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STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES
DAVID C. HOLLISTER, DIRECTOR

LINDA A. WATTERS
COMMISSIONER

DATE: February 23, 2005

LETTER NO.: 2005-CU-03

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: Notice of Michigan Credit Union Act Amendments, Michigan Credit Union Rules Pronouncements and the Pending Bylaw Amendments

The purpose of this letter is to notify Michigan credit unions and interested parties of passage of Michigan Public Act 471, effective December 29, 2004, and implementation of the Michigan Credit Union Rules, effective February 10, 2005. Also, information on the bylaw amendment process required to meet the changes in the Michigan Credit Union Act is outlined.

Michigan Public Act 471 of 2004

PA 471 was introduced primarily to amend the original language of the Michigan Credit Union Act 215 of 2003 correcting certain technical errors. However, PA 471 also included more significant amendments to the Michigan Credit Union Act including:

- Requiring domestic credit unions to follow generally accepted accounting principles, unless another accounting standard was required by law, rule, or regulation.
- Extending qualification requirements for credit union directors and supervisory or credit committee members to members of other credit union committees, and include other committee members in provisions that allow the Commissioner of the Office of Financial and Insurance Services (OFIS) to remove credit union officials from office.
- Reducing from \$1.75 to \$1.00 the minimum base fee on each \$1,000 of assets up to \$500,000, in the calculation of a credit union's annual operating fee charged by the OFIS Commissioner.
- Requiring a domestic credit union to consider collateral, creditworthiness, and the duration of the loan in establishing interest rates.
- Extending the Act's prohibition against more favorable loan rates or terms for credit union officials to people having a common ownership, investment, or other pecuniary interest in a business with credit union officials or their family members.

- Prohibiting a domestic credit union from lending more than \$20,000 or 25% of its net worth, whichever was greater, to a borrower or any affiliates of the borrower.
- Requiring the mailing of 90 day and 30 day notices to members when a credit union board calls a special membership meeting to vote on conversion to another type of financial institution.
- Require the posting of a notice in credit union branches and on a credit union's internet website, if it conducted member transactions through a website, at least 60 days before a special meeting to vote on a proposal to convert to another type of financial institution.

A full history and analysis of the legislation can be found at the following URL:
<http://www.legislature.mi.gov/mileg.asp?page=getObject&objName=2004-HB-6284>

The updated language of the Michigan Credit Union Act (PA 215) can be found at the following URL:
<http://www.legislature.mi.gov/mileg.asp?page=getObject&objName=mcl-Act-215-of-2003>

Michigan Credit Union Rules Amendments effective February 10, 2005

Pursuant to Section 206 of the Michigan Credit Union Act of 2003, the Commissioner of the Office of Financial and Insurance Services (OFIS) amended the administrative rules governing credit unions to rescind R 490.1 through R 490.99 promulgated under the former Credit Union Act and to adopt R 490.111, R 490.112, R 490.113, R 490.114, R 490.115, R. 490.116, R 490.117, and R 490.118. The new Rules represent revisions of certain previous Rules OFIS believe are still necessary to ensure the safety and soundness of Michigan chartered credit unions. The new Rules cover the following:

- R 490.111 Definitions.
- R 490.112 Corporate credit union; issuance of different classes of shares; priorities upon liquidation; investment in interest rate risk management instruments.
- R 490.113 Credit committee or board of directors lending activity; recording requirements.
- R 490.114 Accounting requirements for investments in mutual funds.
- R 490.115 Overdrafts.
- R 490.116 Delinquent loans.
- R 490.117 Minimum required allowance for loan and lease loss.
- R 490.118 Access to records.

Complete text of the Rules can be found at the following URL:
http://www.state.mi.us/orr/emi/admincode.asp?AdminCode=Single&Admin_Num=49000001&Dpt=CI&RngHigh= (no longer accessible online)

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Bylaw Amendments

Also, we want to update you regarding revisions to the standard bylaws relating to the new Michigan Credit Union Act and the regulatory changes mentioned in this letter. In the next few weeks, OFIS will begin sending letters to approximately twenty-five credit unions every three weeks, with instructions on how to rescind the credit union's current bylaws and adopt the revised bylaws. We hope to have the project completed by October 31, 2005.

Centralized links relevant to Michigan chartered credit unions, including the above links to the Michigan Credit Union Act and the Rules language can be found at the URL below

http://www.michigan.gov/cis/0,1607,7-154-10555_13047_32589---,00.html

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division