

SENATE MEMBERS

**Robert Stivers**  
President, LRC Co-Chair  
**David Givens**  
President Pro Tempore  
**Damon Thayer**  
Majority Floor Leader  
**Gerald A. Neal**  
Minority Floor Leader  
**Julie Raque Adams**  
Majority Caucus Chair  
**Reginald Thomas**  
Minority Caucus Chair  
**Mike Wilson**  
Majority Whip  
**David Yates**  
Minority Whip



**LEGISLATIVE RESEARCH COMMISSION**

State Capitol 700 Capital Avenue Frankfort KY 40601

**502-564-8100**

Capitol Fax 502-564-2922

Annex Fax 502-564-6543

legislature.ky.gov

**Jay D. Hartz**  
Director

HOUSE MEMBERS

**David W. Osborne**  
Speaker, LRC Co-Chair  
**David Meade**  
Speaker Pro Tempore  
**Steven Rudy**  
Majority Floor Leader  
**Derrick Graham**  
Minority Floor Leader  
**Suzanne Miles**  
Majority Caucus Chair  
**Cherlynn Stevenson**  
Minority Caucus Chair  
**Jason Nemes**  
Majority Whip  
**Rachel Roberts**  
Minority Whip

**MEMORANDUM**

TO: Kathryn Adams-Cornett, Staff Attorney, Department of Financial Institutions

FROM: Emily Caudill, Regulations Compiler

RE: Proposed Amendment or New Regulation – 808 KAR 003:050 & 808 KAR 015:050

DATE: July 15, 2024

A copy of each administrative regulation listed above is enclosed for your files. These regulations are tentatively scheduled for review by the Administrative Regulation Review Subcommittee at its **OCTOBER 2024** meeting. We will notify you of the date and time of this meeting once it has been scheduled.

Pursuant to KRS 13A.280, *if* comments are received during the public comment period, a Statement of Consideration or a one-month extension request for these regulations is due **by noon on October 15, 2024**. Please reference KRS 13A.270 and 13A.280 for other requirements relating to the public hearing and public comment period and Statements of Consideration.

If you have questions, please contact us at RegsCompiler@LRC.ky.gov or (502) 564-8100.

Enclosures

1 PUBLIC PROTECTION CABINET

2 Department of Financial Institutions

3 Division of Depository Institutions

4 (Amendment)

5 808 KAR 3:050. Conduct of credit unions.

6 RELATES TO: KRS 286.6-095, 286.6-100, 286.6-225, 286.6-585, 286.6-715, 12 C.F.R. Part 701,  
7 12 C.F.R. Part 702, 12 C.F.R. Part 704, 12 C.F.R. Part 705, 12 C.F.R. Part 723, 20 U.S.C. 1071.

8 STATUTORY AUTHORITY: KRS 286.1-020, 286.6-070, 286.6-095, 286.6-100

9 NECESSITY, FUNCTION, AND CONFORMITY: KRS 286.6-070 authorizes the Department  
10 of Financial Institutions to promulgate administrative regulations necessary for the proper conduct  
11 and regulation of credit unions. This administrative regulation establishes requirements to ensure  
12 the proper conduct of credit unions. KRS 286.6-095 states that, notwithstanding any other  
13 provision of law, the commissioner may make reasonable rules authorizing credit unions to  
14 exercise any of the powers conferred upon federal credit unions if the commissioner deems it  
15 reasonably necessary for the well-being of such credit unions. This administrative regulation  
16 enables the Department of Financial Institutions to recognize the National Credit Union  
17 Administration's low-income designation of state-chartered credit unions and affirms the ability  
18 of these credit unions to avail themselves of the low-income designation benefit of accepting non-  
19 member deposits.

20 Section 1. Definition. A "corporate credit union" means a credit union that:

21 (1) Is operated primarily for the purpose of serving other credit unions;

1 (2) Is designated by the National Credit Union Administration as a corporate  
2 credit union; and

3 (3) Limits natural person members to the minimum required by state or federal law to  
4 charter and operate the credit union.

5 Section 2. Refund of Interest. When an interest refund is authorized by the board of directors under  
6 KRS 286.6-225(3), it shall be recorded in the books of the credit union as a reduction of interest  
7 income from loans for that year or period.

