

AMENDED REGULATIONS

Section 2, Part II. Allowance for Loan and Leases Losses; methodology; full and fair disclosure

Each credit union must have a written policy for the allowance for loan and leases losses that has been approved by the credit union's board of directors. For credit unions with assets greater than \$10 million, the allowance for loan and lease loss methodology must comply with Generally Accepted Accounting Principles (GAAP). For credit unions with assets less than \$10 million, the credit union's policy should result in an allowance for loan and lease losses that reserves for expected losses in the loan and lease portfolio. A third party validation of the allowance for loan and lease loss methodology and calculation is encouraged and may be required by examiners on a case by case basis for any credit union regardless of size.

Section 4. Limits on Loans and Investments in Credit Union Service Organizations

This section shall establish when a state chartered credit union in Alabama can invest in and make loans to Credit Union Service Organization (CUSO's). CUSO's are subject to review by the ACUA, normally as part of the examination of the credit union. Access to the CUSO's financial statements, books and records of the CUSO and the ability to review the CUSO's internal controls, as deemed necessary by ACUA in carrying out its responsibilities under the Code of Alabama must be provided at the request of the Administrator and/or state examiners.

General Requirements

State chartered credit unions must obtain written agreements from a CUSO, prior to investing in or loaning to the CUSO, that the CUSO will:

- I. Account for all its transactions in accordance with Generally Accepted Accounting Principles (GAAP); total shares and undivided earnings are to be measured consistent with GAAP;
- II. Prepare quarterly financial statements and obtain an annual audit by a licensed Certified Public Accountant on its financial statements in accordance with "Generally Accepted Auditing Standards" (GAAS) if the CUSO is not included in the audited consolidated financial statements of a credit union and the investment plus loans to the CUSO combined are greater than 2% of the credit union's shares, deposits and undivided earnings;
- III. State chartered credit unions must obtain a legal opinion prior to investing in or loaning to a CUSO, as to whether the CUSO is established in a manner

that will limit potential exposure of the credit union to no more than the loss of funds invested in or lent to, the CUSO; and

- IV. A state chartered credit union may only invest in or loan to a CUSO whose activities and services are routine daily operations of credit unions.

A state chartered credit union proposing to invest or lend more than 2% of shares, deposits and undivided earnings must also be Well Capitalized (a minimum Net Worth ratio of 7% of assets). Net Worth is defined as regular reserves, other reserves, undivided earnings and net income/loss.

The total amount of funds either invested in or loaned to a credit union service organization shall not exceed 4% of unimpaired capital defined as shares, deposits, and undivided earnings as of its most recent calendar year-end financial report. A credit union must first receive written approval from the Administrator when either the investment in, loan to or combination of both exceeds 2% of unimpaired capital (shares, deposits and undivided earnings) as of the most recent calendar year-end financial report.

The Administrator of the Alabama Credit Union Administration may limit a state chartered credit union's CUSO activities or services or refuse to permit any CUSO activities or services when either supervisory, legal or safety and soundness issues exist.

At no time can the maximum 4% limit be exceeded and when a credit union falls below "Well Capitalized" (a 7% Net Worth Ratio), the Administrator reserves the right to establish reserving requirements in conformance with Generally Accepted Accounting Principles (GAAP).

A state chartered credit union can invest in or lend to a CUSO only if the CUSO is structured as a corporation, limited liability company, limited partnership or other limited liability entity.

A state chartered credit union can invest in, loan to or contract with only those CUSO's that are sufficiently bonded or insured for their specific operations and engaged in the preapproved activities and services related to the routine daily operations of credit unions. The specific activities listed within each preapproved category are provided in this section as illustrations of activities permissible under the particular category, not as an exclusive or exhaustive list. The preapproved activities are as follows:

- A. Checking and currency services:
 1. Check cashing;
 2. Coin and currency services; and

