

IN THE SENATE

SENATE BILL NO. 1048

BY COMMERCE AND HUMAN RESOURCES COMMITTEE

AN ACT

1 RELATING TO CREDIT UNIONS; AMENDING SECTION 26-2113A, IDAHO CODE, TO RE-
2 VISE PROVISIONS REGARDING ANNUAL MEMBERSHIP MEETINGS; AMENDING SECTION
3 26-2114, IDAHO CODE, TO REVISE PROVISIONS REGARDING A CERTAIN RATING
4 AND TO MAKE TECHNICAL CORRECTIONS; AMENDING SECTION 26-2121A, IDAHO
5 CODE, TO REVISE PROVISIONS REGARDING THE SUPERVISORY COMMITTEE OF A
6 CREDIT UNION AND TO MAKE A TECHNICAL CORRECTION; AND AMENDING SECTION
7 26-2156, IDAHO CODE, TO REVISE PROVISIONS REGARDING BOND COVERAGE.
8

9 Be It Enacted by the Legislature of the State of Idaho:

10 SECTION 1. That Section 26-2113A, Idaho Code, be, and the same is hereby
11 amended to read as follows:

12 26-2113A. ANNUAL MEMBERSHIP MEETINGS. (1) A credit union's annual
13 membership meeting shall be held in ~~the community one of its principal place~~
14 ~~of business within this state, the communities where it maintains a branch~~
15 ~~to serve its members at such time as the bylaws prescribe, and shall be~~
16 ~~conducted according to the rules of procedure approved by the board. The~~
17 ~~director may, upon written request of a credit union's board of directors,~~
18 ~~authorize a credit union's annual membership meeting to be held outside of~~
19 ~~the community of its principal place of business. Written requests from~~
20 ~~the credit union's board of directors shall not include holding the credit~~
21 ~~union's annual meeting outside the state of Idaho unless a majority of the~~
22 ~~credit union's membership resides in another state.~~

23 (2) Notice of the annual membership meetings of a credit union shall be
24 given as provided in the bylaws of the credit union.

25 SECTION 2. That Section 26-2114, Idaho Code, be, and the same is hereby
26 amended to read as follows:

27 26-2114. BOARD OF DIRECTORS -- ELECTION OF DIRECTORS -- TERMS -- VA-
28 CANCIES -- MEETINGS -- RULES. (1) The business and affairs of a credit union
29 shall be managed by a board of no fewer than five (5) and no more than fifteen
30 (15) directors.

31 (2) The directors must be elected by and from the membership in con-
32 junction with the credit union's annual membership meeting. They shall hold
33 their offices until their successors are elected or appointed.

34 (3) Directors shall be elected to terms of between one (1) and three (3)
35 years, as provided in the bylaws. If the terms are longer than one (1) year,
36 the directors must be divided into classes, and an equal number of directors,
37 as nearly as possible, must be elected each year.

38 (4) Except as provided in subsection (5) of this section, any vacancy on
39 the board must be filled by an interim director appointed by the board, un-
40 less the interim director would serve a term of fewer than ninety (90) days.

1 Interim directors appointed to fill vacancies created by expansion of the
2 board will serve until the next annual meeting of members. Other interim di-
3 rectors will serve out the unexpired term of the former director, unless pro-
4 vided otherwise in the credit union's bylaws.

5 (5) In the case of a merger between two (2) credit unions pursuant to
6 section 26-2132, Idaho Code, a board member of the merging credit union may
7 continue to serve as a board member of the continuing credit union for a pe-
8 riod not to exceed the equivalent of the duration of his or her unexpired term
9 on the board of the merging credit union, provided that the approved plan of
10 merger or other agreement approved by the director provides for such service
11 on the continuing credit union's board, with a corresponding expansion in
12 the size of the continuing credit union's board not to exceed the limits un-
13 der subsection (1) of this section.

