CREDIT UNION COMMISSION MEETING

Credit Union Department Office
914 East Anderson Lane
Austin, Texas 78752

Friday, August 7, 2026
9:00 a.m.

AGENDA

This meeting of the Credit Union Commission ("Commission") will be held at the Credit Union Department office at 914 East Anderson Lane in Austin, Texas. The meeting is open to the public and will be broadcast live through a link available on the Department website (cud.texas.gov) on the day of the meeting. Public comment on any agenda item or issue within the jurisdiction of the Commission is permitted, but the Commission cannot deliberate or address any item that is not specifically listed on the agenda. Unless authorized by a majority of Commission members present, comments will be limited to ten minutes per person.

The meeting will also be recorded, and a copy of the recording will be available upon request after the meeting.

The Commission may discuss and/or take action regarding any item on this agenda.

	Page
1. Call to order – Chair Jim Minge	4
a. Ascertain quorum	
b. Appoint recording secretary	
c. Acknowledge guests	
d. Invitation for public input	
2. Resolution acknowledging the contributions of former Commission Member Kay Rankin-Swan	5
3. Approve minutes of the March 27, 2026, Commission meeting	7
4. Audit Committee report – Chair Becky Ames	25
a. Discussion regarding the FY 2026 Internal Audit Report and possible action to accept the report and authorize its submission to the State Auditor's Office	
b. Update regarding FY 2025 internal audit report	42
c. Authorize staff to take steps to procure internal auditing services	48
5. Rulemaking matters – Rules Committee – Chair David Shurtz	49

d. Upcoming priorities

8. Department operating plan and FY 2027 budget 136

9. Report on the status of the state credit union system – Deputy Commissioner David Borden 172

10. Future Commission meetings – dates, agenda items, and arrangements 177
    - Friday, November 6, 2026
    - Friday, March 5, 2027

11. Adjourn

Executive Session: The Credit Union Commission may go into executive session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551, including to discuss pending litigation or obtain advice of legal counsel on agenda items pursuant to Texas Government Code § 551.071, to discuss personnel matters pursuant to Texas Government Code § 551.074, and to discuss cybersecurity matters pursuant to Texas Government Code 551.0761.
§

Meeting Recess: In the event the Commission does not finish its meeting on the first day for which it was posted, the Commission might recess the meeting until the following day at the time and place announced at the time of recess.

Meeting Accessibility: Under the Americans with Disabilities Act, the Credit Union Commission will accommodate special needs. Those requesting auxiliary aids or services should notify Biancaja Sugars, Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752, telephone (512) 837-9236, as far in advance of the meeting as possible. An individual who is speech- or hearing-impaired may contact Relay Texas for assistance by calling 711.

1. Call to order – Chair Jim Minge
    a. Ascertain quorum
    b. Appoint recording secretary
    c. Acknowledge guests
    d. Invitation for public input

<u>Credit Union Commission members</u>

Jim Minge, Chair

Becky L. Ames, Vice Chair

David Bleazard

Karyn C. Brownlee

Cody R. Huggins

Sara Jones Oates

David F. Shurtz

<u>Staff</u>

Robert Etheridge, Commissioner

Devon Bijansky, Legal Counsel

David Borden, Deputy Commissioner

Isabel Velasquez, Executive Assistant

2. Resolution acknowledging the contributions of former Commission Member Kay Rankin-Swan

Staff recommendation

Adopt the resolution as presented in the materials.

Recommended motion

I move that the resolution acknowledging the contributions of Kay Rankin-Swan to the Credit Union Commission be adopted as presented.

RESOLUTION

The Credit Union Commission, State of Texas, hereby publicly proclaims its appreciation for devoted service performed in the interest of Texas credit unions and the people of Texas by

Kay Rankin-Swan

WHEREAS, on August 8, 2019, Governor Greg Abbott appointed Kay Rankin-Swan of Monahans, Texas to the Credit Union Commission; and

WHEREAS, Kay Rankin-Swan served as an Industry Member of the Commission with honor and distinction through April 1, 2026; and

WHEREAS, as a Commission Member, she dedicated her time and energies working to assure that the Commission and the Credit Union Department fulfilled their responsibilities while remaining sensitive to the needs of Texas credit unions and their members; and

WHEREAS, Kay Rankin-Swan has been diligent in her duty as a member of the Commission providing worthy leadership and guidance to the Credit Union Department.

NOW THEREFORE, BE IT RESOLVED, that the Credit Union Commission expresses its sincere appreciation for the leadership that Kay Rankin-Swan provided during her tenure as a Commission member; and

BE IT FURTHER RESOLVED that this Resolution be conveyed to Kay Rankin-Swan as a token of the Commission's gratitude and entered in the minutes of the Commission's meeting.

READ, ADOPTED, AND APPROVED, unanimously by the Credit Union Commission, State of Texas, this seventh day of August 2026.

Jim Minge, Chairman

3. Approve minutes of the March 27, 2026, Commission meeting

Staff recommendation

Approve the minutes as presented.

Recommended motion

I move that the minutes of the March 27, 2026, Commission meeting be approved as presented.

CREDIT UNION COMMISSION MEETING MINUTES
Credit Union Department Building
914 East Anderson Lane, Austin, Texas
March 27, 2026

1. CALL TO ORDER -- Chair Jim Minge called the meeting to order at 9:00 a.m. in the conference room of the Credit Union Department Building, Austin, Texas, pursuant to Chapter 551 of the Texas Government Code, and declared that a quorum was present. Other members present included Becky L. Ames, David Bleazard, Karyn C. Brownlee, Cody R. Huggins, Sara Jones Oates, David F. Shurtz and Kay Rankin-Swan. Representing the Department staff were Commissioner Robert W. Etheridge, Interim Deputy Commissioner David C. Borden, General Counsel Devon Bijansky, IT Business Analyst Samuel "Sam" Manzanares, and Executive Assistant Isabel Velasquez. Chair Minge appointed Isabel Velasquez as Recording Secretary. The Chair inquired and the Commissioner confirmed that the notice of the meeting was properly posted with the Secretary of State **(March 16, 2026 TRD#2026001474)**.

❖ **GENERAL PUBLIC COMMENT --** Chair Minge invited public input on matters that were not scheduled items on the agenda for possible future consideration by the Commission. No public comments were received.

2. RESOLUTIONS OF APPRECIATION FOR OUTGOING COMMISSION MEMBERS ELIZABETH "LIZ" BAYLESS AND BECKIE STOCKSTILL COBB – Chairman Minge indicated that it is the practice of the Commission to adopt resolutions of appreciation to recognize the service of former Commission members. Mr. Minge noted sadly Mrs. Swan would be stepping down from the Commission and this would be her last meeting. Mrs. Swan indicated moving on to the next step in her life and more importantly opening her position up to another industry person that can bring new ideas and actively follow the rules and regulations.

After a short discussion, Mr. Bleazard moved to approve the Resolutions of Appreciation for Outgoing Commission Members Elizabeth "Liz" Bayless and Beckie Stockstill Cobb, as presented and directed that a copy of the appropriate resolutions be given to the former members as a token of the Commission's appreciation. Mrs. Brownlee seconded the motion, and the motion was carried unanimously.

3. MINUTES OF PREVIOUS MEETING (December 5, 2025) -- The Chair referred the members to the draft minutes of the previous meeting included in the agenda packet and asked for any proposed edits. Hearing none, the Chair asked for a motion to approve the minutes. Mrs. Swan moved for approval of the minutes of the December 5, 2025, meeting as presented. Mrs. Ames seconded the motion, and the motion was carried unanimously.

4. RULEMAKING MATTERS – Chairman Minge announced that the Commission would discuss the rules in order except for moving discussion and consideration of **Rule 91.1003, Mergers and Consolidations,** to the end.

a. Adoption or other action on amendments to 7 TAC Section 91.401, Credit Union Ownership of Property

…

b. Proposal of amendments to:

ii. 7 TAC Chapter 91, Subchapter G:

A. Section 91.709, Member Business and Commercial Loans

B. Section 91.714, Leasing

These amendments are the result of the Department's rule review process.

The amendments to **Section 91.709** clarify the concept of controlling interests in commercial loans and make other non-substantive changes for clarity.

The amendments to **Section 91.714** include the deletion of language in subsection (b) about acquisition of property for the purpose of leasing it, which is prohibited by Section 91.401, and addition of a reference to Section 91.401 to ensure consistency between these two sections that relate to ownership and leasing of real property by a credit union.

After a brief discussion, Mr. Shurtz moved that the Commission propose the amendments to **7 TAC Sections 91.709 and 91.714** as presented. Coming upon a recommendation from the Rules Committee, a Standing Committee of the Commission, no second is required, and the motion was carried unanimously.

b. Proposal of amendments to:

iii. 7 TAC Chapter 95, Subchapter A:

A. Section 95.105, Reporting

B. Section 95.108, Examinations

C. Section 95.110, Enforcement; Penalty; and Appeal

These amendments are the result of the Department's rule review process.

The amendments to **Sections 95.105, Reporting, and 95.110, Enforcement; Penalty; and Appeal,** consist of updates to the titles of other sections referenced in the rules as well as minor edits for readability. The amendments to Section **95.108, Examinations**, incorporate provisions from Section 95.109, Fees and Charges, relating to fees for examinations of insuring organizations, which is recommended for repeal at this meeting.

After a short discussion, Mr. Shurtz moved that the Commission propose the amendments to **7 TAC Sections 95.105, 95.108, and 95.110** as presented. Coming upon a recommendation from the Rules Committee, a Standing Committee of the Commission, no second is required, and the motion was carried unanimously.

b. Proposal of amendments to:

iv. 7 TAC Chapter 95, Subchapter C:

A. Section 95.302, Powers

B. Section 95.305, Audited Financial Statements;

Accounting Procedures; Reports

C. Section 95.310, Fees and Charges

These amendments are the result of the Department's rule review process.

The amendments would make non-substantive corrections to the titles of other rule sections referenced in these rules.

After a brief discussion, Mr. Shurtz moved that the Commission propose the amendments to **7 TAC Sections 95.302, 95.305, and 95.310** as presented. Coming upon a recommendation from the Rules Committee, a Standing Committee of the Commission, no second is required, and the motion was carried unanimously.

c. Proposed repeal of 7 TAC Section 95.109, Fees and Charges.

The proposed repeal is the result of the Department's rule review process.

The repeal is being recommended in conjunction with the recommendation to add its provisions to Section 95.108, which contains related provisions regarding examinations of insuring organizations.

After a short discussion, Mr. Shurtz moved that the Commission propose the repeal of **7 TAC Sections 95.109**. Coming upon a recommendation from the Rules Committee, a Standing Committee of the Commission, no second is required, and the motion was carried unanimously

d. Adoption of rule review and readoption of rules:

i. 7 TAC Chapter 91, Subchapter G

ii. 7 TAC Chapter 95, Subchapters A through D

Section 2001.039 of the Government Code requires state agencies to review and consider for readoption each rule not later than the fourth anniversary of the date on which the rule took effect and every four years thereafter. The review must address an assessment of whether the reason for adopting each rule continues to exist. At its March 22, 2024, meeting, the Commission approved a plan that established a schedule for the review of each section of the rules. In accordance with that plan, staff have reviewed the above-referenced subchapters, believe the amendments addressed previously on this agenda are appropriate and necessary, and that the remainder of the rules within these subchapters should be re-adopted in accordance with Section 2001.039 of the Government Code.

Notice of the review and a request for comments on the rules in these subchapters were published on January 23, 2026, issue of the *Texas Register*. No comments were received regarding the review. The Department believes that the reasons for adopting these rules continue to exist.

After a brief discussion, Mr. Shurtz moved that the Commission find that the reasons for adopting **7 TAC Chapter 91, Subchapter G, and Chapter 95** continue to exist and readopt the rules in these subchapters. Coming upon a recommendation from the Rules Committee, a Standing Committee of the Commission, no second is required, and the motion was carried unanimously.

Chairman Minge redirected the Commission to the last rulemaking item, 7 TAC Section 91.1003, Mergers and Consolidations.

b. Proposal of amendments to:

i. 7 TAC Section 91.1003, Mergers and Consolidations

Chairman Minge reported there being a recommendation from the Rules Committee to recommend to the Commission the proposed amendments to 7 TAC Section 91.1003. Commissioner Etheridge reported that these amendments were developed with input from a working group formed after the December meeting considering the previously proposed amendments and concerns raised at that meeting. The amendments would prohibit merger inducements and require merger related financial arrangements (both as defined in the rule) to be disclosed to members. The amendments would also revise certain requirements for approval by the Department, increase consistency between this rule and the NCUA rule, and make non-substantive changes for clarity and readability. After several meetings and discussions, two additional proposed changes were also presented to the Rules Committee at its meeting of March 26th.

Chair Shurtz of the Rules Committee thanked the Commissioner and General Counsel for their efforts in working on this rule. Mr. Shurtz said that the primary reason behind this rule is to ensure that the Commissioner gets what he needs to make a reasonable decision on the mergers, but also that the members have what they need to make informed decisions.

