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## OLR Bill Analysis

### sHB 5142

#### **AN ACT CONCERNING CONSUMER CREDIT, CERTAIN BANK REAL ESTATE IMPROVEMENTS, THE CONNECTICUT UNIFORM SECURITIES ACT, SHARED APPRECIATION AGREEMENTS, INNOVATION BANKS, THE COMMUNITY BANK AND COMMUNITY CREDIT UNION PROGRAM AND TECHNICAL REVISIONS TO THE BANKING STATUTES.**

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**§ 25 — SHARED APPRECIATION AGREEMENT DISCLOSURES**

*Establishes written disclosure requirements for mortgage lenders offering to make residential loans in which the lender receives an interest in the appreciated value of the property*

**§§ 26-41 — INNOVATION BANKS**

*Replaces a current type of Connecticut-organized bank (“uninsured bank”) with a substantially similar type under a different name (“innovation bank”)*

**§ 42 — COMMUNITY BANKING PROGRAM**

*Adds federal banks and out-of-state banks and reinstates federal credit unions to the treasurer’s Community Banking Program’s list of eligible participants*

**§§ 43-48 — TECHNICAL CHANGES**

*Makes technical changes to several banking laws, a securities provision, and a mortgage statute*

**§§ 1-5 & 14 — SURETY BOND CANCELLATIONS**

*Requires all surety bond cancellations to be done electronically for bonds issued to certain banking department regulated entities*

The bill generally requires surety companies to give all their cancellation notices electronically for the bonds they issue to certain banking department regulated entities. More specifically, it requires them to give written cancellation notices through the “system” (i.e., the Nationwide Multistate Licensing System and Registry (NMLS) (CGS § 36a-2)).

The bill applies to bonds issued to the following banking department licensees and others it regulates:

1. mortgage lenders, mortgage correspondent lenders, and mortgage brokers, and specific entities and individuals exempt from licensing as such (e.g., federally-insured banks and credit unions (and certain subsidiaries)) (see CGS §§ 36a-492(a) and 36a-487(a) & (b));
2. mortgage loan originators (see CGS § 36a-492(a));

3. money transmitters (see CGS §§ 36a-597 and 36a-602(a));
4. debt adjusters (see CGS §§ 36a-656 and 36a-664(a));
5. debt negotiators (see CGS § 36a-671d(a));
6. consumer collection agencies (see CGS § 36a-802(a)); and
7. mortgage servicers, including certain mortgage lenders acting as servicers but exempt from licensing as such.

The bill's requirement replaces current law, which (1) only allows surety companies to send cancellations electronically if the bond was issued electronically on NMLS and (2) otherwise requires them to send cancellations by certified mail.

By law, cancellations must be sent at least 30 days before the cancellation date to the bond's principal and the banking commissioner.

EFFECTIVE DATE: October 1, 2024

### **§§ 6-11 — SURETY BOND UPDATES**

*Requires certain banking licensees to update their surety bonds when they change their legal names instead of when they change their office names or addresses*

The bill modifies the circumstances for when certain licensees must update their surety bonds with the banking commissioner. It specifically applies to the following:

1. mortgage lenders, mortgage correspondent lenders, mortgage brokers, and lead generators (see CGS § 36a-490(b)(1));
2. money transmitters (see CGS § 36a-598(d)(1));
3. debt adjusters (see CGS §§ 36a-656 and 36a-658(a));
4. debt negotiators (see CGS § 36a-671(b));
5. mortgage servicers (see CGS § 36a-719a(a)); and
6. consumer collection agencies.

Under existing law, a licensee may change the name or office address on its most recent filing with NMLS if, at least 30 calendar days beforehand, it files the change with the system and the commissioner does not disapprove of the change, in writing, or request more information within the 30-day period.

Generally, under current law, the licensee must also give the commissioner a bond rider or endorsement, or addendum, as applicable, that reflects the new name or address. The bill instead only requires licensees to give the commissioner a bond rider to their surety bonds when they change their legal names.

