

FINANCE CODE

TITLE 3. FINANCIAL INSTITUTIONS AND BUSINESSES

SUBTITLE D. CREDIT UNIONS

CHAPTER 124. LOANS AND INVESTMENTS

SUBCHAPTER A. GENERAL PROVISIONS CONCERNING LOANS TO MEMBERS

Sec. 124.001. AUTHORIZATION. A credit union may make a loan to a member:

- (1) in accordance with rules adopted by the commission;
- (2) for a purpose the credit union approves; and
- (3) on security and terms the credit union requires.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.002. LIMITATIONS ON INTEREST RATES. The interest rate on a loan to a member may not exceed:

- (1) 1-1/2 percent per month on the unpaid balance;
- (2) 28 percent a year to the extent that federal credit unions are permitted to charge that rate; or
- (3) a higher rate authorized by law, including a rate authorized by Chapter 303.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Amended by:

Acts 2013, 83rd Leg., R.S., Ch. 19 (S.B. 244), Sec. 16, eff. September 1, 2013.

Sec. 124.003. LIMITATIONS ON LOANS. A credit union may not make a loan to a member or a business interest of the member if the loan would cause the aggregate amount of loans to the member and the member's business interests to exceed:

- (1) an amount equal to 10 percent of the credit union's total assets; or
- (2) a lesser amount established by commission rule.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.004. WRITTEN INSTRUMENT REQUIRED. A credit union

loan must be evidenced by a written instrument.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.005. APPLICABILITY OF OTHER LAW. Subtitle B, Title 4, does not apply to a credit union loan or extension of credit unless the agreement that evidences the transaction specifically provides otherwise.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

SUBCHAPTER B. OPEN-END CREDIT PLAN OR LINE OF CREDIT

Sec. 124.051. OPEN-END CREDIT PLAN. A credit union may enter into a written agreement with a member under which:

(1) the member is allowed to borrow money from time to time; and

(2) interest may from time to time be computed on the unpaid balance.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.052. LINE OF CREDIT. A credit union may approve in advance a line of credit and grant advances to a member within the limit of the extension of credit.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.053. ADDITIONAL LOAN APPLICATION NOT REQUIRED. An additional loan application is not required under an open-end credit plan under Section [124.051](#) or line of credit under Section [124.052](#) if the aggregate obligation does not exceed a limit of the extension of credit the credit union establishes.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

SUBCHAPTER C. LOAN EXPENSES

Sec. 124.101. BORROWER PAYMENT OF LOAN EXPENSES. A credit union may require a member to pay all reasonable expenses and fees incurred in connection with making, closing, disbursing, extending, readjusting, or renewing a loan, whether or not those

expenses or fees are paid to third parties.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.102. COLLECTION OF LOAN EXPENSES. A payment authorized by Section 124.101 may be:

(1) collected by the credit union and:

(A) retained by the credit union; or

(B) paid to a person rendering a service in connection with the payment; or

(2) paid directly by the member to the third party to whom it is payable.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.103. CHARACTER OF EXPENSE OR FEE. An expense or fee authorized by Section 124.101 is not interest.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

SUBCHAPTER D. LOAN PAYMENTS

Sec. 124.151. PREPAYMENT PRIVILEGE. A loan may be prepaid in whole or in part, without penalty, during regular working hours on any day on which the credit union is open for business, except as provided by Section 124.152.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.152. CONDITIONS FOR PREPAYMENT OF LOAN SECURED BY REAL PROPERTY. A credit union may require a partial prepayment that is made on a loan secured by a lien or mortgage on or other type of security interest in real property to be made:

(1) on the date monthly installments are due; and

(2) in the amount of that part of one or more monthly installments that would be applicable to principal.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.153. PENALTY FOR LATE PAYMENT. (a) A credit union, in accordance with its bylaws, may charge a member a penalty when a loan payment is past due.

(b) A credit union may charge only one penalty on each past due payment.

(c) A penalty under this section is not interest.
Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

SUBCHAPTER E. LOANS TO DIRECTORS, EMPLOYEES, AND CREDIT COMMITTEE
MEMBERS

Sec. 124.201. AUTHORIZATION. Only if done in accordance with limitations imposed by Section 124.202, a credit union may make a loan or extend a line of credit to:

(1) a director, senior management employee, or member of the credit committee; or

(2) the immediate family of the director, senior management employee, or member of the credit committee.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997. Amended by Acts 2003, 78th Leg., ch. 533, Sec. 38, eff. Sept. 1, 2003.