- **David Bleazard, Commission Member,** thanked the Commissioner, the Working Committee and David Shurtz for working on this rule. He reported that he knows it has been a lot of work and it was critically necessary work in order to protect the public interest. He believes it is critically important that we preserve the true democratic processes that exist in the credit unions to oversee them for the benefit of the members that own the institution. To that extent, it is of the highest priority that when there are mergers being considered there is a clear understanding of what disclosures must be given to the member owners. They should be clear, conspicuous and in plain language. Using the democratic process of the voting for or against a merger is not swayed by financial inducements, and therefore clouding the true process. Furthermore, he believes this rule does what we are looking for with these latest changes. It avoids the pitfalls of a lack of disclosure. They avoid perverting or corrupting the voting process.

- **Tim Adams, Senior Vice President of Collections – First Service Credit Union**, explained he is looking for transparency and clarity, both on the regulatory side. He would want to know what is going to be approved when we invest time, money and effort. Wanting the membership to understand through the disclosures of what is being provided and have a true democratic vote versus trying to throw some cash at them and asking them to approve so there can be a bigger payday. Lastly, clarity on the regulatory side so that options to members are not limited when it is being reviewed.

- **Steve Gilman, Director of Political and Legislative Affairs – First Service Credit Union**, added his support to the comments presented. He alluded to Tim Adams remarks that we are looking for who is the best partner. There is the importance of keeping an eye on what NCUA is doing so that there is a balance between the state and the federal level.

- **Suzanne Yashewski, Regulatory and Compliance Counsel – Cornerstone Credit Union League,** thanked the Department and the Rules Committee for working on some of the feedback issues that members raised. She believes the rule is in a pretty good position to be open for further comment. The Cornerstone League supports the issue that Committee Chair Shurtz raised before in removing the word reasonable.

- **Melodie Durst, Executive Director – Credit Union Coalition of Texas.** Ms. Durst echo Suzanne's words. She stated that she appreciated having an opportunity to participate in the working group meeting, being a very robust process. Everyone had some really strong feelings and expressed appreciation to the Commissioner working through all of those suggestions and comments.

Chair Minge expressed appreciation for all the comments and feedback. It has been a process with at least nine months in the making and appreciation where we are today. Mr. Minge thanked the working group, the Commissioner and General Counsel for taking the time to make it a pretty good rule.

After a lengthy discussion, Chair of the Rules Committee, David Shurtz, moved to propose the amendments to 7 TAC Section 91.1003, Mergers and Consolidations, to the Commission as reflected in the handout as provided during the meeting and was provided in the Rules Committee's March 26th meeting by striking the word "reasonable" from Section 4(G). Coming upon a recommendation from the Rules Committee, a Standing Committee of the Commission, no second is required, and the motion was carried unanimously.

5. Commissioner's report including:

a. Department's FY 2026 Budget and Financial Performance
b. Department operational status and accomplishments
c. Employee recognition and team highlights
d. Upcoming priorities and goals

a. Department's FY 2026 Budget and Financial Performance – Commissioner Etheridge reported that we had a budget for Fiscal Year 2026 of $6.1 million. Through February, halfway through the fiscal year, we're $292,000 below budget or just under 10% less than budget projections. We've had savings around personnel costs, supplies and material costs, and other operating expenses; those three categories have been the main contributors to being under budget. He explained that additional expenses had been incurred since the end of February, such as the State Auditor's fees for $50,000.

Commissioner Etheridge was asked why are our operating fees for half of the year $234,000 less than expected? He explained there was a calculation error made when we set the operating fees for this fiscal year.

Commissioner Etheridge was asked what the meaning was for the ($100,000) for Other. He explained that this is the reserve amount, the amount that goes to the reserve at the very beginning of each fiscal year until we hit that 20-25% of budget threshold.

Commissioner Etheridge was asked that this time under professional services and fees, we have had significant savings to what we attribute the professional fees being $20,000 below. He explained that one of the things that comes out of there is the audits. We've got $50,000 that we just paid to the State Auditor. We have invoices that we are getting ready to pay for, such as our internal audit.

b. Department operational status and accomplishments – Commissioner Etheridge was happy to report that our field examination staff is fully staffed. We currently have two open office positions and hopefully we will have one of those filled positions within the next week or so. During calendar year 2025 and early in 2026 we hired six new team members in the office, which should help with our office succession planning. Furthermore, complaint processing continues to increase. We closed 687 complaints for Fiscal Year 2025, while we've had a total of 433 through the first six months of this year. If we were to annualize that out, that would put us in over 800 for the year.

- **Melodie Durst, Executive Director – Credit Union Coalition of Texas.** Ms. Durst reported that complaints is a topic that she hears about most often from the Coalition's members. She expressed that complaints really cannot be tracked just by asset size as obviously a larger credit union will likely have more members complaints than a smaller credit union. She encouraged the department and the commission to look closely at how these complaints are reported versus just saying we have had so many, but report those numbers in a way that truly shows the accurate picture of what is going on.

- **Suzanne Yashewski, Regulatory and Compliance Counsel – Cornerstone Credit Union League,** agreed with Melodie's issues about seeing just numbers, and is curious about how many of those are repeat complaints where the citizens who think that no laws or obligations apply to them, and those often are repeat complaint filers. In these cases, some of those unique situations could potentially be inflating the numbers. Furthermore, having a better understanding of how many of those were repeated complaints from the same person might shed some light on the overall picture as well.

c. Employee recognition and team highlights – Commissioner Etheridge reported that we hired a new Deputy Commissioner in February. We just had the State Auditor's office complete an audit of our agency which started in July 2025 and concluded at the end of January of this year. We have since received the final report in early February and a copy of the report was sent to commission members. Overall, the audit results were good. At the same time, we also went through an internal audit with our internal audit firm between October and February over our payroll functions and there were limited recommendations. This report will be submitted to the full commission at the July meeting.

Commissioner Etheridge went on record reporting that during his transition into this position, he was proud to say that many of our team members here, including IT staff Sam Manzanares and Robert Reid, Staff Services Officer Biancaja Sugars, Accounting Glenn Cook, and Accounting Technician Shirley Legarda-Guyton, Compliance Analyst Michelle Sick, General Counsel Devon Bijansky and Executive Assistant Isabel Velasquez, pitched in to maintain continuity of operations as we went through the transition and all have done awesome work.

Commissioner Etheridge further reported and recognized several staff for their contributions during the time at the end of Fiscal Year 2025, one Executive Assistant resigned on August 31st and the other Executive Assistant left on extended leave two weeks later for about five weeks. Furthermore, our IT Director retired suddenly effective September 30th and we were in the middle of our audit from the State Auditor's Office. At the same time, we were converting our travel credit cards for all of our field and office staff from Citibank to U.S. Bank. The beginning of our IT audit for the payroll function and accordingly, it was a very challenging time. Glenn Cook, our accountant, was the main contact for both audits and credit card conversion as well as being responsible at that time for ensuring our year-end annual financial report was submitted. Lastly there was a need to realign some of the duties of the IT Director to the IT team.

Commissioner Etheridge publicly acknowledged Glenn Gook for his dedication and hard work during those very challenging times.

Commissioner Etheridge publicly acknowledged Sam Manzanares, IT Business Analyst, for assuming the in-house processing of the examination functions and helping with the completion of performance measures while our Executive Assistant was out of office, including his help during the audit.

Commissioner Etheridge publicly acknowledged Biancaja Sugars, Staff Services Officer, for her work to fill all of the six positions.

d. Upcoming priorities and goals – Commissioner Etheridge briefly reported being in the process of resolving our IT internal audit findings from last year's internal audit. If you may recall, it was not as clean as we would have expected, so currently the internal audit firm is following up with our IT area and we will be providing an update for submission at the next commission meeting.

He further states that work had begun on our FY 2027 operating plan and budget, which will be ready to present for approval at our next commission meeting. Furthermore, during April we will be completing cybersecurity training to comply with state requirements.

As for the server room, we are hopeful of being able to convert into an office before fiscal year end. This cost was included in this year's budget which we will be presenting at the next commission meeting.

We will be formulating a new rule related to digital assets which has become a very hot topic in our industry, so we will be looking at it more closely over the next month or two. We will also be developing a modernization plan by the end of August, in accordance with House Bill 5195 that passed during the last legislative session. This bill requires us to assess the adequacy to improve our online platforms to our website.

On April 9th the commissioner and deputy commissioner will be meeting with the Credit Union Coalition of Texas group for a Texas Regulator meeting.

The week of April 13th the commissioner and the Houston field supervisor will be attending the 2026 National Regulator meeting in Tampa, Florida.

On May 7th the commissioner will be making a virtual presentation to the Cornerstone League group.

Lastly, the commissioner and deputy commissioner will attend an NCUA meeting to discuss 2026 supervision priorities between NCUA and TCUD.

6. General budget assumptions and parameters to be used in guiding the development of the Department's FY 2027 budget. Commissioner Etheridge briefly highlighted some of the important changes to the assumptions on items #7, #11 and #20.

- **David Bleazard, Commission Member,** inquired in regards to the turnover in the examination staff, is the merit budget sufficient to continue to retain staff or will we see an increase in turnover. We need to make sure we are very competitive so that we can keep staff for a while. Commissioner Etheridge explained that typically what we do is develop whatever that percentage for the pool is and we evaluate that more closely as we are going through the budget. We look at staff and review the numbers and in what positions they are, whether we anticipate promotions for any of those and whether we feel like we need equity adjustments for any of those positions. In addition to that, we may come back with a budget and determine instead of 3-1/2 percent, we want 4-1/2 percent additional money for promotions. Mr. Bleazard reiterated that he is concerned that inflation has been pretty heavy and you want to make sure that our employees can afford to live.

After a short discussion Mrs. Brownlee moved to adopt proposed budget assumptions and parameters for Fiscal Year 2027 as presented by staff. Mrs. Ames seconded the motion, and the motion was carried unanimously.

7. Approval of the Department's Strategic Plan for FY 2027-20231. Commissioner Etheridge reported that Section 2056.002 of the Government Code requires state agencies to develop a strategic plan every even-numbered year for the following five fiscal years. The proposed FY 2027-2031 Strategic Plan summarizes staff's analysis of the internal and external environment impacting credit unions and the Department and provides goals and objectives for the next five years. The Strategic Plan is centered on the agency's mission to "supervise, regulate, and examine Texas credit unions to safeguard the public interest, protect the financial interests of credit union members, and promote public confidence in the credit union industry. He additionally stated that the Legislative Budget Board (LBB) and the Governor's Office had not yet released their instructions for preparation of the Strategic Plan, so this draft may need to change if the instructions vary from previous years.

After a brief discussion Mrs. Ames moved to approve the Strategic Plan for the Department for Fiscal Years 2027-2031 and authorize its submission as required by the Governor and the LBB, with any necessary changes to be approved by the Chairman. Mr. Bleazard seconded the motion, and the motion was carried unanimously.

8. Discussion regarding the State Auditor's Audit Report on the Credit Union Department: A Self-directed, Semi-independent Agency (Report No. 26-017). Commissioner Etheridge reported that Finance Code Section 16.004 requires the State Auditor's Office (SAO) to audit financial regulatory agencies. Under that authority, the SAO conducted an audit of the Department's financial and performance data, applicable processes, and other supporting documentation, as well as its processes for setting fees and penalties for Fiscal Year 2025.

The Commission took no action.

9. Approval of Department's Equal Employment Opportunity policy statement as required by Finance Code Section 15.313. Commissioner Etheridge reported that Finance Code Section 15.313 requires the Commission to maintain a written policy statement to assure implementation of a program of equal employment opportunity under which all personnel decisions are made without regard to race, color, disability, sex, religion, age, or national origin. Accordingly, the policy is presented to the Commission's consideration and approval.

After a brief discussion, Mrs. Brownlee moved that the Commission approve the Equal Employment and Workforce Plan as presented. Mrs. Ames seconded the motion, which was carried unanimously.

10. Approval of new Deputy Commissioner pursuant to Texas Finance Code Section 15.303. Commissioner Etheridge stated that Finance Code Section 15.303 requires Commission approval of the deputy commissioner. An interim deputy commissioner has been hired in anticipation of Commission approval for him to serve as deputy commissioner. Materials in support of his hiring are provided to the commission members separately.

After a short discussion, Mr. Shurtz moved that the Commission approve the interim deputy commissioner to serve as deputy commissioner of the Credit Union Department. Mrs. Swan seconded the motion, and the motion was unanimously adopted.

11. Report on the status of the state credit union system. Deputy Commissioner Borden reported having a strong year. Credit unions in Texas continued to show resilience and steady improvement throughout 2025. The Texas economy is one of the strongest states within the nation. Furthermore, he highlighted a few key trends:

Gross Domestic Product (GDP): Texas grew by 2.6%, which outperformed the US, which had a GDP of 2.2%, and that was driven by three different sectors – technology, energy and event services.

Labor Market: Conditions cooled some but remain strong in comparison to the U.S. at 4.3% versus 4.4%. However, Texas has added 132,000 jobs and leads the nation during a hiring slowdown. Texas has seen a lot of economic growth and job additions and while that slowed a little bit, it is still a positive outlook for this year to come and likely many more years to come.