3. Money order, savings bonds, traveler's checks, and purchase and sale of U.S. Mint commemorative coins and services.
- B. Clerical, professional and management services:
1. Accounting services;
 2. Courier services;
 3. Credit analysis;
 4. Facsimile transmissions and copying services;
 5. Internal audits for credit unions;
 6. Locator services;
 7. Management and personnel training and support;
 8. Marketing services;
 9. Research services; and
 10. Supervisory committee audits.
- C. Business loan origination:
- D. Consumer mortgage loan origination:
- E. Electronic transaction services:
1. Automated teller machine (ATM) services;
 2. Credit card and debit card services;
 3. Data processing;
 4. Electronic fund transfer (EFT) services;
 5. Electronic income tax filing;
 6. Payment item processing;
 7. Wire transfer services; and
 8. Cyber financial services;
- F. Financial counseling services:
1. Developing and administering Individual Retirement Accounts (IRA), Keogh, deferred compensation, and other personnel benefit plans;
 2. Estate planning;
 3. Financial planning and counseling;
 4. Income tax preparation;
 5. Investment counseling; and
 6. Retirement counseling.

- G. Fixed asset services:
 - 1. Management, development, sale or lease of fixed assets, foreclosures and repossessions; and
 - 2. Sale, lease or servicing of computer hardware or software.

- H. Insurance brokerage or agency:
 - 1. Agency for sale of insurance;
 - 2. Provision of vehicle warranty programs; and
 - 3. Provision of group purchasing programs.

- I. Leasing:
 - 1. Personal property; and
 - 2. Real estate leasing of excess CUSO property.

- J. Loan support services:
 - 1. Debt collection services;
 - 2. Loan processing, servicing and sales; and
 - 3. Sale of repossessed collateral.

- K. Record retention, security and disaster recovery services:
 - 1. Alarm-monitoring and other security services;
 - 2. Disaster recovery services;
 - 3. Microfilm, microfiche, optical and electronic imaging, CD-ROM data storage and retrieval services;
 - 4. Provision of forms and supplies; and
 - 5. Record retention and storage.

- L. Securities brokerage services:

- M. Shared credit union branch (service center) operations:

- N. Student loan originations:

- O. Travel agency services:

- P. Trust and trust-related services:

1. Acting as administrator for prepaid legal service plans;
2. Acting as trustee, guardian, conservator, estate administrator, or in any other fiduciary capacity; and
3. Trust services.

Q. Real estate brokerage services:

R. CUSO investments in non-CUSO service providers: In connection with providing a permissible service, a CUSO may invest in a non-CUSO service provider. The amount of the CUSO's investment is limited to the amount necessary to participate in the service provider, or a greater amount if necessary to receive a reduced price for goods and services.

In general, CUSO's must not acquire control of, either directly or indirectly, another depository financial institution, nor invest in shares, stocks, or obligations of an insurance company, trade association, liquidity facility or similar organization, corporation or association.

In order for a state chartered credit union to invest in and/or loan to a CUSO that offers an unpreapproved activity or service, the credit union must first receive approval of the Administrator of the ACUA. The request must include a full explanation of and complete documentation of the activity or service and how that activity or service is associated with routine credit union operations. The Administrator will act on the request within thirty (30) days after receipt.

A state chartered credit union must account for its investments in or loans to a CUSO in conformity with "Generally Accepted Accounting Principles" (GAAP).

Where a credit union is denied approval to invest or loan to a CUSO, an amount in excess of 2% of unimpaired capital and surplus, the credit union may within thirty (30) days after receipt of the Administrator's written letter disapproving such request, appeal to the Board of the Alabama Credit Union Administration. The Board will in turn review the appeal and respond within thirty (30) days.

Note: An investment in or loan to a CUSO by a corporate credit union is subject to NCUA's Part 704 regulation concerning CUSO's.

Section 7. Section is Reserved for Future Use.

[Section is deleted in its entirety.]

Section 11. Credit Union Ownership of Fixed Assets

Any credit union with an investment in real property that has been acquired for future expansion and held for over one year and is not being utilized by the credit union must have a Board resolution and business plans that specify the Board's intent and future utilization/plan, etc. of the property being retained.