

ARIZONA CREDIT UNIONS

Not-for-Profit. Cooperative. Local. Trusted.

ARIZONA CU ACT POTENTIAL CHANGES

6-501. Definitions

A. In this chapter, unless the context otherwise requires:

1. "Branch office" means a place of business of a credit union, other than a principal office, at which deposits are received and checks are paid, but does not include premises used for computer operations, recordkeeping, accounting, storage, maintenance or other administrative or service functions.

2. "Capital" means share accounts, reserves and undivided earnings.

3. "Corporate credit union" means a credit union whose field of membership consists of other credit unions and organizations or associations owned by or composed of credit unions and corporations or associations that primarily serve credit unions.

4. "Credit union" means a cooperative nonprofit association that is incorporated under this chapter for the purposes of encouraging thrift among its members, ~~and~~ creating a source of credit and other financial services at fair and reasonable cost, and assisting members to manage and control their financial resources to improve their social and economic condition.

5. "Deposit account" means a balance other than a share account held by a credit union including balances designated as special investment accounts, deposits, certificates of deposit, certificates of indebtedness, demand deposit accounts or other similar names.

6. "Fixed asset" means land, buildings and major equipment used by a credit union in the provision of services.

7. "Governmental unit" means a board, agency, department, authority, instrumentality or other unit or organization of the federal, state, county, municipal or other level of government.

8. "Immediate family" means persons related by blood or marriage and includes foster and adopted children.

9. "Insolvent" means that the value of a credit union's assets is less than its liabilities.

10. "Insuring organization" means the national credit union administration or successor organization or any other ~~equivalent~~ insurer approved by the deputy director.

11. "Membership share" means a balance held by a credit union and established by a member according to the standards prescribed by the credit union.

12. "Organization" means any corporation, association, partnership, society, firm, syndicate, trust or other legal entity.

13. "Reserves" means allocations of retained income and includes regular and special reserves and any allowances for loan losses and investment losses.

14. "Risk assets" includes all assets of the credit union except the following:

(a) Cash on hand.

(b) Deposits or shares in federally or state insured banks, savings and loan associations and credit unions that have a remaining maturity of five years or less or if the maturity is greater than five years, the asset is being carried on the credit union's records at the lower of cost or market or is being marked to market value monthly.

(c) Assets that have a remaining maturity of five years or less and are insured by, fully guaranteed as to principal and interest by or due from the United States government, its agencies, the federal national mortgage association, the federal home loan mortgage corporation or the government national mortgage association including collateralized mortgage obligations that are comprised of government guaranteed mortgage loans or if the maturity is greater than five years, the asset is being carried on the credit union's records at the lower of cost or market or is being marked to market value monthly.

(d) Loans to other credit unions that have a remaining maturity of five years or less or if the maturity is greater than five years, the asset is being carried on the credit union's records at the lower of cost or market or is being marked to market value monthly.

(e) Student loans insured under the provisions of title IV, part B of the higher education act of 1965 (20 United States Code section 1071, et seq.) or similar state insurance programs that have a remaining maturity of five years or less or if the maturity is greater than five years, the asset is being carried on the credit union's records at the lower of cost or market or is being marked to market value monthly.

(f) Loans that have a remaining maturity of five years or less and are fully insured or guaranteed by the federal or state government or an agency of either or if the maturity is greater than five years, the asset is being carried on the credit union's records at the lower of cost or market or is being marked to market value monthly.

(g) Shares or deposits in a central or corporate credit union that have a remaining maturity of five years or less or if the maturity is greater than five years, the asset is being carried on the credit union's records at the lower of cost or market or is being marked to market value monthly.

(h) Common trust investments, including mutual funds, that deal exclusively in investments authorized by the federal credit union act and are either carried at the lower cost or market or are marked to the market value monthly.

(i) Prepaid expenses.

(j) Accrued interest on non risk investments.

(k) Loans fully secured by a pledge of shares in the lending federal credit union equal to and maintained to at least the amount of the loan outstanding.

(l) Loans that are purchased from liquidating credit unions and guaranteed by the national credit union administration.

(m) National credit union Share Insurance Fund guaranty accounts established with the authorization of the National Credit Union Administration under the authority of section 208(a)(1) of the Federal Credit Union Act.

(n) Investments in shares of the National Credit Union Administration Central Liquidity Facility.

(o) Fixed assets as defined in section 701.36(b) of the Federal Credit Union Act.

(p) Deposits in the national credit union Share Insurance Fund representing a federally insured credit union's capitalization account balance of one percent of insured shares.

15. "Share account" means a balance held by a credit union and established by a member according to this chapter, including balances designated as shares, share certificates, share draft accounts and membership shares. Ownership of a share account confers membership and voting rights and represents an interest in the capital of the credit union.