EFFECTIVE DATE: October 1, 2024

### **§§ 12 & 17-19 — FINANCE ACTIVITY REQUIRING LICENSURE**

*Expands what constitutes sales finance company, small loan, and mortgage servicing activity requiring licensure to when someone receives any payments (including fees) in connection with certain contracts or loans as applicable and makes a similar expansion for education loan servicing licensees and registrants*

The bill expands the types of activities that require someone to obtain certain licenses and registrations under the state's banking laws. Existing law generally prohibits anyone from engaging in the business of a sales finance company or acting as a mortgage servicer without first obtaining a respective license (see CGS §§ 36a-536 and 36a-718). Similarly, certain small loan related actions are prohibited without a license.

Under the bill, sales finance company, small loan, and mortgage servicing activity requiring licensure includes when someone receives any payments (including fees) in connection with, respectively, a retail installment contract or installment loan contract, small loan, and residential mortgage loan, instead of just principal and interest payments under one.

The bill also makes a similar expansion affecting certain education loan servicers. Existing law generally prohibits anyone from acting as a private student loan servicer without a banking department license or acting as a federal student loan servicer unless they are registered as

such on NMLS (see CGS §§ 36a-847 and 36a-847a). The bill changes what is considered “servicing” for these servicers to encompass receiving any payment rather than just scheduled periodic ones and maintaining account records for and communicating with a borrower about his or her loan during any period that payments are not required instead of periods outside of scheduled periodic payments.

Lastly, the bill makes technical and conforming changes.

EFFECTIVE DATE: October 1, 2024

### **§§ 13 & 14 — MORTGAGE LENDER REGISTRATION ON NMLS**

*Requires licensed mortgage lenders to register on NMLS as “exempt mortgage servicer registrants” before acting as mortgage servicers and authorizes the banking commissioner to suspend, revoke, or refuse to renew these registrations*

Existing law exempts certain mortgage lender licensees from having to obtain a separate license to act as a mortgage servicer if they meet certain conditions. The bill generally carries this exemption forward but further requires these lenders to register on NMLS as “exempt mortgage servicer registrants” before acting as mortgage servicers. It relatedly authorizes the banking commissioner to suspend, revoke, or refuse to renew these registrations.

Generally, under current law, any person licensed as a mortgage lender in Connecticut is exempt from mortgage servicer licensure if (1) they act as a mortgage servicer from their lender licensed main office or branch office, (2) they satisfy certain bonding requirements, and (3) their lender license is not suspended. The bill carries the first of these two conditions forward but modifies the third by requiring that their NMLS-associated registration is not suspended.

Lastly, the bill makes technical and conforming changes.

EFFECTIVE DATE: October 1, 2024

### ***Exempt Mortgage Servicer Registration Conditions and Oversight***

Under the bill, exempt mortgage servicer registrations must generally expire at the close of business on December 31 of the year in which they are approved, unless renewed. However, any registration

that is approved on or after November 1 must expire at the close of business on December 31 of the following year. Renewal applications must be filed between November 1 and December 31 of the year in which the registration expires.

The bill requires each applicant for an initial registration or renewal to meet the supplemental mortgage servicer surety bond, fidelity bond, and errors and omissions coverage requirements that apply under existing law to mortgage lenders exempt from mortgage servicer licensure. It further requires applicants to pay to NMLS any required fees or charges and makes all fees nonrefundable.

The bill also expressly authorizes the banking commissioner to suspend, revoke, or refuse to renew any exempt mortgage servicer registration or take any other action under his licensing and registration enforcement authority (see § 16 below). He may only exercise this authority if he finds that the registrant no longer meets the requirements for registration or if the registrant or any control person, trustee, employee, or agent of the registrant has (1) made any material misstatement in an application; (2) committed any fraud or misappropriated funds; or (3) violated any Connecticut banking statute, banking department regulation or order, or any other law applicable to the conduct of the registrant's business.

Additionally, the bill extends to exempt mortgage servicer registrants automatic suspension provisions that apply to mortgage servicer licensees under existing law. It specifically requires the commissioner to automatically suspend the registration when an exempt registrant's fidelity bond or errors and omissions coverage expires or is no longer in effect. However, no automatic suspension or inactivation may occur if, before the bond or coverage cancellation or expiration takes effect, the (1) principal submits a letter of reinstatement of the bond or coverage, or a new bond or coverage, or (2) exempt registrant has ceased business in Connecticut and surrendered its registration. After a registration has been automatically suspended, the commissioner must (1) give the registrant notice of the automatic suspension, pending proceedings for revocation or refusal to renew, and an opportunity for a hearing in

accordance with state banking law, and (2) require the registrant to take or refrain from taking any action the commissioner deems necessary.

