

Introduced by

Industry and Business Committee

(At the request of the Department of Financial Institutions)

1 A BILL for an Act to create and enact a new section to chapter 6-07.2 of the North Dakota
2 Century Code, relating to voluntary liquidation of credit unions; to amend and reenact section
3 6-01-04.1 of the North Dakota Century Code, relating to the removal of officers, directors, and
4 employees of financial corporations or institutions; ~~and~~ to repeal chapter 6-06.1 of the North
5 Dakota Century Code, relating to voluntary liquidation of credit unions; and to provide for a
6 legislative management study.

7 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

8 **SECTION 1. AMENDMENT.** Section 6-01-04.1 of the North Dakota Century Code is
9 amended and reenacted as follows:

10 **6-01-04.1. Removal of officers, directors, and employees of financial corporations or**
11 **institutions.**

- 12 1. The department of financial institutions or the board may issue ~~and serve~~, upon any
13 current or former officer, director, or employee of a financial corporation, financial
14 institution, or credit union subject to its jurisdiction and upon a financial corporation,
15 financial institution, or credit union involved, an order stating:
- 16 a. That the current or former officer, director, or employee is engaging, or has
17 engaged, in any of the following conduct:
- 18 (1) Violating any law, regulation, board order, or written agreement with the
19 board.
- 20 (2) Engaging or participating in any unsafe or unsound practice.
- 21 (3) Performing any act of commission or omission or practice which is a breach
22 of trust or a breach of fiduciary duty.

- 1 b. The term of the suspension or removal from employment and participation within
2 the conduct of the affairs of a financial corporation, financial institution, or credit
3 union, or any other entity licensed by the department of financial institutions.
- 4 2. The order must contain a notice of opportunity for hearing pursuant to chapter 28-32.
5 The date for the hearing must be set not less than thirty days after the date the
6 complaint is served upon the current or former officer, director, or employee of a
7 financial corporation, financial institution, or credit union, or any other entity licensed
8 by the department of financial institutions. The current or former officer, director, or
9 employee may waive the thirty-day notice requirement.
- 10 3. If no hearing is requested within twenty days of the date the order is served upon the
11 current or former officer, director, or employee, ~~or if the order is final.~~ If a hearing is
12 held and the board finds that the record so warrants, ~~and if the board finds that a~~
13 ~~financial corporation, financial institution, or credit union has suffered or will probably~~
14 ~~suffer significant loss or other significant damage or that the interest of its depositors,~~
15 ~~shareholders, members, or creditors could be seriously prejudiced,~~ it may enter a final
16 order. The final order suspending or removing the current or former officer, director, or
17 employee is final. The current or former officer or employee may request a termination
18 of the final order after a period of no less than three years.
- 19 4. A contested or default suspension or removal order is effective immediately upon
20 service issuance on the current or former officer, director, or employee and upon a
21 financial corporation, financial institution, or credit union. A consent order is effective
22 as agreed.
- 23 5. Any current or former officer, director, or employee suspended or removed from any
24 position pursuant to this section is not eligible, while under suspension or removal, to
25 be employed or otherwise participate in the affairs of any financial corporation,
26 financial institution, or credit union or any other entity licensed by the department of
27 financial institutions until the suspension or removal is terminated by the department of
28 financial institutions or board.
- 29 6. When any current or former officer, director, employee, or other person participating in
30 the conduct of the affairs of a financial corporation, financial institution, or credit union
31 is charged with a felony in state or federal court, involving dishonesty or breach of

1 trust, the commissioner may immediately suspend the person from office or prohibit
2 the person from any further participation in a financial corporation's, financial
3 institution's, or credit union's affairs. The order is effective immediately upon
4 serviceissuance of the order on a financial corporation, financial institution, or credit
5 union and the person charged, and remains in effect until the criminal charge is finally
6 disposed of or until modified by the board. If a judgment of conviction, a federal pretrial
7 diversion, conviction or agreement to plea to lesser charges, or similar state order or
8 judgment is entered, the board or commissioner may order that the suspension or
9 prohibition be made permanent. A finding of not guilty or other disposition of the
10 charge does not preclude the commissioner or the board from pursuing administrative
11 or civil remedies.