Inflation: Texas and U.S. inflation eased notably in late 2025. National Consumer Price Index (CPI) increased 2.7 percent. Texas CPI increased 1.7 percent, among the lowest in the country.

Housing Market: Market conditions remained tight but showed signs of gradual easing in late 2025 with modest softening in price growth accompanied by increased inventory levels.

Earnings Performance: Profitability improved due to strengthened net interest margins and income diversification. Net income increased from $324.27 million in 2024 to $450.72 million in 2025, an improvement of 42.9 percent. The return on average assets (ROAA) increased from 0.56 percent to 0.75 percent, while the net interest margin (NIM) expanded from 3.28 percent to 3.56 percent, supported by higher yields on both loans and investments.

Capital Adequacy: Texas credit unions remained well-capitalized. The aggregate net worth ratio increased from 11.53 percent in 2024 to 11.65 percent in 2025. Total equity increased from $6.32 billion to $6.93 billion, primarily due to retained earnings.

Growth Trends: Balance sheet expansion was supported by sustained deposit inflows and modes loan growth. Aggregate total assets increased from $58.85 billion at year-end 2024 to $61.61 billion at year-end 2025, representing 4.7 percent growth.

Credit Risk: Asset quality performance indicators remained generally stable in 2025. The delinquency ratio decreased from 1.02 percent in 2024 to 1.01 percent in 2025. Real estate loan portfolios experienced a minor increase in past due activity, while indirect auto lending continued to account for the majority of consumer credit risk exposure.

After a brief discussion on some other key financial trends, no formal action was taken by the Commission.

12. Updates regarding pending litigation:

a. Credit Union Department v Ken Paxton, Attorney General of Texas, Cause No. D-1-GN-21-007168. General Counsel Bijansky gave an update that this originated from an open records request received for information that is clearly confidential under the statute. The request was submitted to the Attorney General for a ruling declaring it confidential and confirming that it we withhold it. There was some confusion regarding how this request was submitted that led the Attorney General to conclude that it was not confidential. With no other recourse in this case, we sued the Attorney General. We have retained counsel from the Attorney General's Office representing us in that against another division of the AG's office. This case has been pending for quite a while and has been settled in principle. However, we are waiting on the other side to get their final approval. As soon as the Department receives word that it has been resolved, staff will inform the Commission members.

b. Cooperative Teachers Credit Union v Credit Union Department, State Office of Administrative Hearings Docket No. 469-23-07487. General Counsel Bijansky reported she was hoping to bring this case for final action by the Commission at the March meeting. Ms. Bijansky stated that the credit union does not currently have legal representation but was discussing whether they want to hire counsel or how to proceed and once she knows how they want to proceed, we can go from there.

No formal action was taken by the Commission.

13. Future Commission meetings – dates, agenda items, and arrangements:

Friday, July 17, 2026

Friday, November 6, 2026

After a short discussion, it was the consensus of the Commission to have staff look into alternative dates for the July meeting. Once those dates are picked, Isabel will contact everyone on dates that can accommodate and confirm the next meeting in July or August.

14. ADJOURNMENT – There being no further business for the Credit Union Commission, Chair Minge adjourned the meeting at 11:03 a.m.

____________________________	____________________________
Jim Minge Chairman	Isabel Velasquez Recording Secretary

Distribution:

Legislative Reference Library

4. Audit Committee report – Chair Becky Ames

a. Discussion regarding the FY 2026 Internal Audit Report and possible action to accept the report and authorize its submission to the State Auditor's Office

Background

The Audit Committee met on August 6, 2026, in a public meeting. The Committee will report on its activities for consideration and possible vote by the Commission.

An internal audit has been conducted for FY 2026 with a focus on payroll processes.

Staff recommendation

Staff recommends that the Commission accept the FY 2026 Internal Audit Report and authorize its submission to the State Auditor's Office.

Recommended motion

I move that the Commission accept the FY 2026 Internal Audit Report and authorize its submission to the State Auditor's Office.

Texas Credit Union Department

Internal Audit Report over Payroll

February 18, 2026

CONTENTS

Commissioners of the Texas Credit Union Department
914 E. Anderson Lane
Austin, TX 78752

This report presents the results of the internal audit procedures performed for the Texas Credit Union Department (CUD) during the period of September 24, 2025, through January 29, 2026, relating to the payroll processes of the agency.

The objectives of this internal audit were to evaluate the design and effectiveness of the Agency's payroll processes as follows:

A. Determine whether internal controls over Payroll process are designed to ensure effective and efficient management, administration, and compliance of payroll processes.

B. Ensure that controls over selected critical processes within Payroll processes are operating efficiently and effectively, and result in complete, accurate, and timely payroll to CUD employees.

To accomplish these objectives, we conducted interviews and walkthroughs with CUD personnel that have responsibilities in managing and administering payroll to gain an understanding of the current processes in place, examined existing supporting documentation, and evaluated the internal controls over the processes. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2024, through August 31, 2025. Procedures were performed on site and remotely and an exit meeting was conducted on February 5, 2026.

The following report summarizes the findings identified, risks to the Agency, recommendations for improvement, and management's responses.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
February 18, 2026

Background

The Texas Credit Union Department (TCUD) is a state regulatory agency responsible for the chartering, supervision, and examination of Texas-chartered credit unions. The Department's mission is to ensure the safety and soundness of state-chartered credit unions while protecting the interests of their members and maintaining public confidence in the credit union system. TCUD oversees credit union operations for compliance with applicable state laws and regulations, conducts risk-based examinations, and works in coordination with federal regulators—primarily the National Credit Union Administration (NCUA)—to promote financial stability, consumer protection, and effective governance within the Texas credit union industry.

The Texas Credit Union Department (CUD) processes payroll monthly using the State's Centralized Accounting and Payroll/Personnel System (CAPPS) in accordance with Comptroller-established payroll calendars and procedures. Employees record time and leave activity in CAPPS, supervisors review and approve time entries, and employees certify timesheets monthly, after which changes require documented approval. Payroll is prepared by authorized personnel using a Comptroller-prescribed checklist and system-generated CAPPS reports, with supporting documentation reviewed for personnel changes, special payments, and variances. Completed payroll packages are reviewed and approved by authorized management prior to release and processing through the Uniform Statewide Accounting System (USAS) for employee payment. Payroll deductions are automatically calculated based on employee elections in the Employee Retirement System and remitted through USAS, and access to payroll processing and approval functions is restricted through defined security roles to support appropriate segregation of duties.

Audit Objective and Scope

The audit focused on the design and effectiveness of Texas Credit Union Department's Payroll processes to ensure internal controls are appropriately designed and procedures are efficiently and effectively performed for accurate and timely payroll cycles. The audit included an evaluation of the payroll processes and internal controls currently in practice covering the activities within key process areas including:

- Timekeeping and Approval
- Payroll Processing
- Voluntary/Involuntary Deductions
- Accrued Leave

Human Resources administration activities were not considered in the scope of this audit, excluding the coordination performed with payroll.

Our procedures were designed to ensure relevant risks were covered and verified the following:

<u>Timekeeping and Approval</u>

- o Time entry for employees was captured timely, appropriately approved by supervisors and recorded in the system
- o Time sheets (as necessary) were complete, accurate, and included all time submitted during a payroll cycle, including regular time, compensatory time, overtime, sick time or paid time off

Payroll Processing

- Payroll was processed in accordance with the formalized payroll schedule with defined responsibilities and tasks
- Appropriate segregation of duties existed within the payroll processing activities, including payroll distributions
- Payroll was reviewed and approved for accuracy each cycle
- Bonus, stipends, supplemental or other special payments were authorized and appropriate

Voluntary/Involuntary Deductions

- All deductions were accurately calculated and withheld during payroll calculations
- Deductions were released timely, to the appropriate party, and the accruals were removed

Accrued Leave

- Employees leave was reviewed, monitored, and approved by authorized personnel
- Accrued leave was calculated and recorded accurately and timely

Our procedures included interviewing key CUD personnel and examining available documentation to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2024, through August 31, 2025.

Executive Summary

Through our interviews, evaluation of internal control design and testing of transactions, we identified two findings. The listing of findings includes those items that been identified and are considered to be non-compliance issues with documented CUD policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover risks to the Agency. These issues could have significant financial or operational implications.

A summary of our results, by audit objective, is provided in the table below. *See the Appendix for an overview of the Assessment and Risk Ratings*.

OVERALL ASSESSMENT	Strong

SCOPE AREA	RESULT	RATING
Objective A: Determine whether internal controls over Payroll processes are designed to ensure effective and efficient management, administration, and compliance of payroll processes.	We determined that controls are generally in place for the payroll process. We identified opportunities to update the current practices related to the regular update of policies and procedures for the processing of payroll.	Strong
Objective B: Ensure that controls over selected critical processes within Payroll processes are operating efficiently and effectively, and result in complete, accurate, and timely payroll to CUD employees.	We determined that controls are in place, however, we identified that there is opportunity to improve the consistency and timeliness of the approval, recording and documentation for the use of leave time by agency employees.	Strong

Conclusion

Based on the procedures performed for the period of September 1, 2024, through August 31, 2025, we determined that the payroll function has controls in place that are generally designed to mitigate key payroll risks. However, opportunities exist to strengthen the effectiveness and consistency of those controls.

Specifically, improvements are needed to update payroll procedures and to improve the timeliness, approval and documentation of leave time within the payroll system. Addressing these areas will enhance control consistency, support timely and accurate payroll processing, and improve alignment between documented procedures and actual practices.

Follow-up procedures will be performed in 2027 to evaluate the effectiveness of remediation efforts taken to address the findings identified.

Detailed Procedures Performed, Findings, Recommendations, and Management Responses

Detailed Procedures Performed, Findings, Recommendations, and Management Responses

Our procedures included interviewing key CUD personnel and examining available documentation to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2024, through August 31, 2025.

Objective A: Design of Internal Controls

Determine whether internal controls over payroll processes are designed to ensure effective and efficient management, administration, and compliance of payroll processes.

Procedures Performed: We conducted interviews of key personnel within the Human Resources Department of the agency who have responsibilities in managing and administering payroll, examined existing documentation to gain an understanding of the current Payroll processes, and identified internal controls that address risks over the critical processes:

- Timekeeping and Approval
- Payroll Processing
- Voluntary/Involuntary Deductions
- Accrued Leave

We evaluated whether the identified internal controls are sufficiently designed to comply with agency policies and procedures, and mitigate all critical risks associated with the payroll processes. We identified any unacceptable risk exposures due to control design inadequacy or any opportunities to strengthen the effectiveness of the existing control design.

Result: Finding identified

Finding 1 – Low – Policies and Procedures
Current policies and procedures do not reflect the current practices of the Credit Union Department. Specifically, this relates to the following:

Employee Benefits and Payroll Deductions
Procedures are currently being drafted for employee benefits. The new Staff Services Officer began drafting the procedures on January 15, 2025. Procedures were not previously documented.

Employee Annual Leave and Sick Leave
Current procedures do not include the procedures for entering annual leave time to timesheets. Additionally, the deadlines for time entries, along with timesheet reviews and approval are not clearly defined.

Recommendation:
We recommend that the Staff Services Officer continues to update and refine the employee benefits procedures related to new hires and employee benefits.

Time entries and approval time periods should be clearly defined and updated to include specific guidelines for the number of days that employees have to enter their time and the time that managers/supervisors must review and approve employees' weekly timesheets for the payroll period. The CAPPS notification dashboard and reports should be utilized to ensure time entries occur within 10 days to help ensure that all time is complete and accurate for payroll processing. This will help prevent potential payroll run issues such as fiscal year cross-over, and entries occurring for previous periods. All corrections to timesheets after the monthly payroll run should require justification and approval prior to any adjustments being made. The documentation should be retained as part of the monthly payroll support.

Additionally, we recommend that the employee handbook and procedures are reviewed at least annually to ensure their accuracy with evidence of a change log with approval.

Management Response: The Department agrees to continue updating and refining its employee benefit procedures.

In addition, we will ensure that time entry and approval time period guidelines are updated to reflect the number of days an employee has to enter their time, as well as the timeframe which supervisors have to review and approve employees' weekly timesheets. Further, we also agree to develop and implement a formalized justification and approval procedure when making corrections to timesheets after the monthly payroll run. In addition, the procedure will require the retainage of such approval documentation and incorporate such with the monthly payroll support.

Lastly, we also agree that our Employee Handbook and procedures will be reviewed at least annually to ensure they accurately reflect our actual processes and practices and will ensure such review and changes are supported with the appropriate approval.

Responsible Party: Staff Services Officer and Managers

Implementation Date: September 30, 2026

Objective B: Effectiveness of Internal Controls

Ensure that controls over selected critical processes within Payroll processes are operating efficiently and effectively, and result in complete, accurate, and timely payroll to CUD employees .

