



General Assembly

January Session, 2003

Raised Bill No. 890

LCO No. 3076

Referred to Committee on Banks

Introduced by:

(BA)

AN ACT CONCERNING DIRECTORS OF CREDIT UNIONS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 36a-435b of the general statutes is repealed and
2 the following is substituted in lieu thereof (*Effective October 1, 2003*):

3 As used in sections 36a-435a to 36a-472a, inclusive, unless the
4 context otherwise requires:

5 (1) "Appointed director" means a director emeritus or an advisory
6 director of a Connecticut credit union, who is not a member of the
7 governing board of such credit union.

8 ~~[(1)]~~ (2) "Branch" means any office of a Connecticut credit union at a
9 fixed location, other than the main office, at which shares or deposits
10 are received, share drafts or checks are paid, or money is lent;

11 ~~[(2)]~~ (3) "Capital" means undivided earnings, regular reserves, other
12 special purpose reserves, donated equity, and accumulated, unrealized
13 gains or losses on securities in accordance with generally accepted
14 accounting principles;

15 [(3)] (4) "Certificate of incorporation" means the certificate of
16 incorporation of a Connecticut credit union and includes in the case of
17 Connecticut credit unions in existence on July 1, 1975, articles of
18 association, articles of incorporation and certificates of organization;

19 [(4)] (5) "Corporate", when used in conjunction with any institution
20 that is a Connecticut credit union, federal credit union or out-of-state
21 credit union, means a corporate credit union, as defined in 12 CFR
22 704.2, as from time to time amended;

23 [(5)] (6) "Credit manager" means a natural person approved by the
24 governing board of a Connecticut credit union and employed by such
25 credit union to supervise its lending activities;

26 [(6)] (7) "Credit union service organization services" means those
27 services that are authorized for credit union service organizations
28 under state or federal law, and that are closely related to credit union
29 business, are convenient and useful to credit union business, are
30 reasonably related to the operations of a credit union or are financial in
31 nature;

32 [(7)] (8) "Director" means a member of the governing board [, a
33 director emeritus or an advisory director] of a Connecticut credit
34 union;

35 [(8)] (9) "Federal Credit Union Act" means 12 USC Section 1751 et
36 seq., as from time to time amended;

37 [(9)] (10) "Financial institution" means any Connecticut credit union,
38 bank, federal credit union, out-of-state bank or out-of-state credit
39 union;

40 [(10)] (11) "Immediate family member" means any person related by
41 blood, adoption or marriage to a person within the field of
42 membership of the Connecticut credit union;

43 [(11)] (12) "Member" means any person who has been admitted to

44 membership in the Connecticut credit union in accordance with this
45 chapter;

46 [(12)] (13) "Member in good standing" means a member who (A)
47 owns at least one membership share in a credit union, (B) is current on
48 all credit obligations to the credit union, and (C) has not caused the
49 credit union a credit or share loss that remains outstanding;

50 [(13)] (14) "Membership share" means a share equal to the stated par
51 value of the Connecticut credit union which may not be withdrawn or
52 transferred except upon termination of membership and which confers
53 membership and voting rights on the member;

54 [(14)] (15) "Multiple common bond membership" means a field of
55 membership consisting of more than one group of individuals, each of
56 which has, within the group, a common bond of occupation or
57 association;

58 [(15)] (16) "Officer" means the chairperson, vice chairperson,
59 secretary and treasurer of the governing board of a Connecticut credit
60 union;

61 [(16)] (17) "Senior management" means the president or chief
62 executive officer, vice president or vice chief executive officer, chief
63 financial officer, credit manager, and any person occupying a similar
64 status or performing a similar function;

65 [(17)] (18) "Share" means the basic unit of moneys held by a member
66 of a Connecticut credit union in share accounts at a Connecticut credit
67 union on which a dividend may be paid;

68 [(18)] (19) "Single common bond membership" means a field of
69 membership consisting of one group that has a common bond of
70 occupation or association.

71 Sec. 2. Subsection (h) of section 36a-437a of the general statutes is
72 repealed and the following is substituted in lieu thereof (*Effective*

73 *October 1, 2003*):

74 (h) (1) The bylaws of a Connecticut credit union shall specify at least
75 the following: (A) The name of the credit union; (B) the field of
76 membership of the credit union and the qualifications for membership;
77 (C) the par value of shares; (D) the number and terms of directors
78 [including directors emeritus and advisory directors] and appointed
79 directors, if applicable, and procedures for their election; (E) the duties
80 of the members of senior management; (F) the manner in which a
81 credit committee, credit manager, loan officer or any combination
82 thereof shall be responsible for the credit functions of the credit union;
83 (G) the manner of conducting the annual meeting and the provisions
84 for voting; (H) conditions for payment on, receipt of or withdrawal of
85 shares and deposits; and (I) such other matters as the governing board
86 deems necessary.

