

CF 7r1322

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**By: Delegates Poole and Opara**

Introduced and read first time: January 29, 1997

Assigned to: Commerce and Government Matters

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## A BILL ENTITLED

1 AN ACT concerning

**2 Credit Unions - Loans to Members, Reserve Fund, and Power to Borrow**

3 FOR the purpose of altering the circumstances under which a credit union may make an  
4 unsecured loan to a member; providing certain exceptions to the requirement that  
5 an application for a loan from a credit union to a member must state the purpose  
6 for which the loan is requested; altering the definition of "risk assets" by excluding  
7 certain additional assets of a credit union from the definition; providing certain  
8 exceptions to the limitation on a credit union's authority to borrow money for longer  
9 than a certain time period; defining a certain term; and generally relating to credit  
10 unions.

11 BY repealing and reenacting, with amendments,  
12 Article - Financial Institutions  
13 Section 6-505, 6-508, 6-602(a), and 6-604  
14 Annotated Code of Maryland  
15 (1992 Replacement Volume and 1996 Supplement)

16 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
17 MARYLAND, That the Laws of Maryland read as follows:

**18 Article - Financial Institutions**

19 6-505.

20 (a) A loan by a credit union to a member shall be secured as required by the  
21 credit union, subject to the provisions of this section.

22 (b) [(1)] A credit union may make a loan [of \$400 or less] to a member without  
23 security[.

24 (2) With the approval of the Commissioner, a credit union may make loans  
25 of \$20,000 or less to members without security] IF:

26 (1) THE COMMISSIONER HAS APPROVED A POLICY FOR THE CREDIT  
27 UNION THAT COVERS ALL UNSECURED LENDING; AND

28 (2) THE LOAN IS MADE IN ACCORDANCE WITH THE APPROVED POLICY.

29 (c) A credit union may accept as security for a loan:

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- 1 (1) An endorsed note;
- 2 (2) A note secured by a recorded first or second lien on real property;
- 3 (3) An assignment of shares or deposits in the credit union; or
- 4 (4) Any other kind of security that is approved by the Commissioner.

5 6-508.

6 Each application for a loan to a member shall be in writing and state:

- 7 (1) The purpose for which the loan is requested, EXCEPT ON
- 8 APPLICATIONS THAT ARE PREPRINTED FOR SPECIFIC LOANS OR APPLICATIONS FOR
- 9 OPEN END CREDIT; and
- 10 (2) The security, if any, that is offered.

11 6-602.

12 (a) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS

13 INDICATED.

14 (2) "CORPORATE CREDIT UNION" MEANS A CREDIT UNION THAT:

15 (I) IS OPERATED PRIMARILY FOR THE PURPOSE OF SERVING

16 OTHER CREDIT UNIONS;

17 (II) IS DESIGNATED BY THE NATIONAL CREDIT UNION

18 ADMINISTRATION AS A CORPORATE CREDIT UNION; AND

19 (III) LIMITS NATURAL PERSON MEMBERS TO THE MINIMUM

20 REQUIRED BY STATE OR FEDERAL LAW TO CHARTER AND OPERATE THE CREDIT

21 UNION.

22 (3) [In this section, "risk assets"] "RISK ASSETS" means all assets of a

23 credit union except:

24 [(1)] (I) Cash;

25 [(2)] (II) Deposits and shares in federally or State insured banks and savings

26 and loan associations;

27 [(3)] (III) Assets that are insured or fully guaranteed by or due from the

28 United States, its agencies, the Federal National Mortgage Association, or the

29 Government National Mortgage Association;

30 [(4)] (IV) Student loans insured under Title IV, Part B of the Higher

31 Education Act of 1965 or a similar State program;

32 [(5)] (V) Loans insured under Title I of the National Housing Act by the

33 Federal Housing Administration;

34 [(6)] (VI) Common trust investments authorized by the Commissioner;

35 [(7)] (VII) Prepaid expenses;

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1 [(8)] (VIII) Accrued interest on any of the investments listed in this  
2 [subsection] PARAGRAPH;

3 [(9) Furniture and equipment; and

4 (10) Real property.]