Timekeeping and Approval

Procedures Performed: We selected a sample of 20 out of 34 employees from the Employee Listing Report and determined whether:

- Time entry for employees was captured timely, appropriately approved and recorded in the system
- Time sheets were complete, accurate, and include all time submitted during a payroll cycle, including regular time, compensatory time, overtime, sick time or paid time off

Result: No findings identified

Payroll Processing

Procedures Performed: We selected a sample of three months in which payroll was performed and determined whether:

- Payroll was processed in accordance with the formalized payroll schedule with defined responsibilities and tasks
- Appropriate segregation of duties existed within the payroll processing activities, including payroll distributions
- Payroll was reviewed and approved for accuracy in each cycle
- Bonus, stipend, supplemental or other special payment was authorized and appropriate

Result: No findings identified

Voluntary/Involuntary Deductions

Procedures Performed: We selected a sample of five out of 34 employees from the Employee Listing Report and determined whether:

- Deductions were accurately calculated and withheld during payroll calculations
- Deductions were released timely, to the appropriate party, and the accruals were removed

Result: No findings identified

<u>Accrued Leave</u>

Procedures Performed: We selected a sample of five out of 34 employees from the Employee Listing Report and determined whether:

- Employee leave was reviewed, monitored, and approved by authorized personnel
- Accrued leave was calculated and recorded accurately and timely

Result: Finding identified

Finding 2 – Low – Employee Annual Leave and Sick Leave
For two out of five samples the employee leave time was not approved timely.
- Sample 1: Created 12/1/2024, Leave Date 12/23/2024, Approved 1/6/2025 = 36 days for approval
- Sample 5: Created 12/1/2024, Leave Date 12/23/2024, Approved 12/30/2024 = 30 days for approval

For three out of five samples, which required prior approval for annual leave, documentation for the annual leave request was not included in the payroll support.

For four out of five samples, in which the employee took sick leave, the time entry was not entered the day upon return.

Timekeeping documentation related to leave request emails are not consistently submitted by employees prior to annual leave time documenting their request and received approval. Additionally, the next day entry for sick leave is not currently monitored by managers/supervisors to ensure timely recording to timesheets per the employee handbook. Annual and sick leave is entered to timesheets, however, the annual leave time is entered prior to and after leave is taken, presenting inconsistencies with the timing of leave entries and management approvals.

Recommendation:
We recommend that the Employee Handbook procedures are reiterated to employees and managers to help ensure that time entries for leave are documented and approved according to policy. Employee annual leave should be approved prior to being taken and documented via email with verification of hours balance available. Leave time entries should be entered to CAPPS prior to leave time taken upon approval at least 24 hours in advance of the leave to be taken. Sick Leave time entries should be entered to CAPPS on the day of return to work. The approvals should be retained with employee time sheet reports for the monthly payroll support. Additionally, low leave balances indicating potential direct deposit payroll delays (less than 24 hours of cumulative leave on or before three working days before the end of the month) should be communicated through the Employee Handbook.

Management Response: We agree that we should retain documentation to support the fact that annual leave and comp time leave has been approved before it is taken. We will ensure that leave time entries are entered into CAPPS upon approval and prior to the leave being taken by at least 24 hours (when possible) in advance of the leave being taken. However, we recognize that isolated circumstances could exist where a request for leave may be made and approved less than 24 hours before it is taken. Thus, we will review our existing policies and procedures relating to the entering of annual and sick leave into CAPPS to determine if any adjustments are necessary for the required timeframes of submitting and approving leave entries.

Responsible Party: Staff Services Officer and Managers

Implementation Date: September 30, 2026

Appendix

The appendix defines the approach and classifications utilized by Weaver to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

Report Ratings

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of the agency
- Agency objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
    - Reliability and integrity of financial and operational information
    - Effectiveness and efficiency of operations and programs
    - Safeguarding of assets
    - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

Strong	The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.
Satisfactory	The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.
Unsatisfactory	The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

Risk Ratings

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

High

High-risk findings have qualitative factors that include, but are not limited to:

- Events that threaten the agency's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of the agency or beyond a single function or department
- Potential material impact on operations or the agency's finances
- Remediation requires significant involvement from senior agency management

Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of the agency
- Impact could be felt outside of the agency or across more than one function of the agency
- Noticeable and possibly material impact to the operations or finances of the agency
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior agency management to be updated

Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the agency's strategic priorities
- Impact is limited to a single function within the agency
- Minimal financial or operational impact to the agency
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk

4. Audit Committee report – Chair Becky Ames

b. Update regarding FY 2025 internal audit report

Background

The Audit Committee met on August 6, 2026, in a public meeting. The Committee will report on its activities for consideration and possible vote by the Commission.

Any discussion regarding cybersecurity measures or policies may take place in closed session.

Staff recommendation

No action is anticipated.

Credit Union Department

Fiscal Year 2026 Annual Internal Audit Report

August 31, 2026

weaver

Assurance • Tax • Advisory

CONTENTS

Credit Union Department

Fiscal Year 2026 Internal Audit Report
August 31, 2026

I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Website

Texas Government Code, Section 2102.015 requires state agencies and higher education institutions, as defined in the statute, to post their Internal Audit Plan, Internal Audit Annual Report, and other audit information on the Internet.

The Credit Union Department (CUD) will post this report and its Fiscal Year 2027 Internal Audit Plan on its website at https://cud.texas.gov/credit-union-commission/meeting-minutes. The CUD's Commission reviewed and approved the Annual Internal Audit Report as part of their regular meeting held on August 7, 2026. In accordance with Texas Government Code, Section 2102.015, the CUD will post the Annual Internal Audit Report and Fiscal Year 2027 Internal Audit Plan on its website within 30 days of the Commission's approval.

The CUD will update its posting with a detailed summary of the weaknesses, deficiencies, wrongdoings or other concerns raised by performance of the audit plan as they are identified. The CUD will also update the posting with the corrective action taken to address any issues identified.

II. Internal Audit Plan for Fiscal Year 2026

The internal audits planned and performed for fiscal year 2026 were selected to address the agency's significant processes that have not been previously audited. The audits conducted during fiscal year 2026 are listed below.

Internal Audit	Report Date	Current Status
Payroll	February 2026	**Complete** Follow-up procedures to address the open findings are included in the FY 2027 Internal Audit Plan
Follow-up Internal Audit over IT General Controls	July 2026	**Complete** Follow-up procedures to address the open findings are included in the FY 2027 Internal Audit Plan

III. Consulting Services and Non-audit Services Completed

Weaver, as the CUD's Internal Auditor, did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' International Standards for the Professional Practice of Internal Auditing or any non-audit services, as defined in the Government Auditing Standards, 2011 Revision, Sections 3.33 – 3.58, or Government Auditing Standards, 2018 Revision, Sections 3.64-3.106, as applicable.

IV. External Audit Services Procured in Fiscal Year 2026

Other than the contract with Weaver to provide outsourced internal audit services, the CUD did not procure any external audit services during the fiscal year 2026.

V. External Quality Assurance Review

In accordance with professional standards, and to meet the requirements of the Texas Internal Auditing Act, Internal Audit is required to undergo an external quality assurance review at least once every three years. Weaver's review was completed in November 2025.

Eide Bailly

Report on the Firm's System of Quality Control

November 19, 2025

To the Partners of Weaver & Tidwell, L.L.P.
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Weaver & Tidwell, L.L.P. (the Firm) applicable to engagements not subject to Public Company Accounting Oversight Board (PCAOB) permanent inspection in effect for the year ended May 31, 2025. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The Firm is responsible for designing and complying with a system of quality control to provide the Firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the Firm's system of quality control based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans, an audit performed under FDICIA, and examinations of service organizations (SOC 1 and SOC 2 engagements).

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Weaver & Tidwell, L.L.P. applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2025, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Weaver & Tidwell, L.L.P. has received a peer review rating of *pass*.

Eide Bailly LLP

Eide Bailly LLP

VI. Internal Audit Plan for Fiscal Year 2027

The Department is in the process of open procurement for an internal auditor as part of the agency's regular contract cycle. The Internal Audit Plan for fiscal year 2027 will be developed by the selected service provider. Once the plan is approved by the Department's Commission, it will be posted to the agency's website, and submitted to the State Auditor's Office in accordance with state internal audit requirements.

VII. Reporting Suspected Fraud, Waste and Abuse

In accordance with the requirements of Section 7.09, the General Appropriations Act (86th Legislature, Conference Committee Report) Article IX, and Texas Government Code, Section 321.022, the Commission utilizes the Texas State Auditor's Office Hotline for reporting allegations of fraud, waste or abuse. The Commission posts a link on the CUD home page at https://cud.texas.gov/ to connect users directly to the State Auditor's Office webpage for reporting suspected fraud, waste, or abuse.

If the Commissioner of the CUD believes that any money received from the state is lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the Commission, the Commissioner, or their designee will report the reason and basis for that belief to the State Auditor's Office. If any investigation is deemed necessary, the Commissioner and Commission staff will coordinate the investigation with the State Auditor's Office.

4. Audit Committee report – Chair Becky Ames

c. Authorize staff to take steps to procure internal auditing services

Background

The Audit Committee met on August 6, 2026, in a public meeting. The Committee will report on its activities for consideration and possible vote by the Commission.

Staff recommendation

Staff recommends that the Commission accept the Audit Committee's recommendation regarding procurement of internal auditing services.

Recommended motion

I move that the Commission authorize staff to take the following steps to procure internal auditing services:________________.

5. Rulemaking matters – Rules Committee – Chair David Shurtz
   a. Adoption or other action on amendments to:

      i. 7 TAC Section 91.1003, Mergers/Consolidations

Background

These amendments were developed with input from a working group formed after the December 2025 meeting in light of the previously proposed amendments and concerns raised at that meeting. The amendments prohibit merger inducements and require merger-related financial arrangements (both as defined in the rule) to be disclosed to members. The amendments also revise certain requirements for approval by the Department, increase consistency between the Texas and NCUA merger rules, and make non-substantive changes for clarity and readability.

Two comments were submitted in support of the amendments as proposed.

Staff recommendation

Staff recommends that the Commission adopt the amendments as proposed.

Recommended motion

I move that the Commission adopt the amendments to 7 TAC Section 91.1003 as proposed.

§91.1003, Mergers/Consolidations

The Credit Union Commission adopts amendments to 7 TAC §91.1003, Mergers and Consolidations, without changes to the proposed text as published in the April 10, 2026, issue of the *Texas Register* (51 TexReg 2284), and the rule will not be republished.

The amendments prohibit merger inducements and require merger-related financial arrangements (both as defined in the rule) to be disclosed to members before they vote on a merger. The amendments also revise certain requirements for approval by the Department, increase consistency between the Texas and federal requirements for mergers, and make non-substantive changes for clarity and readability.

The reasoned justification for these amendments is to ensure that the member vote on a merger takes place without undue influence and to increase transparency by ensuring that any merger-related financial arrangements are disclosed to the members before voting.

Two comments were received in response to the proposed amendments. Both comments, from the Cornerstone Credit Union League and First Service Credit Union, support adoption of the amendments as proposed.

The amendments are adopted pursuant to Texas Finance Code, §15.402, which authorizes the Commission to adopt reasonable rules for administering Texas Finance Code, Chapter 15 and Title 3, Subtitle D. Authority to adopt these amendments is found also in Texas Finance Code §122.1531 and 122.156.

The statutory provisions affected by the amendments are contained in Texas Finance Code Chapter 15 and Title 3, Subtitle D, particularly Finance Code §§122.005, and 122.151-.156.

The agency certifies that legal counsel has reviewed the adoption and found it to be within the agency's legal authority to adopt.

91.1003 Mergers/Consolidations

(a) Definitions. The following words and terms, when used in this section, shall have the following meanings, unless the context clearly indicates otherwise.

(1) Acquirer [~~credit union~~] – The credit union that will continue in operation after the merger/consolidation.

(2) Acquiree [~~credit union~~] – The credit union that will cease to exist as an operating credit union at the time of the merger/consolidation.

(3) <u>Covered person – the chief executive officer (CEO) or person acting in a similar capacity; the four most highly compensated employees other than the CEO, and any member of the board of directors or supervisory committee.</u>

(4) Merger inducement – any payment of money, the distribution of property, or other economic benefit offered, provided, or promised to a member of the Acquiree that is conditioned on the member voting, refraining from voting, or voting in a particular manner on a proposed merger or the successful completion of a merger. A merger inducement does not include: [~~A promise by a credit union to pay to the members of another credit union a sum of money or other material benefit upon the successful completion of a merger of the two credit unions.~~]

(A) a dividend or interest payment distributed proportionally among members based on each member's applicable account balance relative to the total balances on which the dividend or interest is paid;

(B) an interest rebate distributed proportionally among members based on each member's share of the total interest paid to the credit union; or

(C) dividends, interest, or other payments made in the ordinary course of business that are generally available to members and not tied to the proposed merger/consolidation;

(D) products, services, or pricing available to all members of Acquirer and Acquiree;

(E) nominal promotional items distributed in the ordinary course of business;

(F) access to products, services, or facilities of Acquirer following the merger/consolidation, including expanded branch access or service offerings;

(G) merger-related financial arrangements for the Acquiree's CEO and the four most highly compensated employees other than the CEO; or

(H) benefits to members of the board of directors that are permissible under 7 TAC §91.502.