### **§§ 15 & 19 — SERVICING PRIVATE STUDENT EDUCATION LOANS**

*Extends private student education loan servicing requirements to any person servicing them instead of just private student education loan servicers*

The bill extends to private education lenders, private education loan creditors, and any other person servicing a private student education loan requirements that apply to private student education loan servicers under existing law. Generally, under these requirements, the entities must give certain information to borrowers and cosigners about (1) borrower and cosigner rights and responsibilities, (2) cosigner release eligibility, and (3) parameters for the cosigner release application process.

The bill adds a new requirement that any person that makes or extends a private student education loan on or after October 1, 2024, to provide options for cosigner release on the loan if certain criteria are met, including 12 consecutive on-time payments by the borrower or if the cosigner becomes totally and permanently disabled.

Additionally, the bill modifies which entities are subject to existing constraints that are carried forward but that currently only apply to private student education loan servicers. These include prohibiting any restriction that permanently prevents a borrower or cosigner from qualifying for a cosigner release or requirements that a borrower make more than 12 consecutive timely payments to be eligible for a cosigner release. The bill specifically prohibits, on and after October 1, 2024, any person that makes, extends, or owns at least one private student education loan, including any private education lender or private education loan creditor, from directly or indirectly taking these actions.

This prohibition also applies to a provision that is similar to one under current law. The latter generally prohibits (1) refusing to release the cosigner from his or her obligation to repay the loan when notified that the cosigner is totally and permanently disabled and (2) requiring that a new cosigner be added to the loan after the original cosigner has

been released. Current law applies this prohibition unless it is otherwise expressly prohibited under the loan agreement's terms. The bill does not carry that exception forward (i.e., under the bill, these actions are prohibited, regardless of the loan agreement's terms).

Lastly, the bill makes minor, technical, and conforming changes.

EFFECTIVE DATE: October 1, 2024

***Application***

Under the bill, "servicing" generally is:

1. receiving any payments from a student loan borrower on a student education loan;
2. applying these payments to a loan;
3. maintaining account records for and communicating with the borrower about the loan during the period when no payments are required;
4. interacting with a borrower to service a loan, including helping a borrower prevent loan defaults; or
5. performing other administrative services on a loan.

By law, a "private student education loan" is any student education loan that is not (1) made under the William D. Ford Federal Direct Loan Program or purchased by the U.S. Department of Education and (2) owned by the U.S. Department of Education.

Under existing law, a "private student education loan servicer" is any person, wherever located, responsible for the servicing of private student education loans to student loan borrowers who live in Connecticut.

The bill does not specifically define "private education lender" or "private education loan creditor." (These terms are defined in a separate banking law, CGS § 36a-856, but the bill does not incorporate them.)



By law, unchanged by the bill, the above requirements do not apply to banks, out-of-state banks with a physical presence in Connecticut, and credit unions; their wholly owned subsidiaries; operating subsidiaries where the owners are wholly owned by the bank or credit union; and the Connecticut Higher Education Supplemental Loan Authority (CHESLA).

## **§ 16 — ENFORCEMENT OVER REGISTRATIONS**

*Extends existing enforcement law so that the banking commissioner may suspend, revoke, or refuse to renew registrations issued by him*

Existing law authorizes the banking commissioner to suspend, revoke, or refuse to renew any license he issues under state law according to notice and hearing procedures. This law also generally establishes processes for him to address when these licenses are surrendered or expire as well as when applications for them are withdrawn. The bill extends this collective enforcement authority to registrations issued by the commissioner. By law, this authority does not apply to the state's securities laws.