87 (2) The bylaws of a Connecticut credit union may not be amended
88 without the written approval of the Commissioner of Banking for a
89 period of three years following issuance by the Commissioner of
90 Banking of the certificate of authority to engage in the business of a
91 Connecticut credit union. Thereafter, the bylaws of a Connecticut
92 credit union may be amended in accordance with subdivision (3) of
93 this subsection, provided the bylaws comply with this subdivision,
94 and any such amendment changing the name of the credit union or the
95 field of membership of the credit union shall require the written
96 approval of the Commissioner of Banking in accordance with
97 subdivision (3) of this subsection. The Commissioner of Banking's
98 approval shall not be required to amend the field of membership of a
99 Connecticut credit union with a multiple common bond membership
100 to add a group of less than five hundred potential members, excluding
101 members of the immediate family or household of a potential member.

102 (3) The bylaws may be amended by the adoption at a meeting of an
103 amendment resolution by two-thirds of the directors of the credit
104 union. Written notice of the meeting and text of the proposed

105 amendment shall be given to each director at least seven days prior to
106 the meeting. The Connecticut credit union shall file with the
107 Commissioner of Banking, within ten days after its adoption, one copy
108 of any proposed amendment on a form provided by the Commissioner
109 of Banking. In the case of a proposed amendment requiring the
110 Commissioner of Banking's approval, the Commissioner of Banking
111 shall, within thirty days after such filing, determine whether such
112 proposed amendment is consistent with the provisions and purposes
113 of sections 36a-435a to 36a-472a, inclusive. The Commissioner of
114 Banking, upon determining that such proposed amendment satisfies
115 the requirements of said sections 36a-435a to 36a-472a, inclusive, shall
116 endorse the Commissioner of Banking's approval on such proposed
117 amendment, and return one copy thereof to the Connecticut credit
118 union.

119 (4) Any amendment to the bylaws of a Connecticut credit union
120 shall become effective when adopted except amendments requiring the
121 approval of the Commissioner of Banking which shall become effective
122 upon such approval.

123 Sec. 3. Subsection (a) of section 36a-438a of the general statutes is
124 repealed and the following is substituted in lieu thereof (*Effective*
125 *October 1, 2003*):

126 (a) (1) Except as provided in subdivision (2) of this subsection, the
127 field of membership of a Connecticut credit union is limited to (A) a
128 single common bond membership, (B) a multiple common bond
129 membership, or (C) persons within a well-defined community,
130 neighborhood or rural district.

131 (2) The field of membership of a Connecticut credit union may
132 include (A) members of the immediate family or household of all
133 persons included under subparagraphs (A), (B) and (C) of subdivision
134 (1) of this subsection, (B) organizers and employees of such credit
135 union, (C) [any advisory director of such credit union, (D)] the
136 surviving spouse of a deceased member of such credit union, and [(E)]

137 (D) notwithstanding any change in employment, occupation, residence
138 or other condition initially controlling the eligibility for membership in
139 any Connecticut credit union, any person properly admitted to
140 membership in a Connecticut credit union. Such person may continue
141 membership therein during such person's lifetime. The field of
142 membership of a Connecticut credit union under subparagraphs (A)
143 and (B) of subdivision (1) of this subsection may include associations
144 and organizations of individuals who are members of such credit
145 union, partnerships in which the majority of the partners are
146 individuals who are members of such credit union and, corporations in
147 which the majority of whose shareholders are individuals who are
148 members of such credit union.

149 Sec. 4. Subsection (k) of section 36a-448a of the general statutes is
150 repealed and the following is substituted in lieu thereof (*Effective*
151 *October 1, 2003*):

152 (k) (1) If the bylaws so provide, the governing board may [appoint]
153 select advisory directors and directors emeritus to serve [at the
154 pleasure of such governing board to advise and consult with the board
155 in carrying out the board's duties and responsibilities] as appointed
156 directors without compensation. Appointed directors shall serve at the
157 pleasure of the governing board to advise and consult with the board
158 in carrying out the board's duties and responsibilities.

159 (2) An advisory director need not be eligible for membership in the
160 credit union, shall not be a member of the governing board, and shall
161 not be entitled to vote on any matter before the board. An advisory
162 director may participate in any governing board or committee
163 deliberation, but shall not make any motions.

164 [(2)] (3) [If the bylaws so provide, the governing board may appoint
165 directors emeritus to serve at the pleasure of the governing board to
166 advise and consult with the governing board in carrying out the
167 board's duties and responsibilities.] A director emeritus shall be a
168 member of the credit union and shall not be an officer of the credit

169 union, participate in any governing board or committee deliberations,
170 make motions or vote on any matter before the governing board.