12 **SECTION 2.** A new section to chapter 6-07.2 of the North Dakota Century Code is created
13 and enacted as follows:

14 **Voluntary liquidation of a credit union.**

15 1. A credit union may go into voluntary liquidation following a vote of the majority of the
16 board of directors and approval by the majority of its members in writing or by a vote in
17 favor of the liquidation by a majority of the members of the credit union at a regular
18 meeting of the members or at a special meeting called for that purpose.

19 a. When authorization for liquidation is to be obtained at a meeting of members:

20 (1) Notice in writing must be given to each member at least ten days before the
21 meeting and the notice must inform members they have the right to vote on
22 the proposed liquidation.

23 (2) The minutes of the meeting must show the number of members present and
24 the number that voted for and against liquidation.

25 b. If approval by a majority of all members is not obtained at the meeting of
26 members, authorization for voluntary liquidation may be obtained by having a
27 majority of members sign a statement in substantially the following form:

28 We the undersigned members of the _____ Credit Union, Charter No.
29 _____, hereby request the dissolution of our credit union.

30 2. The board of directors of a credit union in voluntary liquidation:

- 1 a. Is responsible for conserving the assets, for expediting the liquidation, and for
2 equitably distributing the assets to members.
- 3 b. Shall determine all persons handling or having access to funds of the credit union
4 are adequately covered by surety bond.
- 5 c. Shall appoint a custodian for the credit union's records that are to be retained for
6 five years after the charter is canceled.
- 7 d. May appoint a liquidating agent and delegate part or all of these responsibilities
8 to the agent and may authorize reasonable compensation for the agent's
9 services. A liquidating agent must be adequately bonded for faithful performance
10 of the agent's duties, and the coverage must remain in effect or the discovery
11 period extended for at least four months after the final distribution of assets.
- 12 3. The supervisory committee, a certified public accountant hired by the supervisory
13 committee, or if the bylaws do not establish a supervisory committee, a certified public
14 accountant hired by the board of directors, is responsible for making periodic audits of
15 the credit union's records, at least quarterly, during the period of liquidation.
- 16 4. Within three days after the decision of the board of directors to submit the question of
17 liquidation to the members, the president shall notify the commissioner and the
18 regional director of the national credit union administration in writing, setting forth in
19 detail:
 - 20 a. The reasons for the proposed action;
 - 21 b. The previous month-end balance sheet and income statement; and
 - 22 c. A written plan for the liquidation of assets, payment of creditors, and payment of
23 shares to be completed within one year of the date of membership approval to
24 liquidate.
- 25 5. Within three days after the action of the members on the question of liquidation, the
26 president shall notify the commissioner and the regional director of the national credit
27 union administration in writing as to whether a majority of the members approved the
28 proposed liquidation.
- 29 6. Within ten days of the decision to liquidate by the board of directors, a notice of the
30 decision must be handed to each member, electronically distributed, or mailed to the

- 1 member's last-known address to confirm in writing the shares and deposits held by the
2 member in the credit union and the loans owed by the member to the credit union.
- 3 7. Within ten days of the approval of a majority of the members of a credit union of a
4 proposal to liquidate, the board of directors of the credit union shall have prepared and
5 mailed to all creditors a notice of liquidation containing instructions to present claims to
6 the credit union within ninety days for payment. New creditor claims subsequent to this
7 notice which are necessary for the continued operation of the credit union during
8 liquidation must continue to be paid upon authorization of the board of directors or
9 liquidating agent.
- 10 8. Immediately upon the decision of the membership to liquidate, the credit union may
11 continue to do all things under the original corporate name of the institution, to sue and
12 be sued, to execute conveyances and other instruments, to take, hold, and own
13 property, and to do all other things as may be necessary to realize upon the
14 institution's remaining assets for the benefit of the institution's members, but not to
15 engage or continue in any new or other business under the institution's charter or
16 otherwise. At the discretion of the board of directors or the liquidating agent,
17 transactions upon membership transactional accounts may continue to be honored up
18 to the federal insurance limit until the accounts are sold or otherwise liquidated.
- 19 9. At the commencement of voluntary liquidation of a credit union, the treasurer or agent
20 conducting the liquidation shall file with the commissioner a financial and statistical
21 report and a schedule showing the name, book number or account number, share
22 balance, and loan balance of each member.
- 23 10. Credit unions in the process of voluntary liquidation shall file with the commissioner a
24 financial and statistical report as of December thirty-first or within thirty days after such
25 date. Additional reports, as determined by the commissioner to be necessary, must be
26 furnished promptly on written request.
- 27 11. When deemed advisable by the commissioner, an examination of the books and
28 records of a credit union may be made before, during, or following completion of
29 voluntary liquidation. The commissioner shall set fees for the examination at an hourly
30 rate sufficient to cover all reasonable expenses of the department of financial

