

Vermont Banking Division

REGULATION B-06-1: Pertaining to State-Chartered Credit Unions

**Effective 8/29/07
(Revised effective July 1, 2014)**

INTRODUCTION: Regulation B-06-1 supersedes former credit union regulation B-83-1, and is promulgated by the Commissioner under the authority established by 8 V.S.A. Section 30203.

Section I. Minimum Bond Coverage

1. The governing body of each credit union shall acquire and maintain a blanket fidelity bond covering the directors, officers, employees, members of official committees, attorneys at law, and other agents with protection against loss to the credit union caused by dishonesty, burglary, robbery, larceny, theft, holdup, forgery or alteration of instruments, misplacement, or mysterious disappearance and for faithful performance of duty. (See Title 8, V.S.A., Sections 31302(3) and 31602(a)). This Section I prescribes the amount of minimum bond coverage required for all credit unions, which in no way absolves the governing body of their responsibility as noted in this regulation and in applicable statute.
2. The governing body of each credit union shall, at least annually, carefully review the bond and insurance coverage in force in order to ascertain its adequacy in relation to the exposure and potential risks facing the credit union and to the minimum requirements set forth herein by the Department of Banking, Insurance, Securities and Health Care Administration (the “Department”).
3. The form of surety bond, at a minimum, shall satisfy the requirements of 8 V.S.A. §31602. The credit union shall receive written confirmation from the bonding company that the surety bond, at a minimum, covers the directors, officers, employees, members of official committees, attorneys at law, and other agents and that the bond provides protection against loss caused by dishonesty, burglary, robbery, larceny, theft, holdup, forgery or alteration of instruments, misplacement or mysterious disappearance, and for faithful performance of duty.
4. The following schedule sets forth the minimum coverage and maximum deductible requirements:

Assets	Coverage	Deductible
0-\$1,000,000	lesser of assets or \$100,000	\$2,000
\$1,000,001-\$4,000,000	\$250,000	\$4,000

\$4,000,001-\$50,000,000	\$250,000 plus \$50,000 for each million or fraction thereof of assets over \$4,000,000	\$2,000 plus 1/1000 of the total assets
Over \$50,000,000	\$2,550,000 plus \$10,000 for each million or fraction thereof of assets over \$50,000,000	\$2,000 plus 1/1000 of the total assets up to a maximum deductible of \$200,000

It shall be the duty of the governing body to provide proper protection to meet potential risks by obtaining adequate bond and insurance coverage in excess of the above minimum requirements when circumstances require such additional coverage.

5. (a) Notwithstanding the minimum coverage requirements set forth in subsection 4 above, the minimum coverage required under this regulation for a credit union shall be increased to be equal to the greater of either of the following amounts:

- (1) The aggregate amount of the daily cash fund (plus maximum anticipated daily money receipts) on the credit union's premises, or
- (2) The aggregate amount of the credit union's money placed in transit in any one shipment.

(b) Such increased limits must be obtained no more than 30 days after the discovery of the need for such increase.

(c) Notwithstanding subsection 5(a), no increase in coverage shall be required when a credit union temporarily increases its cash fund because of an unusual event that cannot reasonably be expected to recur. The Commissioner shall determine whether this subsection applies to a given situation.

6. The Commissioner may require additional coverage for any credit union when, in the Commissioner's opinion, the surety bonds in force are inadequate. The credit union shall obtain such additional coverage within 30 days after the date of written notice.

Section II. Directors Acknowledgment of Report of Examination; Examination Expenses

The Department must receive a properly completed Directors Acknowledgment of Report of Examination, and payment of any invoice for examination expenses, no later than thirty (30) calendar days after the date of the transmittal letter to the credit union accompanying the report of examination or the invoice for examination expenses, as applicable.

Section III. Real Estate Loans

1. A credit union may grant loans or lines of credit secured by an instrument providing a direct lien(s) on real property owned, in whole or in part, by one or more members.
2. Each contract between the credit union and the borrower shall include a provision that the credit union may, at its option, declare immediately due and payable all or any part of the loan if all or any part of the real property securing the loan is sold or transferred by the borrower without the prior written consent of the credit union.