5 (IX) LOANS TO OTHER CREDIT UNIONS THAT HAVE A REMAINING  
6 MATURITY OF 5 YEARS OR LESS;

7 (X) LOANS THAT HAVE A REMAINING MATURITY OF 3 YEARS OR  
8 LESS AND ARE FULLY INSURED OR GUARANTEED BY THE FEDERAL OR A STATE  
9 GOVERNMENT OR ANY AGENCY OF THE FEDERAL OR A STATE GOVERNMENT;

10 (XI) DEPOSITS AND SHARES IN A CORPORATE CREDIT UNION THAT  
11 HAVE A REMAINING MATURITY OF 5 YEARS OR LESS, OTHER THAN MEMBERSHIP  
12 CAPITAL SHARE DEPOSIT ACCOUNTS AS DEFINED IN 12 C. F. R. § 704;

13 (XII) LOANS THAT ARE FULLY SECURED BY A PLEDGE OF SHARES IN  
14 THE LENDING CREDIT UNION, EQUAL TO AND MAINTAINED AT AN AMOUNT THAT IS  
15 AT LEAST THE AMOUNT OF THE LOAN OUTSTANDING;

16 (XIII) LOANS THAT ARE PURCHASED FROM LIQUIDATING CREDIT  
17 UNIONS AND GUARANTEED BY ANY INSURER OF SHARES OR DEPOSITS;

18 (XIV) NATIONAL CREDIT UNION SHARE INSURANCE FUND  
19 GUARANTY ACCOUNTS ESTABLISHED WITH THE AUTHORIZATION OF THE  
20 NATIONAL CREDIT UNION ADMINISTRATION UNDER THE AUTHORITY OF § 208(A)(1)  
21 OF THE FEDERAL CREDIT UNION ACT;

22 (XV) INVESTMENTS IN SHARES OF THE NATIONAL CREDIT UNION  
23 ADMINISTRATION CENTRAL LIQUIDITY FACILITY;

24 (XVI) ASSETS INCLUDED IN ITEMS (IX) AND (XI) OF THIS PARAGRAPH  
25 THAT HAVE MATURITIES GREATER THAN 5 YEARS IF:

26 1. THE ASSET IS BEING CARRIED ON THE CREDIT UNION'S  
27 RECORDS AT THE LOWER OF COST OR MARKET, OR IS BEING MARKED TO MARKET  
28 VALUE MONTHLY; OR

29 2. A. THE INTEREST RATE IS RESET AT LEAST ANNUALLY;

30 B. THE INTEREST RATE OF THE INSTRUMENT IS LESS THAN  
31 THE MAXIMUM ALLOWABLE INTEREST RATE FOR THE INSTRUMENT ON THE DATE  
32 OF THE REQUIRED RESERVE TRANSFER; AND

33 C. THE INTEREST RATE OF THE INSTRUMENT VARIES  
34 DIRECTLY, AND NOT INVERSELY, WITH THE INDEX ON WHICH IT IS BASED AND IS  
35 NOT RESET AS A MULTIPLE OF THE CHANGE IN THE RELATED INDEX;

36 (XVII) INVESTMENTS IN FIXED ASSETS AS DEFINED IN THE CODE OF  
37 MARYLAND REGULATIONS (COMAR) 09.03.01.18; AND

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1 (XVIII) DEPOSITS IN A CREDIT UNION SHARE AND DEPOSIT INSURER  
2 REPRESENTING AN INSURED CREDIT UNION'S CAPITALIZATION ACCOUNT BALANCE  
3 OF 1 PERCENT OF INSURED SHARES.

4 6-604.

5 (A) (1) A credit union may borrow money for not longer than 1 year from any  
6 source, including another credit union, as long as the total borrowing does not exceed 50  
7 percent of the paid-in and unimpaired capital and surplus of the borrowing credit union.

8 (2) The 1-year period may be extended for an additional year with the  
9 approval of the Commissioner.

10 (B) NOTWITHSTANDING SUBSECTION (A) OF THIS SECTION, A CREDIT UNION  
11 MAY BORROW MONEY FOR LONGER THAN 1 YEAR:

12 (1) TO PURCHASE FIXED ASSETS, WITH THE APPROVAL OF THE  
13 COMMISSIONER; OR

14 (2) IF THE LOAN IS OBTAINED FROM A FEDERAL HOME LOAN BANK.

15 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
16 October 1, 1997.