Arizona State Senate
Issue Brief

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Note to Reader:

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Credit Unions

INTRODUCTION

A credit union is a member-owned, not-for-profit financial cooperative that is created for and operated by its members. Profits earned by credit unions are shared with their members, typically in the form of higher savings and interest rates than those found at traditional banks and other types of financial institutions. Generally, to become a member of a credit union, one simply needs to open an account and deposit a predetermined amount of money with that particular credit union. Some credit unions may limit their membership to only those individuals belonging to a specific community, church, employer or other type of affinity group, while others have broader membership criteria.

The first established credit unions were founded in Germany during the 19th century as a way to provide farmers with a means of purchasing livestock, equipment and other essentials on credit. Debts owed on these purchases would be repaid whenever a farmer earned sufficient profits from the yield of a crop or other activities. This concept originated in part from a major crop failure that occurred in 1846, which prevented farmers from acquiring the funds necessary to continue to operate. Some distinguishing features of early credit unions were democratic governance, including member-elected boards of directors, and a volunteer-based, not-for-profit structure – features that continue to characterize credit unions to this day.[1]

According to the National Credit Union Administration, there were 5,954 federal and state-chartered credit unions operating in the United States at the end of the first quarter of 2016, with more than $1.2 trillion in combined assets and nearly 104 million members.[2] Currently, there are 19 state-chartered credit unions in Arizona, with more than $7.2 billion in combined assets and more than 646,000 members (See Table 1).[3, 4] Although the total number of active credit unions in the United States has declined in recent years, both membership and asset growth have continued to steadily increase for both federal and state-chartered credit unions.

[1] National Credit Union Administration (NCUA), A Brief History of Credit Unions
[2] NCUA, NCUA Reports Continued Credit Union Loan Growth in First Quarter of 2016
[3] NCUA, Research a Credit Union
[4] Arizona Department of Financial Institutions (DFI), Credit Unions (State-Chartered)

Table 1: Arizona State-Chartered Credit Unions

State-Chartered Credit Union	Total Assets	Total Membership
Alhambra	$22,390,746	4,513
Altier	$185,111,398	18,404
American Southwest	$207,579,824	21,503
Arizona Central	$447,210,972	59,308
Canyon State	$186,007,124	16,347
Cochise	$30,960,409	4,288
Credit Union West	$605,410,812	59,133
Deer Valley	$225,481,349	16,031
First	$443,914,611	40,727
First American	$105,279,889	19,286
Japanese American Citizens League (JACL)	$566,952	180
Landings	$149,770,477	14,162
OneAZ (formerly Arizona State Credit Union)	$1,862,594,621	138,543
San Tan	$9,419,404	1,407
Southwest Health Care	$15,179,018	2,057
Truwest	$949,212,106	76,181
Tucson Old Pueblo	$140,723,315	12,564
Vantage West	$1,606,712,614	139,769
Winslow Santa Fe	$13,376,427	1,863
TOTAL	$7,206,902,068	646,266
Source: http://mapping.ncua.gov/ResearchCreditUnion.aspx		

FUNCTION AND STRUCTURE

Similar to banks, credit unions serve their members chiefly through managing checking and savings accounts, as well as offering loans and lines of credit. Unlike banks, however, credit unions are not-for-profit financial institutions whose excess revenues are returned to their members, rather than paid out to shareholders in the form of dividends. This is accomplished primarily through higher interest rates on savings, and lower loan rates on automobile and home loans. The reported national average savings interest rate is 0.13 percent for credit unions, and 0.12 percent for banks. Other figures include certificates of deposit (0.49 percent for credit unions, versus 0.37 percent for banks on one-year certificates), 30-year mortgage loan rates (3.84 percent for credit unions, versus 4.02 percent for banks), and auto loans (2.79 percent for credit unions, versus 5.14 percent for banks on 48-month used car loans).[5]

[5] MyCreditUnion.Gov, Credit Union & Bank Interest Rate Comparison

Also critical to the credit union concept is the member-elected board of directors. Each member typically has one vote when electing individuals to the board of directors of a credit union. The board sets union policy, interest and loan rates and general operating procedures. In most cases, the board serves on a volunteer basis without monetary compensation and hires a management team to execute its actions. Current Arizona law states that the board of directors of a state-chartered credit union must consist of at least five member-elected individuals.[6]

FEDERALLY-CHARTERED VERSUS STATE-CHARTERED

The laws and regulations governing a federally-chartered versus a state-chartered credit union are largely similar. The most significant differences are found in certain discrepancies that occur when changes to federal law are not applicable to state law. In most cases, parity with changes to federal law is granted, as long as a state's laws are silent on a particular issue. However, limitations and regulations spelled out in state law supersede federal law when having to do with state-chartered credit unions. For instance, recent changes to federal law that went into effect on October 2, 2015, removed the fixed asset investment cap for federally-chartered credit unions.[7] Since Arizona had a fixed asset investment cap set in statute until August 6, 2016, this change to federal law did not apply to state-chartered credit unions in Arizona, but was nevertheless subsequently made by Laws 2016, Chapter 332 (H.B. 2471).[8] Generally, state-chartered credit unions must appeal with state government if parity with federal law is desired.