B. For the purposes of subsection A, paragraph 14, subdivision (g) of this section, a "central or corporate credit union" means a credit union whose membership primarily consists of either:

1. Other credit unions organized under state or federal law.

2. Officials, committee members and employees of any credit union organized under state or federal law.

3. Any combination of the categories described in paragraphs 1 and 2 of this subsection.

6-506. Organization procedure

A. Any seven or more residents of this state who are of legal age and who have a common bond of interest or association may apply to the deputy director for permission to organize a credit union under this chapter.

B. The incorporators shall prepare, adopt and execute a certificate of organization and shall agree to comply with the requirements of the certificate and with all of the laws and rules applicable to credit unions. The certificate shall state:

1. The credit union's name and the location of the proposed principal place of business.

2. That the existence of the credit union is perpetual.

3. The names and addresses of the incorporators and the number of shares subscribed to by each.

4. The purpose for which the credit union is formed.

C. The incorporators shall prepare, adopt and execute bylaws consistent with this chapter for the general governance of the credit union. The bylaws, among other things, shall provide:

1. The proposed field of membership, that shall ~~be limited to consist of one or more~~ groups having a common bond of interest, occupation ~~or~~ association or ~~to groups~~ within a well-defined neighborhood, community or rural district consistent with the purposes of the credit union.

2. The par value of shares required to obtain and maintain membership.
 3. The number of directors of the credit union, which shall not be fewer than five, all of whom shall be members, together with the titles of the officers and the number of members of the supervisory committee, which shall not be fewer than three.
 4. The conditions under which shares may be issued, transferred or withdrawn, loans may be made and repaid and monies may be otherwise invested.
 5. The number of members of the credit committee, which shall not be fewer than three, or the authorization of a credit manager.
- D. The incorporators shall select at least five persons who are eligible for membership and who agree to become members and serve on the board of directors, and at least three persons who are eligible for membership and who agree to become members and serve on the supervisory committee. The persons selected to serve on the board of directors and the supervisory committee shall execute an agreement to serve in those capacities until the first annual meeting or until the election of their respective successors, whichever is later.
- E. The incorporators shall forward to the deputy director such application as is required by the deputy director, along with the application fee provided for in section 6-126, the certificate of organization, the bylaws and the agreements to serve and any additional information which the deputy director may request.
- F. The incorporators shall not transact any business in the name of the credit union until the certificate of incorporation has been issued by the corporation commission and the application and the bylaws have been approved by the deputy director.

6-510. Principal place of business; branch office; automated teller machines

- A. A credit union may change its principal place of business or branch within this state with the prior approval of the deputy director and the payment of the fee provided in section 6-126.
- B. A credit union may establish a branch office with the prior approval of the deputy director.
- ~~C. A credit union may establish or maintain automated teller machines at locations other than its places of business. The credit union must send a notification letter to the deputy director at least thirty days before the automated teller machine is established pursuant to this subsection. A credit union may join through contractual agreement with one or more other credit unions or other financial organizations in the operation of automated teller machine networks.~~
- D. A credit union organized under this chapter may conduct business in other states or territories of the United States where it is allowed to do so on approval of the deputy director, if it is reasonably necessary to service its members.

~~6-512. Fiscal year~~

~~The fiscal year of each credit union incorporated under this chapter ends on December 31.~~

6-516. General powers

A. In addition to the powers prescribed elsewhere in this chapter and except as prohibited by law, a credit union may:

1. Enter into contracts of any nature.
 2. Sue or be sued.
 3. Adopt, use and display a corporate seal.
 4. Acquire, lease, hold, assign, pledge, hypothecate, sell, discount or otherwise dispose of property or assets, either in whole or in part, necessary or incidental to its operations.
 5. Borrow money from any source, except, that a credit union shall obtain the prior written approval of the deputy director to borrow in excess of an aggregate of fifty percent of its capital.
 6. Purchase all or a portion of the assets and assume all or a portion of the liabilities -of ~~another~~ credit union chartered under the laws of any state, or of a federal credit union, or of a bank or an out-of-state bank.
 7. Offer financial services incidental to the business purposes of a credit union, including but not limited to electronic fund transfers, safe deposit boxes and leasing and correspondent arrangements with other financial institutions.
 8. Hold membership in other credit unions organized under this chapter or other laws, in ~~the Arizona credit union league~~ or in other associations and organizations ~~controlled by or fostering the interests of credit unions.~~
 9. Engage in activities and programs offered by any governmental unit that are incidental or reasonably related to credit union activities.
 10. Act as fiscal agent for, and or receive payments on share and deposit accounts from, a governmental unit.
 11. Make contributions to any nonprofit civic, charitable or service organizations.
- B. A credit union may exercise all incidental powers that are convenient, suitable or necessary to enable it to promote or carry out its purposes.