14 (6) (a) The board must have at least six (6) regular meetings each year,
15 with at least one (1) of these meetings held in each calendar quarter.
16 The board meetings must be held in the community of the credit union's
17 principal place of business within this state. The director may, upon
18 written request of a credit union's board of directors, authorize a
19 credit union's board meetings to be held at another location. Written
20 requests from the credit union's board of directors shall not include
21 holding the credit union's board meeting outside the state of Idaho
22 unless a majority of the credit union's membership resides in another
23 state.

24 (b) The director may require the board to meet more frequently than six
25 (6) times per year if the director finds it necessary in order to address
26 matters the director determines necessitate more frequent meetings in-
27 cluding, without limitation, evidence of any of the following:

28 (i) The credit union's current composite capital adequacy, as-
29 set quality, management, earnings, liquidity, and sensitivity to
30 market risk (CAMELS) rating issued by the director is a "3," "4" or
31 "5";

32 (ii) The credit union's current management component CAMELS rat-
33 ing issued by the director is a "3," "4" or "5";

34 (iii) The credit union's net worth ratio is less than seven percent
35 (7%);

36 (iv) The credit union is currently in a troubled condition;

37 (v) In the judgment of the director, the credit union has commit-
38 ted an unsafe or unsound practice that has not been corrected to
39 the satisfaction of the director and that continues to be a concern
40 to the director, or the credit union is about to commit an unsafe or
41 unsound practice; or

42 (vi) The credit union has been notified in writing by the director
43 of a significant supervisory or financial concern.

44 (c) If the director determines, as set forth in paragraph (b) of this
45 subsection, that a board of directors must meet more frequently than as
46 set forth in paragraph (a) of this subsection, the director will send
47 written notice to the board chair, with a copy to the credit union's
48 manager, setting forth the director's findings underlying the determi-
49 nation and the required frequency of the board of directors' meetings.

1 This notice will remain in effect until rescinded in writing by the di-
2 rector.

3 SECTION 3. That Section 26-2121A, Idaho Code, be, and the same is hereby
4 amended to read as follows:

5 26-2121A. SUPERVISORY COMMITTEE DUTIES. (1) The supervisory commit-
6 tee of a credit union shall:

7 (a) Meet at least quarterly;

8 (b) Keep fully informed as to the financial condition of the credit
9 union and the decisions of the credit union's board;

10 (c) Perform or arrange for an annual audit of the credit union's finan-
11 cial statements and provide any related findings and recommendations to
12 the board;

13 (d) Make or cause to be made a verification of member accounts as fol-
14 lows:

15 (i) At least annually by statistical sampling, with the sampling
16 method to provide for:

17 1. Random selection;

18 2. A sample that is representative of the population from
19 which it was selected;

20 3. An equal chance of selecting each dollar in the popula-
21 tion;

22 4. Sufficient accounts in both number and scope on which to
23 base conclusions concerning management's financial report-
24 ing objectives; and

25 5. Additional procedures to be performed if evidence pro-
26 vided by confirmation alone is not sufficient; or

27 (ii) At least annually by nonstatistical sampling conducted by
28 an independent person licensed as an accountant in the state of
29 Idaho, ~~using a sampling method as set forth in subparagraph (i)~~
30 ~~of this paragraph~~ and nonstatistical sampling methods consistent
31 with generally accepted auditing standards if such methods pro-
32 vide for:

33 1. Sufficient accounts in both number and scope on which to
34 base conclusions concerning management's financial report-
35 ing objectives to provide assurance that the general ledger
36 accounts are fairly stated in relation to the financial
37 statements taken as a whole;

38 2. Additional procedures to be performed by the accountant
39 if evidence provided by confirmations alone is not suffi-
40 cient; and

41 3. Documentation of the sampling procedures used and of
42 their consistency with generally accepted auditing stan-
43 dards, to be provided to the department upon request; or

44 (iii) At least ~~each~~ every two (2) years by controlled verification
45 of all member accounts;

46 (e) Review or arrange to have reviewed annually the effectiveness of
47 the credit union's internal controls;

48 (f) Report its findings and recommendations to the board;

1 (g) Provide an annual written report to members at each annual member-
2 ship meeting on the credit union's financial condition;

3 (h) Perform or arrange for additional audits as requested by the board
4 or management or as deemed necessary by the supervisory committee and
5 provide any related findings and recommendations to management or the
6 board as deemed appropriate by the supervisory committee;

7 (i) Monitor the implementation of management responses to material ad-
8 verse findings in audits and regulatory examinations;

9 (j) Implement a process for the supervisory committee to receive and
10 respond to whistleblower complaints; and

11 (k) Perform any additional duties as specified by the board or in the
12 credit union's bylaws.