BOARD COMPENSATION

Federal law currently prohibits the board of directors of a federally-chartered credit union from receiving monetary compensation, with the exception of insurance and reimbursement for expenses incurred during board service.[9] Members of the board of a state-chartered credit union, however, may receive monetary compensation if such compensation is permitted under state law. Currently, states that permit credit unions to compensate board members include: 1) Arizona; 2) Georgia; 3) Indiana; 4) Kentucky; 5) Maryland; 6) Minnesota; 7) North Dakota; 8) Oregon; 9) Pennsylvania; 10) Rhode Island; 11) Tennessee; 12) Texas; 13) Washington; and 14) Wisconsin. Although credit unions in these states are permitted to compensate board members, not many do. Compensation for board members in these states generally ranges from less than $200 to more than $12,000.

Laws 2016, Chapter 332 (H.B. 2471), allows an Arizona state-chartered credit union to compensate the members of its board of directors, specifying that life, health and similar insurance is not considered compensation. Prior to the passage of this law, such forms of insurance were the only permissible form of compensation allowed under Arizona law.[10]

NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) was established March 10, 1970, as an independent regulatory agency of the executive branch of the federal government. The NCUA's primary duties involve the chartering, insuring, supervising and examining of federally-chartered credit unions, as well as administering the National Credit Union Share Insurance Fund (NCUSIF). Similar to the Federal Deposit Insurance Corporation (FDIC), which insures an individual bank account up to $250,000, the NCUSIF insures any one-member account of a credit union up to $250,000. Although the NCUA primarily regulates and insures federally-chartered credit unions, state-chartered credit unions may also be insured by the NCUSIF, provided that they meet the NCUA's insurance standards. State-chartered credit unions also

[6] A.R.S. § 6-506
[7] NCUA Supervisory Letter: Fixed Asset Management
[8] Laws 2016, Chapter 332
[9] 12 C.F.R. § 701.33
[10] Laws 2016, Chapter 332

have the option of being insured through private entities or guaranty corporations. However, private insurance coverage, unlike that of the FDIC and the NCUA, is not backed by the full faith and credit of the United States government. As a consequence, the vast majority of state-chartered credit unions are insured through the NCUA, and thus submit to the regulations and examinations required of federal charters. Currently, American Share Insurance (ASI), an Ohio-based private company, is the only major non-federal insurer of credit unions in the United States.[11]

ARIZONA DEPARTMENT OF FINANCIAL INSTITUTIONS

The Arizona Department of Financial Institutions (DFI) is responsible for licensing, supervising, and regulating state-chartered financial institutions, including banks and credit unions. DFI oversees these institutions by evaluating the safety and soundness of their overall financial condition and verifying their compliance with state and federal law. All 19 state-chartered credit unions operating in the State of Arizona fall under DFI jurisdiction. As the state's credit union regulator, DFI is accredited through the National Association of State Credit Union Supervisors (NASCUS). The NASCUS Accreditation Program was adopted in 1989 to administer and assure quality standards for state credit union examination and supervision by regulators. Receiving NASCUS accreditation generally indicates that a state regulator has adopted standardized regulatory procedures and implements these procedures efficiently. As of 1996, DFI is among the 26 state regulatory agencies to be accredited through NASCUS.

ADDITIONAL RESOURCES

- **12 United States Code, Title 12, Chapter 14, Section 1751 et seq.**

- **Arizona Revised Statutes, Title 6, Chapter 4, Section 6-501 et seq.**

- **Arizona Department of Financial Institutions**
  2910 N. 44th Street, Suite 310
  Phoenix, AZ 85018
  (602) 771-2800
  http://www.azdfi.gov

- **National Credit Union Administration**
  Headquarters
  1775 Duke Street
  Alexandria, VA 22314-3428
  (703) 518-6300

  Regional Office
  1230 W Washington St #301
  Tempe, AZ 85281
  (602) 302-6000
  https://www.ncua.gov

- **National Association of State Credit Union Supervisors**
  1655 North Fort Myer Drive, Suite 650
  Arlington, VA 22209
  (703) 528-8351
  http://www.nascus.org/

- **SNL Financial: Business Intelligence Services**
  http://www.snl.com/

- **Credit Union Data and Statistics (CUNA)**
  http://www.cuna.org/Research-And-Strategy/Credit-Union-Data-And-Statistics/

[11] American Share Insurance (ASI)