

## **IDAPA 12 – IDAHO DEPARTMENT OF FINANCE**

### **Financial Institutions Bureau**

#### **12.01.04 – Rules Pursuant to the Idaho Credit Union Act**

##### **Who does this rule apply to?**

*The rule applies to Idaho state-chartered credit unions.*

##### **What is the purpose of this rule?**

*This rule defines requirements for a charter application, provides that bookkeeping and record keeping services be subject to rule and examination of the department, prohibits misleading advertising, provides requirements for member business loans, restricts preferential loans, and restricts fees that may be received on loans.*

##### **What is the legal authority for the agency to promulgate this rule?**

*This rule implements the following statutes passed by the Idaho Legislature:*

Banks and Banking -

Idaho Credit Union Act:

- [Section 26-2105, Idaho Code](#) – Organization
- [Section 26-2119, Idaho Code](#) – Loans to Members
- [Section 26-2136, Idaho Code](#) – Examination and Fees
- [Section 26-2144, Idaho Code](#) – Administration, Rules and Regulations

##### **Who do I contact for more information on this rule?**

Idaho Department of Finance

800 Park Boulevard, Suite 200

Boise, Idaho 83712

Phone: (208) 332-8000

Fax: (208) 332-8096

Email: [Finance.InternetMail@finance.idaho.gov](mailto:Finance.InternetMail@finance.idaho.gov)

Web: <http://www.finance.idaho.gov>

# *Table of Contents*

---

## **IDAPA 12 – IDAHO DEPARTMENT OF FINANCE**

### **12.01.04 – Rules Pursuant to the Idaho Credit Union Act**

000. Legal Authority. ....	3
001. Title And Scope. ....	3
002. -- 004. (Reserved) .....	3
005. Definitions. ....	3
006. -- 009. (Reserved) .....	3
010. Charter Applications. ....	3
011. -- 019. (Reserved) .....	3
020. Services, Advertising, Reporting Crimes, Bonds. ....	4
021. -- 039. (Reserved) .....	4
040. Member Business Loans. ....	4
041. -- 049. (Reserved) .....	6
050. Nonpreferential Treatment. ....	6
051. -- 059. (Reserved) .....	7
060. Prohibited Fees, Commissions, Compensation. ....	7
061. -- 999. (Reserved) .....	7

# IDAPA 12 – IDAHO DEPARTMENT OF FINANCE

## 12.01.04 – RULES PURSUANT TO THE IDAHO CREDIT UNION ACT

### 000. LEGAL AUTHORITY.

This chapter is promulgated pursuant to Section 26-2144, Idaho Code. (7-1-93)

### 001. TITLE AND SCOPE.

The title of this chapter is the Credit Union Rules of the Idaho Department of Finance; and may be cited as IDAPA 12.01.04, "Rules Pursuant to the Idaho Credit Union Act." These rules implement statutory intent with respect to the regulation and supervision of state chartered credit unions in the state of Idaho. (7-1-93)

### 002. -- 004. (RESERVED)

### 005. DEFINITIONS.

The definitions used in this chapter are as follows: (7-1-93)

01. **Act.** Means the Idaho Credit Union Law, Chapter 21, Title 26, Idaho Code. (7-1-93)
02. **Applicant.** Means a group of persons applying for a credit union charter. (7-1-93)
03. **Department.** Means the Idaho Department of Finance. (7-1-93)
04. **Director.** Means the Director of the Department. (7-1-93)
05. **Corporate Credit Union.** Means a corporate credit union chartered under the provisions of the act. (7-1-93)
06. **Credit Union.** Means a credit union chartered under the provisions of the act. (7-1-93)
07. **NCUA.** Means the National Credit Union Administration. (7-1-93)

### 006. -- 009. (RESERVED)

### 010. CHARTER APPLICATIONS.

01. **Guidelines for Approval of Credit Union Charters.** Each application for a credit union shall set forth or show: (7-1-93)

- a. The proposed name of the credit union; (7-1-93)
- b. The city, county, or area in which the proposed credit union is to hold its charter; (7-1-93)
- c. A description of the common bond for the field of membership of the potential members of the credit union. Said field of membership should indicate that there are enough potential members to allow the proposed credit union to successfully carry on credit union operations; (7-1-93)
- d. That the stability of employment of the potential members of the credit union or that the stability of membership in the association which comprises the common bond of membership is sufficient to allow the credit union to maintain a stable level of participation by members; (7-1-93)
- e. The economic characteristics of the proposed field of membership indicating the ability of members to provide funds in sufficient amounts to carry out the purposes for which the credit union is formed; (7-1-93)
- f. That the persons who form the common bond and potential field of membership of the credit union have indicated sufficient interest in the credit union that the Director may reasonably believe that credit union operations may be carried out successfully. (7-1-93)

### 011. -- 019. (RESERVED)

**020. SERVICES, ADVERTISING, REPORTING CRIMES, BONDS.**

**01. Credit Union Services. (7-1-93)**

**a.** A credit union shall not allow, by contract or otherwise, any credit union bookkeeping or record keeping services for itself, whether on or off premises, unless assurances satisfactory to the Director are provided by both the credit union and the party performing such services, which indicate that the performance thereof will be subject to rule and examination by the Director or his duly authorized representative to the same extent as if such services were being performed by the credit union itself on its own premises. If this service is "on premises" then prior written approval of the Director must be obtained before service is sold or otherwise made available to any outside customer. (3-20-20)