(5) Merger-related financial arrangement – any agreement, arrangement, or understanding under which a covered person, or an entity affiliated with a covered person, receives or is entitled to receive a substantial increase in compensation or benefits that is contingent upon, related to, or provided in connection with the completion of a merger/consolidation, including:

(A) any increase in compensation or benefits provided to the covered person during the 24 months preceding the date on which the boards of directors of Acquirer and Acquiree approve the plan for merger/consolidation; and

(B) any increase in compensation or benefits that will be provided to the covered person in connection with the merger/consolidation; and

(C) the aggregate value of all increases in direct or indirect compensation, including salary, bonuses, leave, deferred compensation, accelerated or early payment of retirement benefits, or any other financial reward, excluding compensation or benefits available to all employees of the Acquirer on identical terms and conditions.

(6) [~~(4)~~] Substantial--An amount exceeding the greater of 15% of a person's existing compensation or 15% of the value of the person's existing benefits, or $10,000. [~~that is large in size, value, or importance. For purposes of this section, an amount is substantial if it exceeds $1,000.00 in total.~~]

(b) Merger/Consolidation; No Inducements. Two or more credit unions organized under the laws of this state, another state, or the United States, may merge/consolidate, in whole or in part, with each other, or into a newly incorporated credit union to the extent permitted by applicable law, subject to the requirements of this rule. An Acquirer may not directly or indirectly, including through a credit union service organization, an affiliate, a contractor, or other third party, offer, provide, arrange, or promise a merger inducement to any member of the Acquiree. [~~A credit union may not offer a merger inducement to another credit union's members as a means of promoting a merger of the two credit unions.~~]

(c) Notice of Intent to Merge/Consolidate. The Acquirer and Acquiree [~~credit unions~~] shall notify the commissioner in writing of their intent to merge/consolidate within ten days after their [~~the credit unions~~] boards of directors formally agree in principle to a proposition to merge/consolidate.

(d) Plan for Merger/Consolidation. Upon approval of a proposition for merger/consolidation by the boards of directors, the Acquirer and Acquiree [~~credit unions~~] must prepare a plan for the proposed merger/consolidation. The plan shall include:

(1) The terms and conditions of the merger/consolidation including a detailed description of all merger-related financial arrangements [~~any substantial remuneration, such as bonuses, deferred compensation, early payout of retirement benefits, severance packages, retainers, services agreements, or other substantial financial rewards or benefits that any board member or senior management employee of the acquiree credit union may receive in connection with the merger/consolidation~~];

(2) the current financial reports of each credit union;

(3) the current delinquent loan summaries for each credit union;

(4) the combined financial reports of the Acquirer and Acquiree [~~two or more credit unions~~], including an assessment, in accordance with generally accepted accounting

principles, of net worth of each credit union prior to the merger/consolidation and the combined net worth of the Acquirer after the merger/consolidation;

(5) [~~(4)~~] an analysis of the adequacy of the combined Credit [~~Loan and Lease~~] Losses account;

(6) [~~(5)~~] an explanation of any proposed adjustments to the members' shares, or provisions for reserves, dividends, or undivided earnings [~~profits~~];

(7) [~~(6)~~] a summary of the products and services proposed to be available to the members of the Acquirer [~~acquirer credit union~~], with an explanation of any changes from the current products and services provided to the members;

(8) [~~(7)~~] a summary of the advantages and disadvantages of the merger/consolidation;

(9) [~~(8)~~] the projected location of the main office and any branch location(s) after the merger/consolidation and whether any existing office locations will be permanently closed; and

(10) provisions and/or liabilities with respect to notification and payment to creditors; and

(11) [~~(9)~~] any other items deemed critical to the merger/consolidation by the Acquirer's and Acquiree's boards of directors [~~agreement by the boards of directors~~].

(e) Submission of an Application to Merge/Consolidate to Department.

(1) An application for approval of the merger/consolidation will be complete when the following information is submitted to the commissioner:

(A) the merger/consolidation plan, as described in this section;

(B) any proposed agreement, arrangement, or understanding arising from or required to implement the merger/consolidation;

(C) [~~(B)~~] a copy of the corporate resolution of each board of directors approving the merger/consolidation plan;

(D) [~~(C)~~] the proposed Notice of Special Meeting of the members;

(E) [~~(D)~~] a copy of the ballot form to be sent to the members;

[~~(E) the current delinquent loan summaries for each credit union;~~]

(F) a statement as to whether the transaction is subject to the Hart-Scott Rodino Act premerger notification filing requirements; [~~and~~]

(G) board minutes of Acquirer and Acquiree referencing the merger/consolidation during the 24 months preceding board approval of the merger/consolidation plan; [~~a request for a waiver of the requirement that the plan be approved by the members of any of the affected credit unions, in the event the board(s) seek such a waiver, together with a statement of the reason(s) for the waiver(s).~~]

(H) any additional information requested by the commissioner;

(I) a certification executed by the chief executive officers and chairpersons of the Acquirer and Acquiree stating that no merger-related financial arrangements exist other than those disclosed in the Notice of Special Meeting;

(J) for a credit union seeking a waiver of member approval of the merger/consolidation plan, a written request stating the reasons for the waiver; and

(K) for an Acquirer that is not federally insured and does not intend to become federally insured:

(i) a written statement that it is aware of the federal requirements prescribed by 12 U.S.C. 1831t(b), including all notification requirements; and

(ii) proof that its accounts will be insured by the non-federal insurer.

(2) If the Acquirer [~~acquirer credit union~~] is organized under the laws of another state or of the United States, the commissioner may accept an application to merge or consolidate that is prescribed by the state or federal supervisory authority of the Acquirer [~~acquirer credit union~~], provided that the commissioner may require additional information to determine whether to deny or approve the merger/consolidation plan. An [~~The~~] application submitted under this paragraph will be [~~deemed~~] complete upon receipt of all information requested by the commissioner.

(3) Notice of the proposed merger/consolidation must be published in the *Texas Register* and Department Newsletter as prescribed in §91.104 (relating to Public Notice and Comment on Certain Applications).

(f) Commissioner Action on the Application.

(1) The commissioner may grant preliminary approval of an application for merger/consolidation conditioned upon specific requirements being met, but final approval shall not be granted unless such conditions have been met within the time specified in the preliminary approval. If the commissioner determines that a merger/consolidation constitutes an emergency, the commissioner may waive any specific merger plan or application requirements to ensure uninterrupted service to the members.

(2) The commissioner may [~~shall~~] deny an application for merger/consolidation if the commissioner finds any of the following:

(A) the financial condition of the Acquirer [~~acquirer credit union~~] before the merger/consolidation is such that it will likely jeopardize the financial stability of the Acquiree [~~merging credit union~~] or prejudice the financial interests of the members, beneficiaries or creditors of either credit union;

(B) the plan includes a change in the products or services available to members of the Acquiree [~~acquiree credit union~~] that substantially harms the financial interests of the members, beneficiaries or creditors of the Acquiree [~~acquiree credit union~~];

(C) the merger/consolidation is likely to [would probably] substantially lessen the ability of the Acquirer [~~acquirer credit union~~] to meet the reasonable needs and convenience of members to be served;

(D) the credit unions do not furnish to the commissioner all information requested by the commissioner which is material to the application;

(E) the credit unions fail to obtain any approval required from a federal or state supervisory authority; or

(F) the merger/consolidation would be contrary to law.

(3) For applications to merge/consolidate in which the products and services of the Acquirer [~~acquirer credit union~~] after merger/consolidation are proposed to be substantially the same as those of the Acquirer and Acquiree [~~acquiree and acquirer credit unions~~], the commissioner will presume that the merger/consolidation will not significantly change or affect the availability and adequacy of financial services in the local community.

(g) Procedures for Approval of Merger/Consolidation Plan by the Members of Each Credit Union.

(1) The credit unions have the option of allowing their members to vote on the plan in person at a meeting of the members, by mail ballot, or both. With prior approval of the commissioner, a credit union may accept member votes by an alternative method that is reasonably calculated to ensure each member has an opportunity to vote.

(2) Members shall be given advance notice of the meeting in accordance with the credit union's bylaws. The notice of the meeting shall:

(A) specify the purpose of the meeting and state the date, time, and place of the special meeting;

(B) state the reasons for the proposed merger/consolidation;

(C) contain a summary of the merger/consolidation plan, including: [~~and state that any interested person may obtain more detailed information about the merger from the credit union at its principal place of business, or by any method approved in advance by the commissioner;~~]

(i) a statement on whether the Acquirer has a higher or lower net worth ratio than the Acquiree;

(ii) an indication of whether the members of the Acquiree will receive a share adjustment, dividend, or other distribution of reserves or undivided earnings and a description of the reasons for the decision;

(iii) a description of any changes regarding the change in the members' deposit insurance if the Acquiree is not federally insured;

(iv) a statement that any interested person may obtain more detailed information about the merger/consolidation from the credit union at its principal place of business, or by any method approved in advance by the commissioner; and

(v) a table, provided on a separate page enclosed with the meeting notice, ballot, and plan summary, describing each merger-related financial arrangement, including the covered person involved, their position, the nature and description of the arrangement, and the total amount of any compensation or benefits associated with the arrangement;

(D) provide the names and street addresses of Acquirer's branch offices after the merger/consolidation [~~location of the acquirer credit union~~]; and

(E) state that members may vote on the merger/consolidation proposal in person or mail ballot or electronically (if the credit union bylaws allow) no later than the date and time established for the meeting called to vote on the merger/consolidation. [~~specify the methods permitted for casting votes; and~~]

[~~(F) if applicable, be accompanied by a mail ballot.~~]

(h) Completion of Merger/Consolidation.

(1) Upon approval of the merger/consolidation plan by the membership, if applicable, the Certificate of Merger/Consolidation shall be completed, signed and submitted to the commissioner for final authority to combine the records. Necessary amendments to the Acquirer's [~~acquirer credit union's~~] articles of incorporation or bylaws shall also be submitted at this time.

(2) Upon receipt of the commissioner's written authorization, the records of the credit unions shall be combined as of the effective date of the merger/consolidation. The board of the directors of the Acquirer [~~acquirer credit union~~] shall certify the completion of the merger/consolidation to the commissioner within 30 days after the effective date of the merger/consolidation.

(3) Upon receipt by the commissioner of the completion of the merger/consolidation certification, any article of incorporation or bylaw amendments will be approved and the charter of the Acquiree [~~acquiree credit union~~] will be canceled.

(i) Other requirements. A federally insured credit union subject to this section must comply with applicable provisions of 12 C.F.R. Part 708b. The commissioner may require documentation demonstrating compliance when considering a merger/consolidation application.

May 7, 2026

Attn: Devon Bijansky, General Counsel
Texas Credit Union Department ("TCUD")
914 East Anderson Lane
Austin, TX 78752-1699
Sent via electronic mail to CUDMail@cud.texas.gov

Subject: Formal Comment on Proposed Amendments to 7 TAC, Part 6, Chapter 91, Subchapter J, Section 91.1003 (Mergers/Consolidations)

Dear Ms. Bijansky,

On behalf of First Service Credit Union ("FSCU"), I respectfully submit these comments in strong support of the proposed amendments to Texas Administrative Code §91.1003 (Mergers/Consolidations), as published in the Texas Register on April 10, 2026. The proposed changes represent an important advancement in promoting transparency, protecting credit union members, and ensuring that mergers and consolidations are conducted with the highest standards of integrity.

FSCU particularly commends the Department for the provisions that:

Prohibit Inducements in Merger Transactions (§91.1003(b)) – The explicit prohibition of inducements in connection with mergers is critical to ensuring that decisions are made solely in the best interests of credit union members. This provision aligns with the fiduciary duties of credit union boards and management and mitigates risks of conflicts of interest or undue influence in merger negotiations.

Require Full Disclosure of Financial Arrangements (§91.1003(d)(1)) – The transparency created by mandatory disclosure of all financial arrangements related to a merger ensures that boards, members, and regulators have complete information to evaluate the transaction. Full disclosure strengthens accountability and fosters member trust.

Enhanced Member Notice (§91.1003 (g)(2)) – The expanded requirements for providing notice to members ensure that they are fully informed of proposed mergers, including the terms and potential impacts. The enhanced member notice allows members to exercise their rights with complete information and reinforces the central principle that mergers should be conducted in the members' best interests.

These amendments reinforce Texas's leadership in promoting prudent and transparent credit union transactions. By codifying these measures, the TCUD ensures that mergers are executed fairly, ethically, and with appropriate oversight, ultimately protecting members and the broader credit union system.

In conclusion, FSCU strongly urges the Department to adopt these amendments in their entirety, as they will significantly strengthen transparency in merger and consolidation transactions.

Thank you for your attention to these comments and your continued dedication to promoting the sound governance of Texas credit unions.

Sincerely,

Gevon Calix
VP of Compliance
First Service Credit Union

May 10, 2026

Devon Bijansky
General Counsel
Credit Union Department
914 East Anderson Lane
Austin, TX 78752

Sent via email to: CUDMail@cud.texas.gov

RE: Merger Rule Proposal, 91.1003

Dear Ms. Bijansky,

I am writing on behalf of the Cornerstone Credit Union League ["Cornerstone"] in response to the Credit Union Department's proposed changes to 7 TAC §91.1003, Mergers and Consolidations. Cornerstone is a trade association representing over 600 state and federal credit unions in a 5-state region which includes Arkansas, Kansas, Missouri, Oklahoma, and Texas. Thank you for the opportunity to voice our comments.