EFFECTIVE DATE: October 1, 2024

## **§ 20 — REGISTRATIONS FOR MORTGAGE LICENSE SPONSORS**

*Creates a registration timeline and fee requirements for exempt registrants that sponsor the licensing of a mortgage loan originator or a loan processor or underwriter*

Existing law exempts several different entities from being licensed as a mortgage lender, mortgage correspondent lender, or mortgage broker (e.g., federally insured banks and credit unions, any corporation that makes residential mortgage loans exclusively for the benefit of its employees or agents, and people who make secondary mortgage loans to immediate family members) (see CGS § 36a-487(a) to (c)).

By law, any person who claims such an exemption may register on NMLS as an exempt registrant to sponsor a mortgage loan originator or a loan processor or underwriter. The bill creates a timeline and fee requirements for those who register.

Under the bill, these registrations must generally expire at the close of business on December 31 of the year in which they are approved,

unless renewed. However, any registration that is approved on or after November 1 must expire at the close of business on December 31 of the following year. Renewal applications must be filed between November 1 and December 31 of the year in which the registration expires.

The bill requires each applicant for an initial registration or renewal to pay to NMLS any required fees or charges and makes all fees nonrefundable.

EFFECTIVE DATE: October 1, 2024

## **§ 21 — CONNECTICUT BANK ALTERATIONS OR IMPROVEMENTS**

*Allows Connecticut banks to alter or improve their business real estate without the banking commissioner's written approval if certain criteria are met*

The bill adds a second exception to the state requirement that Connecticut banks obtain the banking commissioner's written approval before altering or improving their business real estate. Under this exception, no approval is needed for altering or improving business real estate that a Connecticut bank, or a corporation controlled by it, already owns or leases so long as the bank is (1) adequately capitalized under federal law and (2) not the subject of a pending formal enforcement action by the banking commissioner or the Federal Deposit Insurance Corporation.

Under existing law, Connecticut banks may generally acquire, alter, or improve real estate for present or future use in the bank's business with the banking commissioner's written approval. However, approval is not required for altering or improving business real estate that the bank, or a corporation controlled by it, already owns or leases if the expenditure for the alterations or improvements does not, in any one calendar year, exceed 5% of the bank's capital and surplus or \$750,000, whichever is less.

The bill also makes technical and conforming changes.

EFFECTIVE DATE: October 1, 2024

### ***Applicability***

By law, a “Connecticut bank” is a Connecticut-chartered or organized bank and trust company, savings bank, or savings and loan association (CGS § 36a-2(13)).

Under existing law and the bill, the requisite level of control needed by a bank for the exceptions to apply to real estate owned or leased by a corporation is at least 51% of the equity securities issued by the corporation, unless the banking commissioner determines that a lesser percentage constitutes effective working control of the corporation (CGS § 36a-276(d)).

Subject to other conditions and provisions, a Connecticut bank is generally considered “adequately capitalized” if it has a:

1. total risk-based capital ratio of at least 8%,
2. Tier 1 risk-based capital ratio of at least 6%,
3. common equity Tier 1 capital ratio of at least 4.5%, and
4. leverage ratio of at least 4% (12 C.F.R. § 324.403(b)).

## **§§ 22-24 — SECURITIES REGULATION**

*Exempts merger and acquisition broker-dealers from state registration requirements, aligning state law with federal law; requires submission of a notice filing form and \$250 fee for Tier 2 securities offerings in the state; broadens the commissioner’s enforcement authority over registered securities broker-dealers, broker-dealer agents, investment advisors, and investment advisor agents to include censure and bar*

### ***Merger and Acquisition Broker-Dealer Registration Exemption (§ 22)***

The bill exempts merger and acquisition (M & A) broker-dealers from state registration requirements, aligning state law with federal law (see 15 U.S.C. § 78o). These broker-dealers work for sellers or buyers in securities transactions only to transfer ownership of eligible privately held companies (e.g., through the purchase, sale, exchange, or issuance of assets) under certain specific conditions. For example, the broker-dealer must reasonably believe that the person acquiring the assets will control the company or its business and be active in its management. Currently, they must register in Connecticut as regular broker-dealers.

