

Proposed Amendment to SB375
Proposed by the Nevada Credit Union League
Thursday, April 3, 2025
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I. Section 1

- **Drafting Comments**

As drafted, this language would grant authority to issue shares to nonmembers based solely on *qualifying* for low-income designation, regardless of whether the credit union was *formally designated* as such by the National Credit Union Administration. The proposed amendment clarifies that the credit union must be approved for low-income designation.

- **Draft Amendments**

Section 1. Chapter 672 of NRS is hereby amended by adding thereto a new section to read as follows:

A credit union that qualifies and is approved for designation as a low-income credit union pursuant to 12 C.F.R. § 701.34, as amended, may issue shares to nonmembers. The total number of shares issued by the credit union to nonmembers must not exceed 20 percent of the unimpaired capital and surplus of the credit union unless the credit union obtains written authorization from the Commissioner.

Must actually be low income designated.

II. Section 5

- **Drafting Comments**

As drafted, the language in subsection (4) would require vacancies on the credit and audit committees to be filled in the same manner as vacancies on the board. Board vacancies are to be filled by board appointment for the remainder of the unexpired term, and then by vote of the members according to established election and nomination procedures. However, unlike directors, who are elected by the members, the **credit and audit committees** are appointed by the board and ultimately serve at the pleasure of the board. They would not be subject to the credit union's nomination and election procedures or a vote of the members. The proposed amendment deletes this unnecessary reference.

- **Draft Amendments**

Sec. 5. NRS 672.350 is hereby amended to read as follows:

672.350 1. The business affairs of a credit union shall be directed by an odd-numbered board of

not fewer than five directors to be elected at the annual meetings by and from the members, and an audit and credit committee if appointed by the board. The persons designated in the articles of incorporation shall be the first directors.

2. All members of the board and such committees shall hold office for such terms as the bylaws may provide.

3. Vacancies in the board of directors shall be filled by vote of the ~~{members at the annual meeting or at a special meeting called for that purpose. The}~~ board ~~{may fill any vacancies occurring in}~~ *of directors for the remainder of the {board until successors elected at} unexpired term, after which the {annual meeting or special meeting have qualified.} seat shall be filled by vote of the members according to the established procedures of the credit union for nomination and election.*

4. The board shall also fill vacancies in the credit and audit committees ~~{in the same manner as prescribed for vacancies in the board.}~~

III. Section 13

- **Drafting Comments**

The NCUA standard at §703.2 (upon which this language was based) already contains its own definition, which is significantly different from the proposed definition. Per §703.2:

*“Investment grade” means **the issuer of a security has an adequate capacity to meet the financial commitments under the security for the projected life of the asset or exposure, even under adverse economic conditions. An issuer has an adequate capacity to meet financial commitments if the risk of default by the obligor is low and the full and timely repayment of principal and interest on the security is expected. A Federal credit union may consider any or all of the following factors, to the extent appropriate, with respect to the credit risk of a security:** Credit spreads; securities-related research; internal or external credit risk assessments; default statistics; inclusion on an index; priorities and enhancements; price, yield, and/or volume; and asset class-specific factors. This list of factors is not meant to be exhaustive or mutually exclusive.*

Overall, the proposed draft definition of “investment grade” is not clear. Key differences include:

- The proposed state definition looks at the rating of the **security**. However, the NCUA definition looks at whether the **issuer** of the security has an adequate capacity to meet the financial commitments made under the security for the projected life. These are two very different definitions.
- The proposed state definition also reintroduces a Commissioner approval step. The reason for including non-Nevada municipal bonds in NRS 672.760 in the first place was to remove the need to seek specific permission and approval.

- **Draft Amendments**

Sec. 13. NRS 672.760 is hereby amended to read as follows:

672.760 **1.** Money not used in loans to members may be invested in:

~~1-1~~ **(a)** Securities, obligations, participations or other instruments of or issued by or fully guaranteed as to principal and interest by the United States of America or any agency thereof or in any trust or trusts established for investing directly or collectively in these instruments;

~~2-1~~ **(b)** Obligations of this state or any political subdivision thereof, including, without limitation, a city, county or school district;

~~3-1~~ **(c)** Certificates of deposit or passbook type accounts issued by a state or national bank, mutual savings bank, savings and loan association or savings bank;

~~4-1~~ **(d)** Loans to or shares or deposits of other credit unions as permitted by the bylaws;

~~5-1~~ **(e)** Capital shares, obligations or preferred stock issues of any agency or association organized either as a stock company, mutual association or membership corporation if the membership or stockholdings, as the case may be, of the agency or association are confined or restricted to credit unions or organizations of credit unions, and the purposes for which the agency or association is organized are designed to service or otherwise assist credit union operations;

~~6-1~~ **(f)** Shares of a cooperative society organized under the laws of this state or the United States in a total amount not exceeding 10 percent of the shares, deposits and surplus of the credit union;

~~7-1~~ **(g)** Stocks and bonds of United States corporations to a maximum of 5 percent of unallocated reserves, except that such an investment must be limited to stocks or bonds yielding income which are approved by the Commissioner;

~~8-1~~ **(h)** Loans to any credit union association, national or state, of which the credit union is a member, except that such an investment must be limited to 1 percent of the shares, capital deposits and unimpaired surplus of the credit union; ~~and~~

~~9-1~~ **(i)** Negotiable obligations of federal or state banks ~~1-1~~; and

(j) *Municipal bonds which are issued by a public entity outside of this State, if the credit union conducts and documents an analysis which reasonably concludes that the security is at least investment grade and ensures that:*

(1) *The aggregate municipal securities holdings of the credit union are not more than 75 percent of the net worth of the credit union; and*

(2) *The municipal securities holdings issued by any single issuer to the credit union are not more than 25 percent of the net worth of the credit union.*

2. The Commissioner may:

(a) *Adopt regulations which authorize a credit union to make an investment not described in this section; and*

(b) *Upon request of a credit union, authorize a credit union in writing to make an investment not described in this section or any regulations adopted pursuant thereto.*

~~3.~~ *As used in this section, "investment grade" means a security which has achieved a minimum credit rating which is approved by the Commissioner from Moody's Ratings, S&P Global Ratings or Fitch Ratings to be considered investment grade.*

3. *As used in this section, "investment grade" shall have the meaning set forth in 12 C.F.R. §703.2.*