171 ~~[(3)]~~ (4) The number of [advisory directors and directors emeritus]
172 appointed directors and their qualifications shall be specified for in the
173 bylaws.

174 Sec. 5. Section 36a-454a of the general statutes is repealed and the
175 following is substituted in lieu thereof (*Effective October 1, 2003*):

176 (a) In addition to compensating its employees, a Connecticut credit
177 union may, either independently or in conjunction with one or more
178 other Connecticut credit unions, with the approval of the governing
179 board, provide death benefits, disability benefits, accident benefits,
180 hospital, medical, surgical and dental benefits, incentive savings
181 benefits, severance benefits, retirement benefits and other employee
182 benefits for its active and retired employees and their families. The
183 provisions of this section shall be subject to the conditions and
184 requirements imposed by the Employee Retirement Income Security
185 Act of 1974, Public Law 93-406, as from time to time amended.

186 (b) A Connecticut credit union may, with the approval of a majority
187 of the governing board, provide personal liability or indemnity
188 insurance coverage for its directors, credit committee members and
189 supervisory committee members. With the approval of the
190 Commissioner of Banking, a Connecticut credit union may also
191 provide reasonable health, accident and related types of personal
192 insurance for its directors, [other than its emeritus directors and
193 advisory directors,] which insurance shall not be considered
194 compensation. A Connecticut credit union shall not provide such
195 insurance for its appointed directors.

196 Sec. 6. Section 36a-454b of the general statutes is repealed and the
197 following is substituted in lieu thereof (*Effective October 1, 2003*):

198 (a) The governing board of a Connecticut credit union shall adopt a

199 written conflict of interest policy that includes provisions addressing
200 transactions with insiders and their immediate family members, as
201 defined in section 36a-435b, and other persons having a common
202 ownership, investment or other pecuniary interest in a business
203 enterprise with such insiders and immediate family members of such
204 persons. As used in this section, (1) "insider" means a director,
205 appointed director, member of a board-appointed committee, member
206 of senior management and loan officer of a Connecticut credit union
207 and (2) "immediate family member" has the same meaning as
208 "immediate family member" as defined in section 36a-435b, as
209 amended by this act, provided the term also includes any person
210 related by blood, adoption or marriage to an appointed director.

211 (b) An extension of credit made by a Connecticut credit union to an
212 insider shall require the approval of the governing board if (1) such
213 insider is the debtor, guarantor, endorser or cosigner of the extension
214 of credit; and (2) the extension of credit by itself or when added to the
215 aggregate of all outstanding extensions of credit for which such insider
216 is the debtor, guarantor, endorser or cosigner exceeds twenty-five
217 thousand dollars plus pledged shares.

218 (c) No insider of a Connecticut credit union or professional retained
219 by a Connecticut credit union shall in any manner, directly or
220 indirectly, participate in any determination affecting such person's
221 pecuniary interest or the pecuniary interest of any immediate family
222 member of such person or any corporation, partnership or association,
223 other than the Connecticut credit union, in which such person is
224 directly or indirectly interested.

225 (d) An insider, immediate family member of such insider or other
226 person having a common ownership, investment or other pecuniary
227 interest in a business enterprise with an insider or immediate family
228 member of such insider shall not obtain an extension of credit from the
229 Connecticut credit union with preferential rates, terms or conditions,
230 or act as guarantor or endorser thereon, and shall not be involved in

231 the appraisal or valuation of assets which are to be used as collateral
232 for an extension of credit.

233 (e) An insider and the immediate family member of such insider
234 shall not receive, directly or indirectly, any commission, fee or other
235 compensation, except those of a nominal value, in connection with any
236 extension of credit by the Connecticut credit union, provided this
237 subsection shall not prohibit: (1) Payment by a Connecticut credit
238 union of: (A) Salaries to employees, (B) incentives or bonuses to
239 employees based on the Connecticut credit union's overall financial
240 performance, (C) incentives or bonuses to employees, other than a
241 member of senior management, in connection with an extension of
242 credit, provided the governing board establishes written policies and
243 internal controls in connection with such incentives or bonuses and
244 monitors compliance with such policies and controls at least annually,
245 (D) fees to an insider or immediate family member of such insider for
246 the performance of title searches, loan closings and collections,
247 provided the Connecticut credit union has complied with subsection
248 (k) of this section prior to engaging such insider or immediate family
249 member of such insider; and (2) receipt of compensation from a person
250 outside a Connecticut credit union by a director, appointed director,
251 member of a board-appointed committee or employee who is not a
252 member of senior management or an immediate family member of
253 such director, appointed director, committee member or employee, for
254 a service or activity performed by the director, appointed director,
255 committee member or employee outside the Connecticut credit union,
256 provided no referral has been made by the credit union or the director,
257 appointed director, committee member, employee or immediate family
258 member of such director, appointed director, committee member or
259 employee.