Under the bill, the exemption does not apply to an M & A broker-dealer that does any of the following:

1. receives, holds, transmits, or has custody of the funds or securities to be exchanged by the parties to the transaction;
2. on an issuer's behalf, engages in a public offering of any class of securities that must be registered with the Securities and Exchange Commission (SEC) or is subject to certain SEC filing requirements;
3. engages on behalf of any party in a transaction involving a shell company (i.e., one with no or nominal operations and no or nominal assets, only cash or cash equivalent assets, or a combination of these and nominal other assets) other than a business combination related shell company (i.e., a shell company only used to change the nonshell company's domicile in the United States or to complete certain business combination transactions);
4. provides financing related to an eligible privately held company's ownership transfer;
5. helps any party get financing from an unaffiliated third party without complying with associated laws and disclosing compensation in writing to the party;
6. represents both the buyer and seller in the same transaction without clearly disclosing, in writing, the parties the broker-dealer represents and getting written consent from both;
7. facilitates a transaction with a group of buyers that the broker-dealer helped form to acquire the eligible privately held company;
8. engages in a transaction that involves the transfer of ownership of an eligible privately held company to a passive buyer or group of them; or

9. binds a party to an eligible privately held company's ownership transfer.

An M & A broker-dealer is also ineligible for the registration exemption if it (or any officer, director, member, manager, partner, control person, or employee) was subject to certain court or regulatory actions, such as a securities- or finance-related criminal conviction or court injunction or subject to a Department of Banking (DOB) or SEC cease and desist order, registration revocation, or certain other sanctions.

### ***Tier 2 Notice Filing Form and Fee (§ 23)***

The bill requires securities issuers that propose to offer or sell in a Tier 2 offering, within 21 days before the initial sale of securities in Connecticut, to pay a \$250 filing fee and file the following with DOB a:

1. completed Regulation A – Tier 2 notice filing form and, upon the DOB commissioner's request, copies of all documents filed with the SEC related to the form and
2. consent to service of process, unless provided in the notice filing form.

Under the bill, the initial notice filing is effective for 12 months after being filed with DOB. For each additional 12-month period that the same offering is continued, the issuer may renew its notice before it expires by submitting a renewal notice filing form and paying a \$250 fee.

Federal securities laws require security offerings or sales to be registered with the SEC unless they meet an exception. Regulation A is an exception that applies to public offerings, which includes two tiers. A "Tier 2" offering is one of up to \$75 million in a 12-month period.

### ***DOB Registration Enforcement (§ 24)***

The bill expands the DOB commissioner's enforcement authority over registered securities broker-dealers, broker-dealer agents, investment advisors, and investment advisor agents. It allows him to

censure or impose a bar on them for the same reasons existing law allows him to deny, suspend, or revoke their registrations or restrict or condition their securities or investment advisory activities in the state (e.g., certain statutory noncompliance or criminal convictions, subject to certain federal orders, insolvency, supervision failure). This expanded authority also applies to the registrants' partners, officers, or directors, or any person who directly or indirectly controls them.

By law, the commissioner's enforcement actions are subject to an opportunity for a hearing and written findings of fact and conclusions of law.

EFFECTIVE DATE: Upon passage

## **§ 25 — SHARED APPRECIATION AGREEMENT DISCLOSURES**

*Establishes written disclosure requirements for mortgage lenders offering to make residential loans in which the lender receives an interest in the appreciated value of the property*

The bill requires mortgage lenders that offer to make a shared appreciation agreement to give certain written disclosures at least three business days after a prospective borrower applies for the agreement.

By law, a "mortgage lender" is generally someone who makes residential mortgage loans. A "shared appreciation agreement" is a nonrecourse obligation in which money is advanced to a consumer in exchange for an equity interest in a dwelling, residential real estate, or a future obligation to repay when a certain event happens, such as a transfer of ownership, maturity date, borrower's death, or other circumstance outlined and explicitly agreed to (CGS § 36a-485).

The bill's required disclosures include, among other things, an informational statement, the agreement and transaction details, the method of determining the property's fair market value, the interest charged, and repayment examples.

EFFECTIVE DATE: October 1, 2024

### ***Written Disclosures***

The bill requires the following statement to be given and that it is

clear, conspicuous, and in at least 12-point font:

“You are not required to complete this agreement merely because you have received these disclosures or have signed a loan application. If you obtain this loan, the lender will have a mortgage and shared interest in your home. You could lose your home, and any money you have put into it, if you do not meet your obligations under the loan. You may wish to consult an attorney.”

