a credit union receives from factoring into the nonmember deposit cap. A public deposit is (1) money of the state or its subdivisions (or an associated commission, committee, board, or officer), any housing authority, or any Connecticut court and (2) money the Judicial Department holds in a fiduciary capacity (CGS § 36a-330).

Current law generally prohibits credit unions from receiving deposits from nonmembers. The exceptions to this, which the bill leaves unchanged, include deposits from (1) an individual into an account held jointly with a credit union member; (2) the United States, Connecticut, or a Connecticut municipality or other political subdivision; (3) a federally recognized tribe; or (4) another credit union (regardless of where it is chartered).

## **BACKGROUND**

### ***CDFI Certification***

The U.S. Department of the Treasury's Community Development Financial Institutions Fund operates a program to invest, support, and train CDFIs assisting underserved populations and communities. To be eligible for assistance under this program, a CDFI must apply to the fund for certification and show that it meets the following requirements:

1. be a legal non-governmental financing entity at the time of application, and not under the control of a governmental entity (excluding tribal governments);
2. have a primary mission of promoting community development;
3. primarily serve one or more target markets and maintain accountability to its target market; and
4. provide development services along with its financing activities.

**COMMITTEE ACTION**

Banking Committee

Joint Favorable Substitute

Yea 9      Nay 4      (03/11/2025)