Section IV. Delinquent Loans

A loan shall be deemed delinquent if payment has not been made thereon for a period of two (2) or more months after the most recent contractual payment was due and not paid. In calculating whether a particular loan is delinquent, no consideration is to be given to partial payments, unless in the aggregate they total one or more contractual payment.

Section V. [Reserved]

Section VI - Community Development Credit Unions

1. For purposes of this section and 8 V.S.A. §30101(3):
 - (a) "Low income members" shall include (1) those members whose annual income falls at or below the lower level standard of living classification as established by the Bureau of Labor Statistics and as updated by the Employment and Training Administration of the U.S. Department of Labor, (2) those members who are residents of a public housing project who qualify for such residency because of low income, (3) those members who qualify as recipients in a community action program, and (4) those members who are enrolled as full-time or part-time students in a college, university, high school, or vocational school.
 - (b) "Predominantly" is so defined as a simple majority.
2. A credit union which is designated by the Commissioner as a community development credit union as defined in 8 V.S.A. §30101(3) may receive and hold deposits on account from non-members, provided the National Credit Union Administration concurs with the Commissioner's designation and confirms in writing to the Commissioner that such accounts will be insured to the same extent as member deposits.

3. The burden of demonstrating that a credit union is a community development credit union shall be on the credit union seeking such designation. After receiving such designation, the governing body shall regularly review its membership list, and report on an annual basis to the Commissioner, to ensure that it continues to qualify as a community development credit union.

4. The rate of interest paid on any non-member deposits shall not exceed the rate being paid on member share certificates with similar terms and conditions.

Section VII Fixed Assets

1. Definitions. As used in this section VII:

(a) “Abandoned premises” means real property previously used to transact credit union business but no longer used for that purpose and real property originally acquired for future expansion for which the credit union no longer contemplates such use.

(b) “Fixed assets” means premises, furniture, fixtures and equipment.

(c) “Premises” means any office, branch office, service center, parking lot, other facility, or other real property where the credit union transacts or intends to transact business.

(d) “Furniture, fixtures, and equipment” means all office furnishings, office machines, computer hardware and software, automated terminals, and heating and cooling equipment.

2. (a) A credit union may invest in real property (including both improved or unimproved real property) or leasehold improvements, which the credit union is using or intends to use as its premises, provided the aggregate of all such investments shall not exceed six percent of the credit union’s share accounts and total retained earnings.

(b) Additionally, a credit union may invest in furniture, fixtures, and equipment provided the aggregate of all such investments does not exceed one and one-half percent of the credit union’s share accounts and retained earnings.

3. A credit union shall not exceed the limitations set forth in this section without the express prior written consent of the Commissioner.

4. Premises Not Currently Used To Transact Credit Union Business.

(a) When a credit union acquires premises for future expansion and does not fully occupy the space within one year, the credit union must have a board resolution in place by the end of that year with definitive plans for full occupation. Premises are fully occupied when the credit union, or a combination of the credit union, CUSOs, or vendors,

use the entire space on a full-time basis. CUSOs and vendors must be using the space primarily to support the credit union or to serve the credit union's members. The credit union must make any plans for full occupation available to the Department and its examiner upon request.

(b) When a credit union acquires premises for future expansion, the credit union must partially occupy the premises within one year and must substantially occupy the premises within three years. Premises are "partially occupied" when the credit union is using some part of the space on a fulltime basis. Premises are "substantially occupied" when the credit union (or combination of credit union, CUSOs, or vendors as described in subsection 4(a) above) occupies at least 60% of the space on a fulltime basis. The Commissioner may waive this occupation requirement in writing upon written request.

(c) A credit union must make diligent efforts to dispose of abandoned premises and any other real property not intended for use in the conduct of credit union business. The credit union must seek fair market value for the property, and record its efforts to dispose of abandoned premises. After premises have been abandoned for four years, the credit union must publicly advertise the property for sale. Unless otherwise approved in writing by the Department, the credit union must complete the sale within five years of abandonment.