8 Section 3. Fidelity Bond.

9 (1) The minimum blanket fidelity bond required by KRS 286.6-225(2) shall be as follows:

Assets	Minimum Bond
\$0 to \$10,000	Amount equal to the credit union's assets
\$10,001 to \$1,000,000	\$10,000 for each \$100,000 or fraction thereof
\$1,000,001 to \$50,000,000	to \$100,000 plus \$50,000 for each million or fraction thereof over \$1,000,000
\$50,000,001 to \$295,000,000	to \$2,550,000 plus \$10,000 for each million or fraction thereof over \$50,000,000
Over \$295,000,000	\$5,000,000

10

11 (2) The board of directors of every credit union shall review their blanket fidelity bond  
12 coverage at least once each year to ascertain its adequacy.

13 Section 4. Stocks and Bonds. A credit union may invest a maximum of five (5) percent of members'  
14 shares in:

15 (1) Stock of a corporation rated A+ by Standard and Poor's at the date of acquisition of the  
16 stock; and

17 (2) A corporate bond rated AAA or higher by Standard and Poor's, or rated AAA by  
18 Moody's at the date of acquisition of the bond.

1 Section 5. State-chartered credit unions may invest their funds in any investment that is permissible  
2 for a federally chartered credit union under 12 C.F.R. Part 703.

3 Section 6. Risk Asset. For the purpose of establishing the regular reserve, an asset shall be a risk  
4 asset except for the following:

5 (1) Cash on hand;

6 (2) A share or deposit in a federally or state-insured bank, savings and loan  
7 association, or credit union that has a remaining maturity of five (5) years or less;

8 (3) An asset, including a collateralized mortgage obligation that is  
9 comprised of government guaranteed mortgage loans, that has a remaining maturity of  
10 five (5) years or less and is insured by, is fully guaranteed as to principal and interest by,  
11 or is due from the U.S. Government, its agencies, the Federal National Mortgage  
12 Association, Federal Home Loan Mortgage Corporation, or the Government National  
13 Mortgage Association;

14 (4) A loan to another credit union that has a remaining maturity of five (5) years or less;

15 (5) A student loan that has a remaining maturity of five (5) years or less and that is insured  
16 under the provisions of Title IV, Part B of the Higher Education Act of 1965 (20 U.S.C.  
17 1071, et seq.) or similar state insurance programs;

18 (6) A loan that has a remaining maturity of five (5) years or less and that is fully insured or  
19 guaranteed by the federal or a state government or any agency of either;

20 (7) A share or deposit in a corporate credit union that has a remaining maturity of five (5)  
21 years or less, other than a Membership Capital Share Deposit account as defined in 12  
22 C.F.R. Part 704;

1 (8) A common trust investment, including a mutual fund, which deals exclusively in  
2 investments authorized by the Federal Credit Union Act, 12 U.S.C. 1751 et seq., that are  
3 either carried at the lower cost or market, or are marked to market value monthly;

4 (9) A prepaid expense;

5 (10) Accrued interest on a non-risk investment;

6 (11) A loan fully secured by a pledge of shares in the lending credit union, equal to and  
7 maintained to at least the amount of the loan outstanding;

8 (12) A loan purchased from a liquidating credit union and guaranteed by the  
9 National Credit Union Administration;

10 (13) A National Credit Union Share Insurance Fund Guaranty Account established with  
11 the authorization of the National Credit Union Administration under the authority of  
12 Section 203(a)(1) of the Federal Credit Union Act;

13 (14) An investment in shares of the National Credit Union Administration Central  
14 Liquidity Facility;

15 (15) An asset included in subsections (2), (3), (4), (5), (6), and (7) of this section with a  
16 maturity greater than five (5) years, is not a risk asset if the asset is being carried on the  
17 credit union's records at the lower of cost or market, or is being marked to market value  
18 monthly;

19 (16) An asset included in subsections (2), (3), (4), (5), (6), and (7) of this section, with a  
20 remaining maturity of greater than five (5) years, is not a risk asset, whether or not the asset  
21 is being carried on the credit union's records at the lower of cost or market or is being  
22 marked to market value monthly, provided the asset meets the criteria established in  
23 paragraphs (a) through (c) of this subsection.

1 (a) The interest rate shall be reset at least annually.

2 (b) The interest rate of the instrument shall be less than the maximum allowable  
3 interest rate for the instrument on the date of the required reserve transfer.