C. A credit union shall not delegate the management of a credit union or the exercise of any power set forth in this section to any person who is not an officer, director or employee of the credit union without the prior written approval of the deputy director. The deputy director may examine the books, records and business affairs of any person or entity to whom the credit union proposes to delegate any such authority.

6-522. Organization members

A. An organization comprised primarily of individuals who are eligible for membership in the credit union, ~~and a corporation an organization~~ a majority of whose ~~stockholders owners~~, by number, are such individuals, and if applicable an organization that is located within the credit union's geographic membership area may be included in the field of membership. Additionally, an organization, one of whose principal functions is to provide services to persons who are eligible for membership in the credit union, may be admitted to membership.

B. A credit union or corporate credit union may accept as a member any other credit union organized under this chapter or any other credit union law.

6-523. Membership applications

A. The board of directors shall act on applications for membership or appoint one or more membership officers to approve applications for membership. A credit union may deny membership based on policies established by the board of directors. A person denied membership by a membership officer may appeal the denial to the board of directors within 30 days after the denial.

B. A credit union may impose one-time or periodic membership fees under the conditions the bylaws provide.

6-524. Termination of membership

A. A member may withdraw from a credit union at any time on giving notice of withdrawal as required in the bylaws. The credit union may require up to sixty days' notice of the intention to withdraw shares or deposits, but the notice does not entitle the member to any preferred or prior claim in the event of liquidation.

B. A member may be expelled by a two-thirds vote of the members present at any regular meeting or a special meeting of the membership, but only after the member has had an opportunity to be heard at the meeting, or the board of directors, or management to whom the board has delegated such authority, may expel a member pursuant to a written policy adopted by ~~it~~the board. The board shall give all members written notice of the terms of any such policy. ~~A person being considered for expulsion by the board has the right to a hearing before the board. Not less than ten days before the consideration of any expulsion of a member, whether by action of the membership or of the board, the affected member shall be provided with a written notice of the potential expulsion and a list of the reasons for the expulsion. A person who has been expelled shall be informed of the reasons for expulsion, and may seek reconsideration of the expulsion by the board by providing a written request for reconsideration to the board within 30 days after notice of expulsion is issued.~~

C. As monies become available and after deducting all amounts due from the member to the credit union, the credit union shall pay to the withdrawing or expelled member the amounts paid on shares and deposits by the withdrawing or expelled member, with any dividends or earnings accredited. Withdrawing or expelled members have no further rights in the credit union but are not released, by the withdrawal or expulsion, from any remaining liability to the credit union.

6-531. Authority and responsibility of directors; voting

A. The board of directors has the authority and responsibility for directing the business affairs, monies and records of the credit union.

B. Except as provided in section 6-543, directors may not vote by proxy, absentee ballot or mail ballot but may vote by telephone conference or electronic meeting if all directors ~~present-participating~~ can speak to and be heard by the other directors during the telephone conference or electronic meeting.

C. The board of directors shall meet at least ~~ten times once every two months, during each calendar year in ten different months.~~ The deputy director may direct a credit union's board to meet more frequently in order to address specified matters.

6-537. Certain duties of directors; insurance

A. In addition to the duties prescribed in this chapter, the board of directors shall:

1. Purchase adequate fidelity coverage for the credit union covering the president and other officials and employees handling or having custody of monies or property of the credit union.

2. Authorize the employment and compensation of the president, who may hire other persons as are necessary to carry out the business of the credit union.

3. Approve an operating budget for the credit union.

4. Authorize the conveyance of property.

~~5. Borrow or lend money to carry on the functions of the credit union.~~

6. Appoint special committees.

B. The board of directors shall perform other duties as the members from time to time may direct and perform or authorize any action not inconsistent with law or not specifically reserved by the bylaws to the members.

C. The board of directors shall purchase and maintain insurance for the credit union on behalf of a person who is or was a director, officer, employee or agent of the credit union, or who is or was serving at the request of the credit union as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against the person and incurred by the person in any such capacity or arising out of the person's status as such, whether or not the credit union would have the power to indemnify the person against the liability.

6-542. Suspension and removal of officials

Unless the bylaws provide otherwise, a director, officer, or member of a committee may be removed as follows:

A. ~~Both~~ Either the supervisory committee ~~and or~~ the board may suspend for cause by a ~~two-thirds majority~~ vote of their entire membership any director, officer or member of a committee and shall immediately notify such person in writing of the suspension and the reasons for the suspension.