The following must also be disclosed:

1. financial information relevant to the proposed shared appreciation agreement, including whether repayment terminates it, such as through the mortgage lender receiving some or all of the sale proceeds for the dwelling or residential real estate (collectively “property” for the purposes of this bill analysis) that is the subject of the agreement;
2. agreement and transaction details for the agreement, including the mortgage lender’s contact information, transaction amount, cash sum to be paid to the prospective borrower, term of the agreement, and the property’s estimated current fair market value;
3. the method of determining the property’s current fair market value;
4. the method of determining the property’s final value when the agreement is terminated;
5. the interest charged;
6. the limit of the mortgage lender’s share of appreciation or equity in the property; and
7. an advisory on the agreement’s tax implications.

Additionally, repayment examples for the proposed shared

appreciation agreement must be given based on, at least, (1) a five-year, 10-year, 15-year, and 30-year term; (2) no change in the property's market value; and (3) changes in its market value (a) at a 10% annual depreciation rate, 3.5% annual appreciation rate, and 5.5% annual appreciation rate, and (b) reflecting the actual average rate of appreciation or depreciation for all dwellings or residential real estate in Connecticut during the period that is equal to the term of the agreement and that occurred immediately before it.

Lastly, information and corresponding calculations for the proposed agreement must be given on the:

1. calculated appreciation amount,
2. appreciation-based charge,
3. accrued or charged interest,
4. principal amount to be repaid,
5. mortgage lender's total calculated share of appreciation or equity and any limit to that share, and
6. actual amount of money to be paid by the prospective borrower to the lender and an annual percentage rate calculation equivalent to this amount.

## **§§ 26-41 — INNOVATION BANKS**

*Replaces a current type of Connecticut-organized bank ("uninsured bank") with a substantially similar type under a different name ("innovation bank")*

The bill replaces all references to "uninsured banks" in the state's banking laws with "innovation banks." In doing so, it makes all requirements and conditions that apply to uninsured banks under current law apply to innovation banks instead.

The bill defines "innovation bank" similarly to "uninsured bank" (i.e., a Connecticut-chartered or -organized bank and trust company, savings bank, or savings and loan association that does not accept retail deposits). However, whereas, by definition, "uninsured banks" were



not required to have Federal Deposit Insurance Corporation (FDIC) insurance for their deposits, “innovation banks” are instead expressly allowed to accept nonretail deposits that are eligible for FDIC insurance.

Separate from its definition, the bill also authorizes each innovation bank to receive nonretail deposits (including from a corporation that owns the majority of the bank’s shares) and to secure deposit insurance for them, including from the FDIC.

By law, “retail deposits” are deposits by anyone other than accredited investors as defined in federal securities regulations. Generally, “accredited investors” include, among other entities, certain banks, securities brokers or dealers, insurance companies, investment companies, business development companies, qualifying retirement and employee benefit plans, trusts with assets over \$5 million, and people who had an individual income over \$200,000 in the past two years or \$300,000 jointly with a spouse (17 C.F.R. § 230.501(a)).

Lastly, the bill makes several technical and conforming changes.

EFFECTIVE DATE: July 1, 2024

## **§ 42 — COMMUNITY BANKING PROGRAM**

*Adds federal banks and out-of-state banks and reinstates federal credit unions to the treasurer’s Community Banking Program’s list of eligible participants*

Existing law authorizes the treasurer, based on cash availability, to administer a program to reinvest up to \$300 million with community banks and credit unions. The bill increases the pool of financial institutions eligible to participate in the program by:

1. adding federal banks and out-of-state banks and
2. reinstating federal credit unions, which were removed by PA 23-126.

EFFECTIVE DATE: July 1, 2024

## **§§ 43-48 — TECHNICAL CHANGES**

*Makes technical changes to several banking laws, a securities provision, and a mortgage statute*

The bill makes technical changes to several banking laws, a provision in the state's securities laws, and a mortgage statute.

EFFECTIVE DATE: October 1, 2024, except the change to the securities law is effective July 1, 2024.

**COMMITTEE ACTION**

Banking Committee

Joint Favorable Substitute

Yea 8 Nay 4 (03/12/2024)