Cornerstone appreciates the opportunity to participate in the workgroup that focused on revisions to the merger rule. I believe the collective thoughts of the group led to a well-developed draft rule.

Cornerstone supports the rule as proposed. The proposed amendments address the prohibition of merger inducements and require disclosure of merger-related financial arrangements while maintaining consistency with the NCUA merger rule. These changes ensure that the member vote on a merger takes place without undue influence. The changes also increase transparency by ensuring that any merger-related financial arrangements are disclosed to the members before voting.

If you have further questions or would like to discuss these comments in more detail, please feel free to contact me.

Sincerely,

Suzanne Yashewski
Regulatory Compliance Counsel
Cornerstone Credit Union League
Direct phone: (512) 853-8516
Email: syashewski@cornerstoneleague.coop

5. Rulemaking Matters
   a. Adoption or other action on amendments to:

      ii. 7 TAC Chapter 91, Subchapter G:
         A. Section 91.709, Member Business and Commercial Loans
         B. Section 91.714, Leasing

Background

These amendments are the result of the Department’s rule review process. The amendments to Section 91.709 clarify the concept of controlling interests in commercial loans and make other non-substantive changes for clarity.

The amendments to Section 91.714 include the deletion of language in subsection (b) about acquisition of property for the purpose of leasing it, which is prohibited by Section 91.401, and addition of a reference to Section 91.401 to ensure consistency between these two sections that relate to ownership and leasing of real property by a credit union.

No comments were submitted in response to the proposed amendments.

Staff recommendation

Staff recommends that the Commission adopt the amendments as proposed.

Recommended motion

I move that the Commission adopt the amendments to 7 TAC Sections 91.709 and 91.714 as proposed.

The Credit Union Commission adopts amendments to §§91.709, Member Business and Commercial Loans, and 91.714, Leasing, without changes to the proposed text as published in the April 10, 2026, issue of the *Texas Register* (51 TexReg 2283) and as corrected in the April 24, 2026, issue (51 TexReg 2800), and the rules will not be republished.

The amendments, identified as a part of the Credit Union Department's quadrennial rule review process, delete a reference in subsection (b) of §91.714 to acquisition of property for the purpose of leasing it, already prohibited by §91.401, and make non-substantive changes to both rules, including clarifications to §91.709 regarding the concept of controlling interests in commercial loans and to §91.714 by adding a reference to §91.401 to ensure consistency between these sections that both address ownership and leasing of real property by a credit union.

The reasoned justification for the amendments is increased clarity, consistency, and readability of the rules.

No comments were received in response to the proposed amendments.

The amendments are adopted pursuant to Texas Finance Code, §15.402, which authorizes the Commission to adopt reasonable rules for administering Texas Finance Code, Title 2, Chapter 15 and Title 3, Subtitle D. Authority to adopt these amendments is found also in Texas Finance Code §123.103.

The statutory provisions affected by the amendments are contained in Texas Finance Code Chapter 15 and Title 3, Subtitle D, particularly Finance Code §123.103.

The agency certifies that legal counsel has reviewed the adoption and found it to be within the agency's legal authority to adopt.

91.709 Member Business and Commercial Loans

(a) Definitions. Definitions in TEX. FIN. CODE §121.002, are incorporated herein by reference. As used in this section, the following words and terms shall have the following meanings, unless the context clearly indicates otherwise.

(1) –(2) (No change.)

(3) "Controlling interest" means an interest in which a person directly or indirectly, or acting through or together with one or more other persons [~~who~~]:

(A) owns [~~own~~], controls [~~control~~], or has [~~have~~] the power to vote twenty-five (25) percent or more of any class of voting securities of another person;

(B) controls [~~control~~], in any manner, the election of a majority of the directors, trustees, or other persons exercising similar functions of another person; or

(C) has [~~have~~] the power to exercise a controlling influence over the management or policies of another person.

(4) – (11) (No change.)

(b) – (h) (No change.)

(i) Aggregation and Attribution for Commercial Loans.

(1) –(2) (No change.)

(3) Common Enterprise.

(A) Description. A common enterprise is considered to exist and commercial loans to separate borrowers will be aggregated when:

(i) the expected source of repayment for each loan or extension of credit is the same for each borrower and neither borrower has another source of income from which the loan (together with the borrower's other obligations) may be fully repaid. An employer will not be treated as a source of repayment under this subparagraph because of wages and salaries paid to an employee[~~,~~] unless the loans or extensions of credit are made [~~the standards of clause (ii) of this subparagraph are met~~]:

[~~(ii) the loans or extension of credit are made:~~]

(I) to borrowers who have a controlling interest in the employer [~~who are related directly or indirectly through control~~] as defined by subsection (a) of this section; and

(II) substantial financial interdependence exists between or among the borrowers. Substantial financial interdependence is deemed to exist when fifty (50) percent or more of one borrower's gross receipts or gross expenditures (on an annual basis) are derived from transactions with the other borrower. Gross receipts and expenditures include gross revenues/expenses, intercompany loans, dividends, capital contributions, and other similar receipts or payments;

(ii) [~~(iii)~~] separate persons borrow from a credit union to acquire a business of enterprise of which those borrowers will own more than fifty (50) percent of the voting securities of voting interest, in which case a common enterprise is deemed to exist between the borrowers for purposes of combining the acquisition loans; or

(iii) [~~(iv)~~] the Department determines, based upon an evaluation of the facts and circumstances of particular transactions, that a common enterprise exists.

(B) – (C) (No change.)

(j) – (m) (No change.)

91.714 Leasing

(a) (No change.)

(b) Permissible activities. Subject to the limitations of this section <u>and §91.401 of this title (relating to Credit Union Ownership of Property)</u>, a credit union may engage in leasing activities. These activities include [~~becoming the legal or beneficial owner of tangible personal property or real property for the purpose of leasing such property,~~] obtaining an assignment of a lessor's interest in a lease of such property[~~,~~] and incurring obligations incidental to its position as the legal or beneficial owner and lessor of the leased property.

(c) – (h) (No change.)

5. Rulemaking Matters
   a. Adoption or other action on amendments to:

      iii. 7 TAC Chapter 95, Subchapter A:
         A. Section 95.105, Reporting
         B. Section 95.108, Examinations
         C. Section 95.110, Enforcement; Penalty; and Appeal

Background

These amendments are the result of the Department's rule review process. The amendments to Sections 95.105, Reporting, and 95.110, Enforcement; Penalty; and Appeal, consist of updates to the titles of other sections referenced in the rules as well as minor edits for readability. The amendments to Section 95.108, Examinations, incorporate provisions from Section 95.109, Fees and Charges, relating to fees for examinations of insuring organizations, which is recommended for repeal at this meeting.

No comments were submitted in response to the proposed amendments.

Staff recommendation

Staff recommends that the Commission adopt the amendments as proposed.

Recommended motion

I move that the Commission propose the amendments to 7 TAC Sections 95.105, 95.108, and 95.110 as proposed.

The Credit Union Commission adopts amendments to §§95.105, Reporting; 95.108, Examinations; and 95.110, Enforcement; Penalty; and Appeal, without changes to the text as proposed in the April 10, 2026, issue of the *Texas Register* (51 TexReg 2288), and the rules will not be republished.

The amendments, identified as a part of the Credit Union Department's quadrennial rule review process, make non-substantive changes to the Department's rules. The amendments to §§95.105, Reporting, and 95.110, Enforcement; Penalty; and Appeal, consist of updates to the titles of other sections referenced in the rules as well as minor edits for readability. The amendments to §95.108, Examinations, incorporate provisions from §95.109, Fees and Charges, relating to fees for examinations of insuring organizations, which is being repealed elsewhere in this issue.

The reasoned justification for the rules is increased clarity and readability of the rules.

No comments were received in response to the proposed amendments.

The amendments are adopted pursuant to Texas Finance Code, §15.402, which authorizes the Commission to adopt reasonable rules for administering Texas Finance Code, Title 2, Chapter 15 and Title 3, Subtitle D.

The statutory provisions affected by the amendments are contained in Texas Finance Code Chapter 15 and Title 3, Subtitle D, specifically §15.402.

The agency certifies that legal counsel has reviewed the adoption and found it to be within the agency's legal authority to adopt.

95.105 Reporting

(a) Within one hundred days after the close of <u>each</u> [~~a~~] fiscal year, an insuring organization shall file with the commissioner [~~annually~~] audited financial statements, prepared in accordance with generally accepted accounting principles~~,~~ covering that fiscal year. The audited financial statements shall be accompanied by an opinion of an independent certified public accountant. In addition, at least once every three years, the audit shall include an actuarial study of the capital adequacy of the insuring organization.

(b) The provisions of this section are in addition to those prescribed in §91.209 of this title (relating to <u>Call Reports and Other Information Requests</u> [~~Reports and Charges for Late Filing~~]).

95.108 Examinations

(a) The department may conduct examinations and investigations within or outside this state to determine whether an insuring organization has engaged, is engaging or is about to engage in any act, practice or transaction which constitutes an unsafe or unsound practice or a violation of any law or rule applicable to the insuring organization.

(b) In lieu of an examination under this section, the commissioner may accept the examination report of another regulator authorized to examine the insuring organization.

(c) If the Department conducts an examination or investigation in accordance with subsection (a) of this section, the insuring organization shall pay the costs as outlined for foreign credit union examinations in §97.113(d)(3) of this title.

(d) At the sole discretion of the Commissioner, the Department may engage professionals to perform and complete any aspect of an examination or investigation. The reasonable expenses and compensation of such professionals shall be paid by the insuring organization.

95.110 Enforcement; Penalty; and Appeal

(a) The commissioner may issue a cease and desist order, generally in accordance with Finance Code §122.257(b), (c), (d) and (e), to an officer, employee, director, and/or the insuring organization itself, if the commissioner determines from examination or other credible evidence that the insuring organization has or is operating in an unsafe or unsound manner, or violated or is violating any applicable Texas law or rule of the commission, including causing a credit union to operate in an unsafe or unsound condition as defined by Finance Code §121.002(11)(C). If the insuring organization does not comply with the order, the commissioner may assess an administrative penalty as authorized by Finance Code §122.260, as well as institute procedures to revoke the authority to provide primary share insurance coverage in this state.

(b) An insuring organization may file a notice of appeal of a cease and desist order in accordance with §93.401 of this title (relating to Appeals of Cease and Desist Orders and Orders of Removal [~~Finality and Request for SOAH Hearing~~]).

5. Rulemaking Matters
   a. Adoption or other action on amendments to:

      iv. 7 TAC Chapter 95, Subchapter C:
         A. Section 95.302, Powers
         B. Section 95.305, Audited Financial Statements; Accounting Procedures; Reports
         C. Section 95.310, Fees and Charges

<u>Background</u>

These amendments are the result of the Department's rule review process. The amendments make non-substantive corrections to the titles of other rule sections referenced in these rules.

No comments were submitted in response to the proposed amendments.

<u>Staff recommendation</u>

Staff recommends that the Commission adopt the amendments as proposed.

<u>Recommended motion</u>

I move that the Commission adopt the amendments to 7 TAC Sections 95.302, 95, 305, and 95.310 as proposed.

The Credit Union Commission adopts amendments to §§95.302, Powers; 95.305, Audited Financial Statements; Accounting Procedures; Reports; and 95.310, Fees and Charges, without changes to the text as proposed in the April 10, 2026, issue of the Texas Register (51 TexReg 2290), and the rules will not be republished.

The amendments, identified as a part of the Credit Union Department's quadrennial rule review process, make non-substantive corrections to the titles of other rule sections referenced in the rules.

The reasoned justification for the amendments is accuracy of the rules.

No comments were received in response to the proposed amendments.

The amendments are adopted pursuant to Texas Finance Code §15.402, which authorizes the Commission to adopt reasonable rules for administering Texas Finance Code, Title 2, Chapter 15 and Title 3, Subtitle D.

The statutory provisions affected by the amendments are contained in Texas Finance Code Chapter 15 and Title 3, Subtitle D.

The agency certifies that legal counsel has reviewed the adoption and found it to be within the agency's legal authority to adopt.

95.302 Powers

The guaranty credit union, pursuant to Texas Finance Code §15.410(b) and to the powers contained in Subtitle D, Title 3, Texas Finance Code, may:

(1) – (15) (No change.)

(16) Acquire a promissory note or other asset upon which a nonmember is liable, provided such acquisition is made, in the discretion of the guaranty credit union, to protect an inferior lien held by the guaranty credit union, a participating credit union, member of the guaranty credit union or a member of a participating credit union member of the guaranty credit union. Such acquisitions shall not be subject to the restrictions of §91.701 et. seq. of this title (relating to Lending Powers [~~Loans~~]);

(17) – (18) (No change.)

95.305 Audited Financial Statements; Accounting Procedures; Reports

(a) – (c) (No change.)

(d) All of the provisions of this section are in addition to those prescribed in §91.209 of this title (relating to Call Reports and Other Information Requests [~~Reports and Charges for Late Filing~~]).