**b.** The assurances referred to above shall be submitted prior to the time the contract or agreement becomes effective in the form of letters from both parties and signed by a duly authorized officer of the credit union and by the party, or duly authorized officer or representative of such party, stating they will perform the services for the credit union, that the credit union and the party performing such services have entered into an agreement, that the performance of the services will be subject to rule and examination by the Director, and that such performance of services will be made available for examination. A copy of the contract or agreement covering these services shall accompany these letters. (7-1-93)

**02. Advertising. (7-1-93)**

**a.** A credit union shall not issue, circulate, or publish any advertisement which misrepresents the nature of its shares, stocks, investments, certificates, or the rights of shareholders in respect thereto. (7-1-93)

**b.** No credit union may in any advertisement: (7-1-93)

**i.** Use the words "chartered by the state of Idaho" unless said credit union has been issued a charter by the Director; (7-1-93)

**ii.** Use the words "National Credit Union Share Insurance Fund" or any facsimile thereof; nor use any insignia, seal, or device whatsoever which represents that the shares or deposits of the credit union are insured by the Administrator, NCUA, unless, in fact, the credit union is so insured. (3-20-20)

**c.** The Director upon written notification to any or all credit unions may require that a true copy of the text of any advertisement be filed with his office at least five (5) days prior to the issuance, circulation, or publication of such advertisement. (7-1-93)

**021. -- 039. (RESERVED)**

**040. MEMBER BUSINESS LOANS.**

**01. Definitions.** For the purposes of this rule, the following definitions apply: (7-1-93)

**a.** The term "member business loan" means any loan, line of credit, or letter of credit, the proceeds of which will be used for a commercial, business, or agricultural purpose, except the following are not considered member business loans for the purpose of this rule: (7-1-93)

**i.** A loan or loans fully secured by a lien on a one to four family dwelling that is either the member's primary residence, or the member's secondary residence. (7-1-93)

**ii.** A loan that is fully secured by shares in the credit union or deposits in other financial institutions. (7-1-93)

**iii.** A loan, the proceeds of which are used for a commercial, business, or agricultural purpose, made to a borrower or an associated member, which, when added to such other loans to the borrower, is less than fifteen thousand dollars (\$15,000). (7-1-93)

iv. A loan, the repayment of which is fully insured or fully guaranteed by, or where there is an advance commitment to purchase in full by, an agency of the federal government or a state or any of its political subdivisions. (7-1-93)

b. "Reserves" means all reserves including the allowance of loan losses account and undivided earnings or surplus. (7-1-93)

c. "Associated Member" means any member with a common ownership, investment or other pecuniary interest in a business or commercial endeavor. (7-1-93)

d. "Immediate Family Member" means a spouse or other family members, related by blood or operation of law, living in the same household. (7-1-93)

**02. Requirements.** A credit union may make member business loans only in accordance with the following requirements: (7-1-93)

a. **Written Loan Policies.** Except as provided in this section, the board of directors must adopt specific business loan policies within sixty (60) days of the effective date of this rule and review them at least annually. A credit union must submit the proposed written policies, and any future amendments to the policies, to the Director for approval at least thirty (30) days prior to the proposed date of implementation of the member business loan program or amendments. Any credit union that is NCUA insured must also provide notice and a copy of the loan policies or amendments to the appropriate NCUA regional office within thirty (30) days before adoption and implementation of the policies or amendments. (7-1-93)

b. Credit Unions that do not intend to make member business loans do not have to adopt and implement these policies. However, if such a credit union decides to begin making member business loans at some time in the future, the requirements of this section will apply, except that the specific business loan policies must be adopted and implemented no less than thirty (30) days before any member business loan is made that, at a minimum, address the following: (3-20-20)

i. Types of business loans that will be made. (7-1-93)

ii. The credit union's trade area for business loans. (7-1-93)

iii. Maximum amount of the credit union's assets in relationship to reserves that will be invested in business loans, not to exceed three hundred percent (300%). (7-1-93)

iv. Maximum amount of credit union assets in relationship to reserves that will be invested in a given category or type of business loan. (7-1-93)

v. Maximum amount of credit union assets, in relation to reserves, that will be loaned to any one (1) member or group of associated members. (7-1-93)

vi. Qualifications and experience of personnel involved in making and administering business loans. (7-1-93)

vii. Analysis of ability of the borrower to repay the loan. (7-1-93)

viii. The following considerations shall be addressed unless the board of directors finds that they are not appropriate for a particular type of business loan and states the reasons for those findings in the credit union's written policies: balance sheet, trend and structure analysis; ratio analysis of cash flow, income and expenses, and tax data; leveraging; comparison with industry averages; receipt and periodic updating of financial statements and other documentation, including tax returns. (7-1-93)

ix. Collateral requirements, including loan-to-value ratios; appraisals, title search and insurance requirements; steps to be taken to secure various types of collateral; and how often the value and marketability of