260 (f) An insider and the immediate family members of such insider or
261 an employee of a Connecticut credit union shall not receive anything
262 of value in connection with the making of an investment or deposit by
263 the Connecticut credit union of funds of the credit union, unless the

264 governing board determines that the involvement of the insider, the
265 immediate family member of such insider or the employee does not
266 present a conflict of interest, and includes such determination in its
267 minutes. The prohibition contained in this subsection shall not prohibit
268 the credit union from paying salaries, incentives and bonuses to
269 employees in connection with the making of such investments or
270 deposits. An insider shall conduct all transactions that are not
271 prohibited under this subsection at arm's length and in the best
272 interests of the Connecticut credit union.

273 (g) An insider and the immediate family members of such insider
274 shall not receive any direct or indirect compensation or benefit in
275 connection with the credit union's insurance or group purchasing
276 activities for members and employees. The prohibition contained in
277 this subsection shall also apply to any employee not otherwise covered
278 if the employee is directly involved in insurance or group purchasing
279 activities unless the governing board determines that the employee's
280 involvement does not present a conflict of interest and includes such
281 determinations in its minutes. An insider and the immediate family
282 member of such insider shall conduct all transactions that are not
283 prohibited under this subsection at arm's length and in the best
284 interests of the credit union.

285 (h) A Connecticut credit union shall not buy, lease or otherwise
286 acquire premises from any of the following without the prior approval
287 of the governing board, such approval to be included in the governing
288 board's minutes: (1) An insider or immediate family member of such
289 insider; (2) a corporation in which an insider or immediate family
290 member of such insider is an officer or director or has an ownership
291 interest of ten per cent or more; (3) a partnership in which any insider
292 or immediate family member of such insider is a general partner or a
293 limited partner with an interest of ten per cent or more. The
294 prohibition contained in this subsection shall also apply to any
295 employee not otherwise covered if the employee is directly involved in
296 investments in fixed assets unless the governing board determines that

297 the employee's involvement does not present a conflict of interest and
298 includes such determinations in its minutes.

299 (i) No insider or employee of a Connecticut credit union or the
300 immediate family member of any such person shall purchase, directly
301 or indirectly, any of the assets of the credit union for an amount less
302 than the current market value thereof, without the prior approval of
303 the governing board which approval shall include a determination that
304 the transaction is in the best interests of the credit union. Such
305 approval and determination shall be included in the governing board's
306 minutes.

307 (j) With the approval of the Commissioner of Banking, a
308 Connecticut credit union may have as an employee, [or] director or
309 appointed director a person who serves as an officer, employee or
310 director of any other financial institution.

311 (k) When a Connecticut credit union retains an insider or an
312 immediate family member of such insider to render services to the
313 credit union, the governing board shall document in its minutes that
314 such hiring was at arm's length and in the best interests of the credit
315 union and was in accordance with the competitive bidding and
316 appropriate due diligence process as provided in the credit union's
317 conflict of interest policy.

318 (l) The directors, appointed directors, members of board-appointed
319 committees, members of senior management and the immediate family
320 members of such persons that have outstanding loans or investments
321 in a credit union service organization shall not receive any salary,
322 commission, investment income or other income or compensation
323 from such credit union service organization, either directly or
324 indirectly, or from any person being served through the credit union
325 service organization. This provision shall not prohibit (1) such
326 Connecticut credit union insiders or the immediate family members of
327 such persons from assisting in the operation of such credit union
328 service organization, provided such persons are not compensated by

329 the credit union service organization, and (2) reimbursement to the
330 Connecticut credit union for the services provided by such directors,
331 appointed directors, committee members or senior management
332 members if the accounts receivable of the Connecticut credit union due
333 from the credit union service organization is paid in full at least
334 quarterly.

335 (m) A Connecticut credit union shall not grant a member business
336 loan if any additional income received by the credit union or senior
337 management of the credit union is tied to the profit or sale of the
338 business or commercial endeavor for which the loan is made.

This act shall take effect as follows:	
Section 1	<i>October 1, 2003</i>
Sec. 2	<i>October 1, 2003</i>
Sec. 3	<i>October 1, 2003</i>
Sec. 4	<i>October 1, 2003</i>
Sec. 5	<i>October 1, 2003</i>
Sec. 6	<i>October 1, 2003</i>

Statement of Purpose:

To clarify the role of appointed directors within the organizational structure of a Connecticut credit union and to ensure that the governing board of each Connecticut credit union consists only of directors elected by and from the credit union's membership.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]