95.310 Fees and Charges

(a) A guaranty credit union shall pay the fees prescribed in §97.113 of this title (relating to [~~Operating~~] Fees and Charges) in the same manner as any other credit union chartered under the Act.

(b) (No change.)

5. Rulemaking Matters

b. Adoption of repeal of 7 TAC Section 95.109, Fees and Charges

Background

This repeal is the result of the Department's rule review process. The repeal is being recommended in conjunction with the recommendation to add its provisions to Section 95.108, which contains similar provisions regarding examinations of insuring organizations.

No comments were submitted in response to the proposed repeal.

Staff recommendation

Staff recommends that the Commission adopt the repeal as proposed.

Recommended motion

I move that the Commission adopt the repeal of 7 TAC Section 95.109.

The Credit Union Commission adopts the repeal of 7 TAC §95.109, Fees and Charges, as proposed in the April 10, 2026, issue of the *Texas Register* (51 TexReg 2289).

The repeal is adopted in order to combine the provisions of this section with §95.108, Examinations, being amended elsewhere in this issue so that provisions regarding examinations of insuring organizations and the fees associated with those examinations will be in a single rule.

The reasoned justification for the repeal is clarity through the consolidation of provisions related to examinations of insuring organizations.

No comments were received in response to the proposed repeal.

The repeal is adopted pursuant to Texas Finance Code §15.402, which authorizes the Commission to adopt reasonable rules for administering Texas Finance Code, Title 2, Chapter 15 and Title 3, Subtitle D.

The statutory provisions affected by the repeal are contained in Texas Finance Code Chapter 15 and Title 3, Subtitle D.

The agency certifies that legal counsel has reviewed the repeal and found it to be within the agency's legal authority to adopt.

[~~95.109 Fees and Charges~~

~~(a) An insuring organization shall pay the cost associated with an examination of a foreign credit union as prescribed in §97.113(k) of this title (relating to Foreign Credit Union Examination Fees).~~

~~(b) At the sole discretion of the commissioner, the department may engage professionals to perform and complete any aspect of an examination or investigation. The reasonable expenses and compensation of such professionals shall be paid by the insuring organization.~~]

5. Rulemaking Matters

c. Proposal of amendments to:

i. 7 TAC Chapter 91, Subchapter E:
   A. Section 91.501, Director Eligibility and Disqualification
   B. Section 91.502, Director/Committee Member Fees, Insurance, Reimbursable Expenses, and Other Authorized Expenditures

These amendments are the result of the Department's rule review process. The amendments to Section 91.501 would add flexibility to the recordkeeping requirement for applications of new directors. The amendments to Section 91.502 would correct the title of a rule referenced in the section.

Staff recommendation

Staff recommends that the Commission propose the amendments as presented.

Recommended motion

I move that the Commission propose the amendments to 7 TAC Sections 91.501 and 91.502 as presented.

The Credit Union Commission proposes amendments to §§91.501, Director Eligibility and Disqualification, and 91.502, Director/Committee Member Fees, Insurance, Reimbursable Expenses, and Other Authorized Expenditures.

EXPLANATION OF AND JUSTIFICATION FOR THE RULES. The proposed amendments were identified as a part of the Credit Union Department's quadrennial rule review process. The amendments to Section 91.501 would add flexibility to the recordkeeping requirement for applications of new directors. The amendments to Section 91.502 would correct the title of a rule referenced in the section.

COST TO REGULATED PERSONS. This rule proposal is not subject to Texas Government Code §2001.0045 concerning increasing costs to regulated persons because this agency is a self-directed semi-independent (SDSI) agency under Finance Code Chapter 16 and is therefore exempt under §2001.0045(c)(8).

GOVERNMENT GROWTH IMPACT STATEMENT. In compliance with Texas Government Code §2001.0221, the Department has prepared a government growth impact statement.

For each year of the first five years that the rules as amended will be in effect, the rules will not:

--create or eliminate a government program;

--require the creation of new employee positions or the elimination of existing employee positions;

--require an increase or decrease in future legislative appropriations to the Department;

--require an increase or decrease in fees paid to the Department;

--create new regulations;

--expand, limit, or repeal existing regulations;

--increase or decrease the number of individuals subject to the rule's applicability;

--positively or adversely affect this state's economy.

ENVIRONMENTAL RULE ANALYSIS. The proposed rules are not "major environmental rules" as defined by Government Code §2001.0225. The proposed rules are not specifically intended to protect the environment or to reduce risks to human health from environmental exposure. Therefore, a regulatory environmental analysis is not required.

FISCAL IMPACT ON STATE AND LOCAL GOVERNMENTS. Robert Etheridge, Commissioner, has determined that for the first five-year period the proposed amendments are in effect, there are no reasonably foreseeable implications relating to cost or revenues of state or local governments under Government Code §2001.024(a)(4) as a result of enforcing or administering these amendments as proposed.

PUBLIC BENEFIT/COST NOTE. Mr. Etheridge has determined, pursuant to Government Code §2001.024(a)(5), that for the first five-year period the amended rules are in effect, the public benefit of the amendments to §91.501 is streamlined recordkeeping by credit unions, and the public benefit of the amendments to §91.502 is accuracy in the rule. He has further determined there will be no probable economic cost to the credit union system or to persons required to comply with the rules.

IMPACT ON LOCAL EMPLOYMENT OR ECONOMY. There is no reasonably anticipated effect on a local economy for the first five years that the proposed amendments are in effect. Therefore, no economic impact statement, local employment impact statement, or regulatory flexibility analysis is required under Texas Government Code §§2001.022 or 2001.024(a)(6).

ECONOMIC IMPACT STATEMENT AND REGULATORY FLEXIBILITY ANALYSIS FOR SMALL BUSINESSES, MICROBUSINESSES, AND RURAL COMMUNITIES. Mr. Etheridge has also determined that for each year of the first five years the proposed amendments are in effect, there will be no reasonably forecasted adverse economic effect on small businesses, micro-businesses, or rural communities as a result of implementing these amendments, and, therefore, no regulatory flexibility analysis, as specified in Texas Government Code §2006.002, is required.

TAKINGS IMPACT ASSESSMENT. No private real property interests are affected by this proposal, and the proposal does not restrict or limit an owner's right to his or her property that would otherwise exist in the absence of government action. Therefore, the amendments do not constitute a taking under Texas Government Code §2007.043.

REQUEST FOR PUBLIC COMMENT. The Department is requesting public comments on the proposed amendments and information related to the cost, benefit, or effect of the proposed rules, including any applicable data, research, or analysis, from any person required to comply with the proposed rule or any other interested person. Please include an explanation of how and why the submitted information is specific to the proposed rules. Please do not submit copyrighted, confidential, or proprietary information. Written comments on the proposed amendments may be submitted in writing to Devon Bijansky, General Counsel, Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752-1699 or by email to CUDMail@cud.texas.gov. To be considered, a written comment must be received within 30 days after publication of the proposal in the *Texas Register*.

STATUTORY AUTHORITY. The amendments are adopted pursuant to Texas Finance Code §15.402, which authorizes the Commission to adopt reasonable rules for administering Title 2, Chapter 15 and Title 3, Subtitle D of the Texas Finance Code, particularly §122.053, which sets forth the duties of directors; §122.054, which directs the commission to establish qualifications for a director and §122.062, which limits the compensation a director may receive for services.

STATUTORY SECTIONS AFFECTED. The specific sections affected by the amendments are Texas Finance Code §§122.053, 122.054, and 122.062.

The agency certifies that legal counsel has reviewed the proposal and found it to be within the agency's legal authority to adopt.

91.501 Director Eligibility and Disqualification

(a) – (b) (No change.)

(c) Director application. Any member nominated for, or seeking election to, the board of directors shall submit a written application in such form as the credit union may prescribe. The application shall be submitted either to the nominating committee prior to its selection of nominees; or to the board chair within 30 days following the election of a member who was not nominated by the nominating committee or who was appointed by the board to fill a vacancy. The applications of the elected/appointed directors shall be incorporated into and made part of the minutes of either the first board meeting immediately preceding [~~following~~] the election/appointment of those directors or the first board meeting following the election/appointment. Applications of unsuccessful candidates shall be destroyed or returned upon request. The commissioner may review and require that changes be made to any application form, which is deemed inadequate or unfairly discriminates against certain classes of members.

(d) – (f) (No change.)

(g) (No change.)

91.502 Director/Committee Member Fees, Insurance, Reimbursable Expenses, and Other Authorized Expenditures

(a) Expense reimbursement. A credit union may reimburse out-of-pocket travel and related expenses that are reasonable and appropriate for the business activity undertaken. A credit union shall adopt a written board policy to administer and control travel expenses paid or incurred in connection with directors or committee members carrying out official credit union business.

(b) Payment of fees. Subject to the provisions of this rule, a credit union may pay a reasonable meeting fee to any of its directors, honorary directors, advisory directors, (hereafter referred to as directors) or committee members for attending duly called meetings at which appropriate credit union business is conducted. Any credit union electing to pay any type of meeting fee shall annually disclose to the membership the fees paid in the prior calendar year and scheduled to be paid in the current calendar year. This disclosure may be provided to the members as part of the credit union's annual report as prescribed in §91.310 of this title (relating to Annual Report to Membership [~~annual report to membership~~]). A credit union, however, may not pay any meeting fees to a director or committee member if the credit union is operating under a Net Worth Restoration Plan; or an order issued under Finance Code §122.257 or §122.258.

(c) Enforcement Authority; Prohibition. The commissioner may prohibit or otherwise limit or restrict the payment of meeting fees to directors or committee members if, in the opinion of the commissioner, the credit union has paid, is paying, or is about to pay meeting fees that are excessive as defined in subsection (f) of this section.

(d) Use of credit union equipment. A credit union may provide personal computers, access to electronic mail, and other electronic conveniences to directors during their terms of office provided:

(1) the board of directors determines that the equipment and the electronic means are necessary and appropriate for the directors to fulfill their duties and responsibilities;

(2) the board of directors develops and maintains written policies and procedures regarding this matter; and

(3) the arrangement ceases immediately upon the person's leaving office.

(e) Insurance. A credit union may, in accordance with written board policy, provide health, life, accident, liability, or similar personal insurance protection for directors and committee members. The kind and amount of these insurance protections must be reasonable given the credit union's size, financial condition, and the duties of the director or committee member. The insurance protection must cease upon the director or committee member's leaving office, without providing residual benefits beyond those earned during the individual's term on the board or committee.

(f) Review by board. A credit union shall implement and maintain appropriate controls and other safeguards to prevent the payment of fees or expenses that are excessive or that could lead to material financial loss to the institution. At least annually, the board, in good faith, shall review the director/committee member fees and director/committee member-related expenses incurred, paid or reimbursed by the credit union and determine whether its policy continues to be in the best interest of the credit union. The Board's review shall be included as part of the minutes of the meeting at which the policy and the fees and expenses were studied. Fees and expenses shall be considered excessive when amounts paid are disproportionate to the services performed by a director or committee member, or unreasonable considering the financial condition of the institution and similar practices at credit unions of a comparable asset size, geographic location, and/or operational complexity.

(g) Guest travel. A credit union's board may authorize the payment of travel expenses that are reasonable in relation to the credit union's financial condition and resources for one guest accompanying a director or committee member to an approved conference or educational program. The payment will not be considered compensation for purposes of Finance Code §122.062 if:

(1) it is determined by the board to be necessary or appropriate in order to carry out the official business of the credit union; and

(2) it is in accordance with written board policies and procedures.

5. Rulemaking Matters

c. Proposal of amendments to:

ii. 7 TAC Chapter 91, Subchapter F:

A. Section 91.601, Share and Deposit Accounts

B. Section 91.608, Confidentiality of Member Records

C. Section 91.610, Safe Deposit Box Facilities

These amendments are the result of the Department's rule review process. The amendment to §91.601 would clarify a reference to part of the rule. A member of the public suggested additional changes to this section to exempt the categories of entities in subsection (c) from the requirements of subsection (d); however, the Commission notes that subsection (d) already incorporates those exceptions by reference to subsection (c). The amendments to §91.608 would update a reference to the federal regulations. The amendments to §91.610 would update the references to the statute regarding imprinting of safe deposit keys to Chapter 125 of the Finance Code, which relates to credit unions, instead of Chapter 59, which relates to banks, and would delete certain provisions that are duplicative of or in conflict with the statute.

<u>Staff recommendation</u>

Staff recommends that the Commission propose the amendments as presented.

<u>Recommended motion</u>

I move that the Commission propose the amendments to 7 TAC Sections 91.601, 91.608, and 91.610 as presented.

The Credit Union Commission proposes amendments to §§91.601, Share and Deposit Accounts; 91.608, Confidentiality of Member Records; and 91.610, Safe Deposit Box Facilities.

EXPLANATION OF AND JUSTIFICATION FOR THE RULES. The proposed amendments were identified as a part of the Credit Union Department's quadrennial rule review process. The amendment to §91.601 would clarify a reference to part of the rule. A member of the public suggested additional changes to this section to exempt the categories of entities in subsection (c) from the requirements of subsection (d); however, the Commission notes that subsection (d) already incorporates those exceptions by reference to subsection (c). The amendments to §91.608 would update a reference to the federal regulations. The amendments to §91.610 would update the references to the statute regarding imprinting of safe deposit keys to Chapter 125 of the Finance Code, which relates to credit unions, instead of Chapter 59, which relates to banks, and would delete certain provisions that are duplicative of or in conflict with the statute.