13 (2) The supervisory committee may in its sole discretion retain, at the
14 credit union's expense, independent counsel or other professional advisors
15 or consultants as necessary to perform the duties under this section.

16 SECTION 4. That Section 26-2156, Idaho Code, be, and the same is hereby
17 amended to read as follows:

18 26-2156. BOND COVERAGE. (1) Each credit union must be adequately in-
19 sured against risk. The board of directors of each credit union must at least
20 annually review its bond and other insurance coverage to ensure that it is
21 adequate in relation to the potential risks facing the credit union and the
22 minimum requirements set by the board.

23 (2) Each credit union must purchase a blanket fidelity bond that:

24 (a) Covers the officers, employees, directors, members of official
25 committees, attorneys and other agents;

26 (b) Covers against loss caused by fraud, ~~and dishonesty, burglary, rob-~~
27 ~~bery, larceny, theft, forgery or alterations of instruments, misplace-~~
28 ~~ment or mysterious disappearance, and for faithful performance of duty;~~
29 and

30 (c) Has the following required minimum dollar amount of coverage:

31 Assets	Minimum Bond
32 \$0 to \$4,000,000	Lesser of total assets or \$250,000
33 \$4,000,001 to \$50,000,000	\$100,000 plus \$50,000 for each
34	million or fraction thereof over
35	\$1,000,000
36 \$50,000,001 to \$500,000,000	\$2,550,000 plus \$10,000 for each
37	million or fraction thereof over
38	\$50,000,000, to a maximum of
39	\$5,000,000
40 Over \$500,000,000	1% of assets rounded to the
41	nearest hundred million, to a
42	maximum of \$9,000,000

43 (3) The maximum amount of allowable deductible is computed based on the
44 credit union's asset size and capital level, as follows:

1	Assets	Maximum Deductible
2	\$0 to \$100,000	No deductible allowed
3	\$100,001 to \$250,000	\$1,000
4	\$250,001 to \$1,000,000	\$2,000
5	Over \$1,000,000	\$2,000 plus .001 of total assets, to a maximum of \$200,000; for credit unions that received a composite capital, asset, management, earnings, liquidity, and sensitivity (CAMELS) rating of "1" or "2" for the last two (2) full examinations and maintained a net worth classification of "well-capitalized" under national credit union administration (NCUA) regulations part 702 for six (6) immediately preceding quarters or, if subject to a risk-based net worth (RBNW) requirement under NCUA regulations part 702, has remained "well-capitalized" for the six (6) immediately preceding quarters after applying the applicable RBNW requirements, the maximum deductible is \$1,000,000
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26 (4) The director may require an additional amount of bond coverage for
 27 a credit union, taking into account the size of the credit union, the credit
 28 union's field of membership, risk level of the credit union, and any other
 29 factors the director finds relevant to the determination of appropriate bond
 30 coverage for a credit union.

31 (5) The board of directors should purchase additional or enhanced cov-
 32 erage when circumstances warrant.

33 (6) If a credit union fails to maintain a blanket fidelity bond in the
 34 amount prescribed by the director, the director may order the credit union
 35 to cease its operations until such time when the credit union obtains the re-
 36 quired bond.

37 (7) When a credit union receives notice that its fidelity bond coverage
 38 will be suspended or terminated, the credit union shall notify the director
 39 in writing no fewer than thirty (30) days prior to the effective date of the
 40 suspension or termination.