4 (c) The interest rate of the instrument varies directly (not inversely) with the index  
5 upon which it is based and is not reset as a multiple of the change in the related  
6 index;

7 (17) A fixed asset that includes an office, branch office, suboffice, service center, parking  
8 lot, or real estate in which the credit union transacts or will transact business; and office  
9 furnishing, office machine, computer hardware and software, automated terminal, and  
10 heating and cooling equipment; and

11 (18) A deposit in the National Credit Union Share Insurance Fund representing a federally  
12 insured credit union's capitalization account balance of one (1) percent of insured shares.

13 Section 7. Charitable Contribution. Only the board of directors shall have the power to authorize  
14 a contribution to a civic, charitable, or service organization.

15 Section 8. Conversion. A state-chartered credit union may convert to another charter.

16 (1) The board of directors shall first put the question of conversion to a vote of the  
17 members. Written notice of the proposed conversion shall be given to all members, which  
18 shall include a statement including the reasons for the proposed conversion. The notice  
19 shall be mailed to the last known address or hand delivered to the members. The notice  
20 shall state the date and place for the meeting called to vote on the proposed conversion,  
21 which shall be at least fifteen (15) days after the date of the notice.

1 (2) Approval of the proposed conversion shall be by a vote of the majority of the members  
2 who vote on the proposed conversion, in person or by absentee ballot if the bylaws of the  
3 credit union allow voting by absentee ballot.

4 (3) A statement of the results of the vote, verified by the president and secretary, shall be  
5 filed with the commissioner.

6 (4) The commissioner shall issue an order to the effect that, on the effective date of the  
7 conversion, the credit union is no longer incorporated under the laws of Kentucky. A copy  
8 of the order shall be forwarded to the Secretary of State.

9 Section 9. Low-Income Designation

10 (1) A credit union chartered by the Commonwealth of Kentucky that is made up of a simple  
11 majority of low-income members, as defined in 12 C.F.R Part 701.34(a)(2), may obtain  
12 low-income designation from the National Credit Union Administration and  
13 concurrence in that designation from the Kentucky Department of Financial  
14 Institutions. In order to obtain that designation, a credit union shall receive approval  
15 from the National Credit Union Administration, either via notification or through the  
16 request process prescribed in 12 C.F.R Part 701.34(3). Following this approval by the  
17 National Credit Union Administration, a credit union shall submit a written request for  
18 concurrence of its low-income designation to the Kentucky Department of Financial  
19 Institutions along with documentation of its low-income designation approval from the  
20 National Credit Union Administration. The Kentucky Department of Financial  
21 Institutions shall issue a concurrence within thirty (30) days of a credit union's  
22 completed submission, if the credit union has demonstrated it has received approval as  
23 a low-income designated credit union from the National Credit Union Administration.

- 1           (2) A credit union that has obtained a low-income designation from the National Credit  
2           Union Administration and subsequent concurrence from the Department of Financial  
3           Institutions may accept non-member deposits from any source except for “public  
4           funds” as defined by KRS 446.010(41).
- 5           (3) A low-income designated credit union that accepts non-member deposits shall be  
6           subject to the non-member share limitations stated in 12 C.F.R Part 701.32(b).
- 7           (4) A low-income designated credit union that accepts non-member deposits shall maintain  
8           eligibility for its low-income designation through continued fulfillment of the  
9           requirements stated in 12 C.F.R Part 701.34.
- 10          (5) A low-income designated credit union that does not maintain eligibility for its low-  
11          income designation shall not be permitted to accept non-member deposits during the  
12          time it is ineligible for a low-income designation.
- 13          (6) A credit union that has obtained low-income designation may:
- 14               (a) Offer secondary capital accounts and include these accounts in the credit  
15               union's net worth subject to the requirements set forth under 12 C.F.R Part 702,  
16               Subpart D,
- 17               (b) Qualify for the exception from the aggregate member business loan limit  
18               outlined in 12 C.F.R Part 723.8(d); and
- 19               (c) Participate in the Community Development Revolving Loan Fund for Credit  
20               Unions subject to the requirements in 12 C.F.R Part 705.



808 KAR 3:050

READ AND APPROVED BY

Mami R. Gibson

Mami R. Gibson, Commissioner

Department of Financial Institutions

7/15/24

DATE

Ray Perry

Ray Perry, Secretary

Public Protection Cabinet

7/15/24

DATE