- collateral is to be reevaluated. (7-1-93)
- x. Appropriate interest rates and maturities of business loans. (7-1-93)
  - xi. Loan monitoring, servicing, and follow-up procedures, including collection procedures. (7-1-93)
- c.** Loans to One (1) Member. The following restrictions apply to credit unions loans to one (1) member. (7-1-93)
- i. The aggregate amount of outstanding member business loans to any one (1) member or group of associated members shall not exceed twenty percent (20%) of the credit union's reserves. (7-1-93)
  - ii. If any portion of a member business loan is fully secured by a one (1) to four (4) family dwelling that is the member's primary residence or secondary residence, or by shares in the credit union or deposits in another financial institution, or insured or guaranteed by, or subject to an advance commitment to purchase by, any agency of the federal government or of a state or any of its political subdivisions, such portion shall not be calculated in determining the twenty percent (20%) limit. (7-1-93)
  - iii. Credit unions seeking an exception from the twenty percent (20%) limit must present to the Director the higher limit sought, an explanation of the need to raise the limit, an analysis of the credit union's prior experience making member business loans, and a copy of its business lending policy. In addition, at the same time this information is presented to the Director, any credit union that is NCUA insured must also submit a copy of the information to the appropriate NCUA regional office for its review and comment. (3-20-20)
  - iv. Any decision by the Director to grant any request to exceed the twenty percent (20%) loan-to-one borrower's limit will be made only after consultation and coordination with NCUA. (7-1-93)
- d.** Allowance for Loan Losses. The determination of whether a member business loan will be classified as substandard, doubtful, or loss will rely on factors not limited to the delinquency of the loan. Non-delinquent loans may be classified, depending on an evaluation of factors including, but not limited to, the adequacy of analysis and documentation. (7-1-93)
- e.** Loans classified shall be reserved as follows: (7-1-93)
    - i. Loss loans at one hundred percent (100%) of outstanding amount; (7-1-93)
    - ii. Doubtful loans at fifty percent (50%) of outstanding amount; and (7-1-93)
    - iii. Substandard loans at ten percent (10%) of outstanding amount, unless other factors (e.g., history of such loans at the credit union) indicate that a greater or lesser amount is appropriate. (7-1-93)
- 03. Prohibitions.** A credit union may not make member business loans to the following nonvolunteer, senior management employees, or to any associated member or immediate family member of such employees: (7-1-93)
- a.** The credit union's chief executive officer; typically this individual holds the title of president, treasurer, or manager. (7-1-93)
  - b.** Any assistant chief executive officers; often the assistant manager. (7-1-93)
  - c.** The chief financial officer or comptroller. The credit union shall not grant a member business loan where any provision for the payment, or the amount of the payment, on the loan is conditioned on the profitability or success of the business or commercial endeavor for which the loan is made. (7-1-93)

**041. -- 049. (RESERVED)**

**050. NONPREFERENTIAL TREATMENT.**

**01. Nonpreferential Treatment.** The rates, terms, and conditions on any loan or line of credit either made to, or endorsed or guaranteed by: (7-1-93)

**a.** An official; (7-1-93)

**b.** An immediate family member of an official; or (7-1-93)

**c.** Any individual having a common ownership, investment, or other pecuniary interest in a business enterprise with an official or with an immediate family member of an official, cannot be more favorable than the rates, terms, and conditions for comparable loans or lines of credit to other credit union members. "Official" means any member of the board of directors, credit committee, or supervisory committee. "Immediate family member" means a spouse or other family members, related by blood or operation of law, living in the same household.(7-1-93)

**051. -- 059. (RESERVED)**

**060. PROHIBITED FEES, COMMISSIONS, COMPENSATION.**

A credit union may not make any loan or extend any line of credit if, either directly or indirectly, any commission, fee, or other compensation is to be received by the credit union's directors, committee members, senior management employees, loan officers, or any immediate family members of such individuals, in connection with underwriting, insuring, servicing, or collecting the loan or line of credit. However, salary for employees is not prohibited by this section. "Senior management employees" refers to those employees described in Subsection 040.03 of these rules. "Immediate family member" means a spouse, or other family members, related by blood or operation of law, living in the same household. (3-20-20)

**061. -- 999. (RESERVED)**

# ***Subject Index***

## **C**

- Charter Applications 3
- Guidelines for Approval of Credit Union Charters 3

## **D**

- Definitions, IDAPA 12.01.04 3
- Act 3
- Applicant 3
- Corporate Credit Union 3
- Credit Union 3
- Department 3
- Director 3
- NCUA, National Credit Union Administration 3

## **L**

- Legal Authority 3

## **M**

- Member Business Loans 4
- Definitions 4
- Prohibitions 6
- Requirements 5

## **N**

- Nonpreferential Treatment 6
- Nonpreferential Treatment 7

## **P**

- Prohibited Fees, Commissions, Compensation 7

## **S**

- Services, Advertising, Reporting
- Crimes, Bonds 4
- Advertising 4
- Credit Union Services 4

## **T**

- Title & Scope 3