Sec. 124.202. CONDITIONS OF LOANS. A loan or extension of a line of credit under Section 124.201:

(1) must comply with this subtitle and rules adopted under this subtitle with respect to loans to other borrowers;

(2) may not be on terms more favorable than those extended to other borrowers; and

(3) must be approved by the board before the credit union makes or agrees to make the loan if the aggregate amount of the loan and other outstanding loans to the person, the person's business interests, and the person's immediate family is greater than the sum of:

(A) \$10,000 or a higher amount established by commission rule; and

(B) the amount of the shares and deposits pledged for the loan.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.203. AUTHORIZATION TO ACT AS COMAKER, GUARANTOR, OR ENDORSER. A credit union may permit a director, senior

management employee, or member of the credit committee to act as comaker, guarantor, or endorser of a loan to a member only in accordance with limitations imposed by Section 124.204.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997. Amended by Acts 2003, 78th Leg., ch. 533, Sec. 39, eff. Sept. 1, 2003.

Sec. 124.204. PRIOR APPROVAL REQUIRED. The board must give its approval before the credit union permits a director, senior management employee, or member of the credit committee to act as comaker, guarantor, or endorser of a loan to a member if the amount of the loan or aggregate of outstanding loans to the comaker, guarantor, or endorser is greater than the sum of:

(1) \$10,000 or a higher amount established by commission rule; and

(2) the amount of the shares and deposits pledged for the loan.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997. Amended by Acts 2003, 78th Leg., ch. 533, Sec. 40, eff. Sept. 1, 2003.

SUBCHAPTER F. ILLEGAL LOANS

Sec. 124.251. ILLEGALITY OF LOAN NOT A DEFENSE. The illegality of a loan is not a defense in a credit union's action to recover on the loan.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.252. ILLEGALITY OF LOAN NOT A BAR TO ENFORCEMENT OR COLLECTION. The illegality of a loan does not prevent enforcement of the loan agreement against or collection of the loan from a person who is otherwise liable on the loan, including:

(1) the borrower; or

(2) a guarantor or surety.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

SUBCHAPTER G. LOAN PROGRAMS

Sec. 124.301. PARTICIPATION LOANS. A credit union may

market and sell participations in loans to members originated by the credit union to another credit union, corporation, or financial organization.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.302. GOVERNMENT LOAN PROGRAMS. A credit union may participate in:

(1) a guaranteed loan program of the United States government or a state government; and

(2) another government loan program approved by the commission.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

SUBCHAPTER H. INVESTMENT OF MONEY

Sec. 124.351. PERMITTED INVESTMENTS. (a) A credit union may invest money not used in loans to members in:

(1) capital shares, obligations, participation certificates, or common or preferred stock of an agency, association, or company, subject to Section [124.352\(a\)](#);

(2) loans to a national or state credit union association or corporation of which the credit union is a member;

(3) obligations, bonds, notes, or other evidences of indebtedness of a state or political subdivision of a state;

(4) certificates of deposit or other accounts issued by a state or national bank, savings and loan association, savings association, or mutual savings bank;

(5) securities, obligations, participations, or other instruments of or issued by the United States, or in a trust established for investing directly or collectively in those investments;

(6) loans to, shares of, or deposits in another credit union, a central credit union, a corporate credit union, a central liquidity facility established under state or federal law, a trust, or an organization established for lending directly or collectively to credit unions;

(7) securities, obligations, participations, or other

instruments fully or partially guaranteed as to principal, interest, or both by the United States, or in a trust established for investing directly or collectively in those investments;

(8) participation loans with another credit union, corporation, credit organization, or financial organization;

(9) notes receivable, loans to members, or other assets of a credit union operating under this subtitle or the Federal Credit Union Act (12 U.S.C. Section 1751 et seq.); and

(10) other investments authorized by rules adopted by the commission that satisfy Subsection (b).

(b) A rule adopted under Subsection (a)(10) must be responsive to:

(1) changes in economic conditions or competitive practices; and

(2) the need for safety and soundness of credit union investments.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.

Sec. 124.352. LIMITATIONS ON INVESTMENTS. (a) An investment under Section [124.351](#)(a)(1) may be made only if:

(1) the membership or ownership of the agency, association, or company is restricted to credit unions and their members or organizations of credit unions; and

(2) the agency, association, or company is designed primarily to serve or otherwise assist credit union operations.

(b) An investment under Section [124.351](#)(a)(1) or (2) in any one agency, association, or company may not exceed the lesser of the amount equal to:

(1) five percent of the credit union's total assets; or

(2) its reserves and undivided earnings.

(c) Notwithstanding Subsection (a), the commission by rule may authorize an investment under Section [124.351](#)(a)(1) in an agency, association, or company:

(1) whose membership or ownership is not restricted to credit unions and their members or organizations of credit unions; or

(2) that is not designed primarily to serve or otherwise assist credit union operations.

Acts 1997, 75th Leg., ch. 1008, Sec. 1, eff. Sept. 1, 1997.