- 1 institutions associated with the examination. Fees must be collected by the
2 commissioner and deposited in the financial institutions regulatory fund.
- 3 12. If at any time during the liquidation of credit union assets, it is found the value of
4 remaining assets will not be sufficient to cover the claims of creditors and
5 shareholders, the board of directors or, if appointed, the liquidating agent shall
6 immediately notify the commissioner and the regional director of the national credit
7 union administration. Further liquidation of credit union assets or distributions to
8 shareholders after notice requires written approval from the commissioner.
- 9 13. With the written approval of the commissioner, a partial distribution of the credit
10 union's assets may be made to its members from cash funds available on
11 authorization by its board of directors or by a duly authorized liquidating agent whose
12 appointment specifically includes the authority. Partial distributions cannot exceed the
13 national credit union share insurance limit.
- 14 14. When all assets of the credit union have been converted to cash or found to be
15 worthless and all loans and debts owing to it have been collected, sold, or found to be
16 uncollectible and all obligations of the credit union have been paid, with the exception
17 of amounts due its members:
- 18 a. The books must be closed and the pro rata distribution to members computed.
19 This computation must be based on the total amount in each member's share
20 accounts as of the date the board of directors voted to voluntarily liquidate.
- 21 b. The amount of gain or loss must be entered in each member's share account and
22 should be entered in the member's passbook or statement of account.
- 23 c. Promptly, funds must be distributed to each member. The funds must be mailed
24 to such members at their last-known addresses, electronically transmitted to the
25 members designated account, or handed to them in person.
- 26 d. The passbooks or written confirmations submitted by members to verify balances
27 must be retained with the credit union records.
- 28 e. Unclaimed share accounts subject to the escheat or abandoned property laws of
29 the state or the state of the members' residence must be paid to the state as
30 required by such laws.

- 1 f. The commissioner must be promptly notified of the date final distribution of
2 assets to the members is started.
- 3 g. In the event of a loss on members share accounts, a claim must be submitted by
4 the board of directors or the liquidating agent if appointed, to the national credit
5 union administration, private share insurance if available, and bonding company.
- 6 15. Within one hundred twenty days after the final distribution to members is started, the
7 credit union shall furnish to the commissioner's office a schedule of unpaid claims, if
8 any, due members who failed. The board of directors of the credit union or the
9 liquidating agent if appointed shall report money in the account of a member that failed
10 to surrender their passbooks or confirm their balances in writing during liquidation-
11 whose accounts are not payable to the state under applicable escheat or abandoned-
12 property laws, and of unpaid claims, if any, due members or creditors who failed to-
13 cash, final distribution checks not cashed within one hundred twenty days, and any
14 unpaid claims to the North Dakota department of trust lands unclaimed property
15 division pursuant to chapter 47-30.2. This schedule must be accompanied by a-
16 certified check or money order payable to the state treasurer in the exact amount of
17 the total of these unpaid claims. The state treasurer shall deposit the funds in a special
18 account where they will be held for the account of the individuals named on the
19 schedule. Each individual or any authorized person on the individual's behalf may
20 submit to the state treasurer a written claim for the amount of funds held for the
21 individual.

22 **SECTION 3. REPEAL.** Chapter 6-06.1 of the North Dakota Century Code is repealed.

23 **SECTION 4. LEGISLATIVE MANAGEMENT STUDY.** During the 2023-24 interim, the
24 legislative management shall consider studying the comparative taxation between federal and
25 state banks and credit unions in North Dakota. The study must include a review of federal and
26 state law regarding the taxation of banks and credit unions, including a review of the
27 exemptions under section 501(c)(14)(a) of the federal Internal Revenue Code [26 U.S.C. 501(c)
28 (14)(a)] and section 122 of the federal Credit Union Act [12 U.S.C. 1768]. The legislative
29 management shall report its findings and recommendations, together with any legislation
30 required to implement the recommendations, to the sixty-ninth legislative assembly.