B. A suspended director, officer or committee member may request a special meeting of the members to consider that suspension within 10 days after the date the suspended director, officer, or committee member was notified of the suspension. The board shall call a special meeting for that purpose not fewer than seven days nor more than ~~twenty-one~~ thirty days after ~~that suspension receiving the request for a meeting~~, and that suspension shall be upheld or overturned by a majority of the members present. The suspended person is entitled to appear and be heard at the special meeting.

C. In the absence of a request for a hearing within 10 days after the date the director, officer, or committee member was notified of the suspension, the suspension is deemed a removal from office. If a hearing is requested, Approval of the suspension by the membership constitutes removal from office.

D. Notwithstanding any other provision of this section, the members of a credit union may suspend or remove any director or committee member at any annual or special meeting of the members.

6-551. Share accounts

A. Share accounts shall be subscribed to and paid for in such manner as the ~~bylaws~~ board of directors prescribes. A credit union may require its members to subscribe to and make payments on membership shares. Membership shares may not be pledged as security on any loan.

B. The par value of any membership shares may differ from the par value of other shares.

C. A credit union may limit the amount in share accounts and deposit accounts and any such limit must apply to all account holders.

6-556. Multiple party accounts

~~A.~~ A credit union may enter into multiple party accounts, which are subject to the provisions of as provided in title 14, chapter 6, ~~article 1~~. No multiple party owner, unless he is a member of the credit union in his own right, may vote at member meetings, obtain loans from the credit union or hold office in the credit union or is required to pay a membership fee.

B. Payment of part or all of a multiple party account to any of the multiple party owners shall discharge, to the extent of the payment, the liability of the credit union to all such parties unless the account agreement contains a prohibition or limitation on the payment.

C. A member may designate any person to own a share or deposit account with the member under any form of joint ownership permitted by law.

D. A member may own a share or deposit account in trust for a beneficiary, or a nonmember may own a share or deposit account in trust for a beneficiary who is a member. A beneficiary may be a minor.

E. A member may designate any person or persons as payees on a payable-on-death account.

6-561. Purpose and conditions of loans; prepayment penalties

A. A credit union may make loans, including lines of credit, to members for the purposes and on the conditions as ~~the bylaws provide~~ prescribed by the board of directors. The board of directors shall establish written policies with respect to the granting of loans including the terms, conditions and acceptable forms of security.

B. No person, except another credit union, may become indebted, directly or indirectly, to the credit union for more than ten per cent of the credit union's capital or two hundred dollars, whichever is greater. This limit does not apply to loans which are fully secured by assignment of share or deposit accounts in the credit union.

C. An application for a loan shall state the security and other information required by the credit committee or credit manager. Each loan shall be evidenced by a written document.

D. A member may repay a loan or outstanding balance on a line of credit prior to maturity in whole or in part on any business day without penalty. Except as provided in this subsection, prepayment penalties may be charged on loans not made for personal, family, or household purposes. member business loans as defined by the national credit union administration in 12 Code of Federal Regulations section 723.1.

6-563. Other loan programs

A. A credit union may participate in loans to its members jointly with other credit unions, credit union organizations or other organizations pursuant to written policies established by the board of directors. A credit union which originates such a loan shall retain an interest of at least ~~ten~~five per cent of the outstanding principal balance of the loan. Before participating in a loan transaction, each credit union shall perform its own independent evaluation of the creditworthiness of the borrower.

B. In making loans to its members a credit union may participate in any guaranteed loan program of the federal or state government under the terms and conditions specified in the law or rules under which such a program is provided.

C. A credit union may finance for any person the sale of the credit union's property, including property obtained as a result of defaults in obligations owed to it, under the terms, conditions and rates provided by this chapter.

6-564. Loans to officials

A. A credit union may make loans to an officer, director or member of its supervisory and credit committees if both of the following conditions are met:

1. The loan complies with all requirements of this chapter and is not on terms more favorable than those extended to other borrowers.

2. The aggregate of loans to all such officials, excepting those fully secured by share or deposit accounts, does not exceed twenty percent of the credit union's capital.

B. A credit union may allow officers, directors and members of its supervisory and credit committees to act as comakers, guarantors or endorsers of loans to other members, subject to the requirements of subsection A of this section.

~~C. All applications for loans in the aggregate of \$20,000 or a greater amount as determined by the deputy director on which an official will be either a direct obligor or an endorser, cosigner or guarantor shall be initially acted on by the board of directors as provided in the bylaws.~~

C. All loans that would result in an official becoming obligated as a direct obligor, an endorser, cosigner or guarantor in an aggregate amount that exceeds one percent of the credit union's net worth, as that term is defined in 12 C.F.R. Part 702, must be approved by the board of directors. Concurrent with the submission of each report of condition, a credit union shall provide to the deputy director a list of the credit obligations of each official if the aggregate obligations of such official as described above to the credit union exceed the lesser of \$50,000 or one percent of the credit union's net worth as defined above.