

**PUBLIC PROTECTION CABINET**  
**Department of Financial Institutions**  
**Division of Depository Institutions**  
**(Amended at ARRS Committee)**

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

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

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

CERTIFICATION STATEMENT:

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

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

- (1) Is operated primarily for the purpose of serving other credit unions;
- (2) Is designated by the National Credit Union Administration as a corporate credit union; and
- (3) Limits natural person members to the minimum required by state or federal law to charter and operate the credit union.

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

Section 3. Fidelity Bond.

- (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	\$100,000 plus \$50,000 for each million or fraction thereof over \$1,000,000
\$50,000,001 to \$295,000,000	\$2,550,000 plus \$10,000 for each million or fraction thereof over \$50,000,000
Over \$295,000,000	\$5,000,000

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

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

- (1) Stock of a corporation rated A+ by Standard and Poor's at the date of acquisition of the stock; and
- (2) A corporate bond rated AAA or higher by Standard and Poor's, or rated AAA by Moody's at the date of acquisition of the bond.

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

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

- (1) Cash on hand;
- (2) A share or deposit in a federally or state-insured bank, savings and loan association, or credit union that has a remaining maturity of five (5) years or less;
- (3) An asset, including a collateralized mortgage obligation that is comprised of government guaranteed mortgage loans, that has a remaining maturity of five (5) years or less and is insured by, is fully guaranteed as to principal and interest by, or is due from the U.S. Government, its agencies, the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association;
- (4) A loan to another credit union that has a remaining maturity of five (5) years or less;
- (5) A student loan that has a remaining maturity of five (5) years or less and that is insured under the provisions of Title IV, Part B of the Higher Education Act of 1965 (20 U.S.C. 1071, et seq.) or similar state insurance programs;
- (6) A loan that has a remaining maturity of five (5) years or less and that is fully insured or guaranteed by the federal or a state government or any agency of either;
- (7) A share or deposit in a corporate credit union that has a remaining maturity of five (5) years or less, other than a Membership Capital Share Deposit account as defined in 12 C.F.R. Part 704;
- (8) A common trust investment, including a mutual fund, which deals exclusively in investments authorized by the Federal Credit Union Act, 12 U.S.C. 1751 et seq., that are either carried at the lower cost or market, or are marked to market value monthly;
- (9) A prepaid expense;
- (10) Accrued interest on a non-risk investment;
- (11) A loan fully secured by a pledge of shares in the lending credit union, equal to and maintained to at least the amount of the loan outstanding;
- (12) A loan purchased from a liquidating credit union and guaranteed by the National Credit Union Administration;
- (13) A National Credit Union Share Insurance Fund Guaranty Account established with the authorization of the National Credit Union Administration under the authority of Section 203(a)(1) of the Federal Credit Union Act;
- (14) An investment in shares of the National Credit Union Administration Central Liquidity Facility;
- (15) An asset included in subsections (2), (3), (4), (5), (6), and (7) of this section with a maturity greater than five (5) years, is not a risk asset if the asset is being carried on the credit union's records at the lower of cost or market, or is being marked to market value monthly;
- (16) An asset included in subsections (2), (3), (4), (5), (6), and (7) of this section, with a remaining maturity of greater than five (5) years, is not a risk asset, whether or not the asset is being carried on the credit union's records at the lower of cost or market or is being marked to market value monthly, provided the asset meets the criteria established in paragraphs (a) through (c) of this subsection.
  - (a) The interest rate shall be reset at least annually.

- (b) The interest rate of the instrument shall be less than the maximum allowable interest rate for the instrument on the date of the required reserve transfer.
- (c) The interest rate of the instrument varies directly (not inversely) with the index upon which it is based and is not reset as a multiple of the change in the related index;
- (17) A fixed asset that includes an office, branch office, suboffice, service center, parking lot, or real estate in which the credit union transacts or will transact business; and office furnishing, office machine, computer hardware and software, automated terminal, and heating and cooling equipment; and
- (18) A deposit in the National Credit Union Share Insurance Fund representing a federally insured credit union's capitalization account balance of one (1) percent of insured shares.

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

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

- (1) The board of directors shall first put the question of conversion to a vote of the members. Written notice of the proposed conversion shall be given to all members, which shall include a statement including the reasons for the proposed conversion. The notice shall be mailed to the last known address or hand delivered to the members. The notice shall state the date and place for the meeting called to vote on the proposed conversion, which shall be at least fifteen (15) days after the date of the notice.
- (2) Approval of the proposed conversion shall be by a vote of the majority of the members who vote on the proposed conversion, in person or by absentee ballot if the bylaws of the credit union allow voting by absentee ballot.
- (3) A statement of the results of the vote, verified by the president and secretary, shall be filed with the commissioner.
- (4) The commissioner shall issue an order to the effect that, on the effective date of the conversion, the credit union is no longer incorporated under the laws of Kentucky. A copy of the order shall be forwarded to the Secretary of State.

#### Section 9. Low-Income Designation.

- (1) A credit union chartered by the Commonwealth of Kentucky that is made up of a simple majority of low-income members, as defined in 12 C.F.R. , Part 701.34(a)(2), may obtain low-income designation from the National Credit Union Administration and concurrence in that designation from the Kentucky Department of Financial Institutions. In order to obtain that designation, a credit union shall receive approval from the National Credit Union Administration, either via notification or through the request process prescribed in 12 C.F.R. , Part 701.34(3). Following this approval by the National Credit Union Administration, a credit union shall submit a written request for concurrence of its low-income designation to the Kentucky Department of Financial Institutions along with documentation of its low-income designation approval from the National Credit Union Administration. The Kentucky Department of Financial Institutions shall issue a concurrence within thirty (30) days of a credit union's completed submission, if the credit union has demonstrated it has received approval as a low-income designated credit union from the National Credit Union Administration.
- (2) A credit union that has obtained a low-income designation from the National Credit Union Administration and subsequent concurrence from the Department of Financial Institutions may accept non-member deposits ~~† from any source except for "public funds" as defined by KRS 446.010(41).~~†.
- (3) A low-income designated credit union that accepts non-member deposits shall be subject to the non-member share limitations stated in 12 C.F.R. , Part 701.32(b).

(4) A low-income designated credit union that accepts non-member deposits shall maintain eligibility for its low-income designation through continued fulfillment of the requirements stated in 12 C.F.R. , Part 701.34.

(5) A low-income designated credit union that does not maintain eligibility for its low-income designation shall not be permitted to accept non-member deposits during the time it is ineligible for a low-income designation.

(6) A credit union that has obtained low-income designation may:

(a) Offer secondary capital accounts and include these accounts in the credit union's net worth subject to the requirements set forth under 12 C.F.R. , Part 702, Subpart D,

(b) Qualify for the exception from the aggregate member business loan limit outlined in 12 C.F.R. , Part 723.8(d); and

(c) Participate in the Community Development Revolving Loan Fund for Credit Unions subject to the requirements in 12 C.F.R. , Part 705.

**Section 10. This administrative regulation was found deficient by the Administrative Regulation Review Subcommittee on March 10, 2025.**

Withdrawn by 2025 RS SB 65, 3-27-2025.

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