COST TO REGULATED PERSONS. This rule proposal is not subject to Texas Government Code §2001.0045 concerning increasing costs to regulated persons because this agency is a self-directed semi-independent (SDSI) agency under Finance Code Chapter 16 and is therefore exempt under §2001.0045(c)(8).

GOVERNMENT GROWTH IMPACT STATEMENT. In compliance with Texas Government Code §2001.0221, the Department has prepared a government growth impact statement.

For each year of the first five years that the rules as amended will be in effect, the rules will not:

--create or eliminate a government program;

--require the creation of new employee positions or the elimination of existing employee positions;

--require an increase or decrease in future legislative appropriations to the Department;

--require an increase or decrease in fees paid to the Department;

--create new regulations;

--expand, limit, or repeal existing regulations;

--increase or decrease the number of individuals subject to the rule's applicability;

--positively or adversely affect this state's economy.

ENVIRONMENTAL RULE ANALYSIS. The proposed rules are not "major environmental rules" as defined by Government Code §2001.0225. The proposed rules are not specifically intended to protect the environment or to reduce risks to human health from environmental exposure. Therefore, a regulatory environmental analysis is not required.

FISCAL IMPACT ON STATE AND LOCAL GOVERNMENTS. Robert Etheridge, Commissioner, has determined that for the first five-year period the proposed amendments are in effect, there are no reasonably foreseeable implications relating to cost or revenues of state or local governments under Government Code §2001.024(a)(4) as a result of enforcing or administering these amendments as proposed.

PUBLIC BENEFIT/COST NOTE. Mr. Etheridge has determined, pursuant to Government Code §2001.024(a)(5), that for the first five-year period the amended rules are in effect, the public benefit of the amendments is accuracy and conciseness of the rules. He has further determined there will be no probable economic cost to the credit union system or to persons required to comply with the rules.

IMPACT ON LOCAL EMPLOYMENT OR ECONOMY. There is no reasonably anticipated effect on a local economy for the first five years that the proposed amendments are in effect. Therefore, no economic impact statement, local employment impact statement, or regulatory flexibility analysis is required under Texas Government Code §§2001.022 or 2001.024(a)(6).

ECONOMIC IMPACT STATEMENT AND REGULATORY FLEXIBILITY ANALYSIS FOR SMALL BUSINESSES, MICROBUSINESSES, AND RURAL COMMUNITIES. Mr. Etheridge has also determined that for each year of the first five years the proposed amendments are in effect, there will be no reasonably forecasted adverse economic effect on small businesses, micro-businesses, or rural communities as a result of implementing these amendments, and, therefore, no regulatory flexibility analysis, as specified in Texas Government Code §2006.002, is required.

TAKINGS IMPACT ASSESSMENT. No private real property interests are affected by this proposal, and the proposal does not restrict or limit an owner's right to his or her property that would otherwise exist in the absence of government action. Therefore, the amendments do not constitute a taking under Texas Government Code §2007.043.

REQUEST FOR PUBLIC COMMENT. The Department is requesting public comments on the proposed amendments and information related to the cost, benefit, or effect of the proposed rules, including any applicable data, research, or analysis, from any person required to comply with the proposed rule or any other interested person. Please include an explanation of how and why the submitted information is specific to the proposed rules. Please do not submit copyrighted, confidential, or proprietary information. Written comments on the proposed amendments may be submitted in writing to Devon Bijansky, General Counsel, Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752-1699 or by email to CUDMail@cud.texas.gov. To be considered, a written comment must be received within 30 days after publication of the proposal in the *Texas Register*.

STATUTORY AUTHORITY. The amendments are proposed pursuant to Texas Finance Code §15.402, which authorizes the Commission to adopt reasonable rules for administering Title 2, Chapter 15 and Title 3, Subtitle D (Chapters 121 through 149) of the Texas Finance Code; particularly §§ 123.201-.204, which address credit unions' powers with regard to certain types of transactions; 125.402, which authorizes the Commission to adopt reasonable rules relating to confidentiality and disclosure of members' information; and 125.508, which establishes requirements related to imprinting of safe deposit box keys.

STATUTORY SECTIONS AFFECTED. The specific sections affected by the amendments are Texas Finance Code §§122.053, 122.054, 122.062, 123.201-.204, 125.402, and 125.508.

The agency certifies that legal counsel has reviewed the proposal and found it to be within the agency's legal authority to adopt.

91.601 Share and Deposit Accounts

(a) Accounts. A credit union may offer any type of share or deposit accounts and prescribe the terms and conditions relating to the accounts as established by written policies approved by the board of directors.

(b) Policies and procedures. Each credit union, before accepting any funds for any share or deposit accounts, shall adopt, implement and maintain appropriate policies and procedures which address, at a minimum, asset liability management and adequate liquidity levels.

(c) Limitation on deposit accounts. Acceptance of funds from a depositor authorized by the Act that is not within the credit union's field of membership is subject to the limitations prescribed by §123.201(b) of the Act. This limitation [~~restriction~~] does not apply to a credit union accepting for deposit the money of:

(1) the United States or any agent or instrumentality of the United States;

(2) this or another state; or

(3) a political subdivision of this or another state.

(d) Nonmember deposit. The written documentation evidencing a deposit under subsection (c) of this section shall clearly and conspicuously disclose that the funds are not insured. This subsection [~~section~~] does not apply to insured deposits from other credit unions or received by a credit union with a low-income designation.

91.608 Confidentiality of Member Records

(a) – (b) (No change.)

(c) Privacy policy. Each credit union shall develop, implement and maintain a written policy on the protection of nonpublic personal information of individual members in its possession. This policy shall be consistent with the disclosure and reporting requirements applicable to federally insured credit unions as addressed in 12 C.F.R. part 1016 (Part 1016 of the Consumer Financial Protection Bureau regulations) [~~Part 716 of NCUA Rules and Regulations~~].

(d) (No change.)

91.610 Safe Deposit Box Facilities

(a) Purpose. Finance Code §125.508 [~~§59.110~~] requires credit unions to imprint keys issued to safe deposit boxes with the institution's routing number. In addition, it requires a report to the Department of Public Safety if the routing number is altered or defaced so that the correct routing number is illegible. The purpose of this section is to clarify the requirements of the noted section of the Finance Code.

(b) Definitions. The following words and terms, when used in this section, shall have the following meanings, unless the context clearly indicates otherwise.

(1) Credit union--This term includes all state or federal credit unions that have been assigned a routing number unique to that institution.

(2) Routing number--The number printed on the face of a share draft or check in fractional form or in nine-digit form that identifies a paying financial institution.

(c) Imprinting requirements. A credit union which has been issued a routing number shall imprint that routing number on safe deposit box keys on either the head of the key or the shank of the key if there is adequate room. The typical locations to be used are indicated in the following instructions and diagram. The imprint can be made anywhere on the key that has the required space available. When positioning the die on the key, be careful to place the die on the key where it will imprint on a flat surface and not in the area of the key cuts or on any of the shank ridges or grooves. Imprinting in these areas may interfere with the proper working of the key in the lock and may cause damage. In the event these standard areas for the location of the imprint are unavailable, either because of grooves on the key shank or the fact that the head of the key already has names and other numbers imprinted on it, then the credit union may attach to the key a tag imprinted with the routing number. The tag used must be of such a nature as to be secure. Thus, a paper or cardboard tag or a tag affixed with string will not be acceptable. However, any other medium such as plastic or metal which can retain an imprint of a number shall be acceptable. The tag may be attached in any way to assure its affixation to the key. Typically, this will mean inserting the tag or a device to affix the tag through the hole in the head of the key normally used for placing keys on key chains. The tag method shall not be used if there is adequate room on the key itself for imprinting the numbers. There are four standard areas for the location of the imprinted routing number. These include: the head of the key, the shank of the key, and either place on the reverse side of the key. The standard imprint areas are shown as follows.

Attached Graphic

(d) Branch designation. A credit union may, but is not required to, add a three-digit branch designation to its routing number. Thus, the main credit union facility should receive the designation "001" and branch facilities should receive numbers consecutively beginning with "002" with successive numbers as needed. However, the credit union may control the branch numbering system used provided that the credit union maintains a master list of branch designations used for this purpose. The master list should be maintained at the main office of the credit union and shall include the three-digit branch designation and address of facility. The credit union then may imprint safe deposit box keys or tags with the routing number plus three-digit branch designation for full identification of the facility.

(e) Report of defaced or altered key. A credit union that submits a report to the Department of Public Safety pursuant to Finance Code §125.508 shall retain a copy of the report for a period of three years. [~~Within 10 days after an officer or employee of a credit union observes that a key used to access a safe deposit box has had the routing number altered or defaced or the tag removed, a report shall be prepared of such incident. The report shall be on a form promulgated by the Credit Union Department in the form of the attached Exhibit A. The report should be submitted to the Department of Public Safety, Attention: Criminal Law Enforcement, Box 4087, Austin, Texas 78773-0001. The report should be mailed no later than ten days after the incident. The credit union should retain one copy of the incident report for a period of three years. Nothing in this rule nor in the Finance Code §59.110 shall require a credit union to inspect routing numbers imprinted on a key or an attached tag to determine if the number has been altered or defaced.~~]

(f) Effective date; applicability to existing keys. A credit union must imprint all safe deposit box keys on or after September 1, 1992. Additionally, the imprinting requirement applies to all keys issued prior to September 1, 1992. However, keys for boxes rented prior to September 1, 1992, need not be imprinted with the routing number unless and until a member presents a safe deposit box key at a credit union for access to a box. Nothing in this rule or the Finance Code §125.508 [~~§59.110~~] shall be construed to require a credit union to provide notice to its safe deposit box users or to otherwise require such members to present their keys for imprinting. However, on the first date after September 1, 1992, that a member presents a key which has not been imprinted, the credit union shall imprint the key with the routing numbers as required by Finance Code §125.508 [~~§59.110~~].

(g) Effect of change in routing number. In the event a credit union's routing number is changed as a result of a merger, acquisition, or other change, safe deposit box keys need not be replaced with a new routing number provided that the credit union maintains a master list of the routing numbers used to imprint keys.

[~~Attached Graphic~~]

5. Rulemaking Matters

d. Adoption of rule review and readoption of rules in 7 TAC Chapter 91, Subchapters E and F

<u>Background</u>

Section 2001.039 of the Government Code requires state agencies to review and consider for readoption each rule not later than the fourth anniversary of the date on which the rule took effect and every four years thereafter. The review must address an assessment of whether the reason for adopting each rule continues to exist. At its March 22, 2024, meeting, the Commission approved a plan that established a schedule for the review of each section of the rules. In accordance with that plan, staff has reviewed the above-referenced subchapters, believes the amendments addressed previously in this agenda are appropriate and necessary, and that the remainder of the rules within these subchapters should be readopted in accordance with Section 2001.039 of the Government Code.

Notice of the review and a request for comments on the rules in these subchapters were published in the May 8, 2026, issue of the *Texas Register*. One comment was received prior to the publication of the rule review regarding 7 TAC Section 91.601, as addressed in the previous agenda item. The Department believes that the reasons for adopting these rules continue to exist.

<u>Staff recommendation</u>

Staff recommends that the Commission find the reasons for the rules continue to exist and adopt the rule review.

<u>Recommended motion</u>

I move that the Commission find that the reasons for adopting 7 TAC Chapter 91, Subchapters E and F continue to exist and readopt the rules in these subchapters.

Title 7, Part 6

The Texas Credit Union Commission (Commission) adopts the review of Texas Administrative Code Title 7, Part 6, Chapter 91, Subchapters E (Direction of Affairs) and Subchapter F (Accounts and Services).

Notice of the review of 7 TAC, Part 6, Chapter 91, Subchapters E and F was published in the May 8, 2026, issue of the *Texas Register* (51 TexReg 3157). The Credit Union Department received no comments in response to the review of these subchapters; however, prior to the opening of rule review, it did receive one comment regarding 1 TAC § 91.601, Share and Deposit Accounts, suggesting changes to this section to exempt the categories of entities in subsection (c) from the requirements of subsection (d); however, subsection (d) already incorporates those exceptions by reference to subsection (c).

After reviewing these rules, the Commission determined that the reasons for initially adopting these rules continue to exist and readopts Chapter 91, Subchapters E and F in their entirety in accordance with the requirements of Texas Government Code § 2001.039. However, the Commission has determined that certain sections of these subchapters should be amended and will propose those changes elsewhere in this issue of the *Texas Register*. This concludes the review of Texas Administrative Code Title 7, Part 6, Chapter 91, Subchapters E and F.

6. Pending litigation:
   a. Update regarding Credit Union Department v. Ken Paxton, Attorney General of Texas, Cause No. D-1-GN-21-007168

   b. Discussion and possible action regarding Cooperative Teachers Credit Union v. Credit Union Department, State Office of Administrative Hearings Docket No. 469-23-07487

<u>Background</u>

General Counsel Devon Bijansky will give an update on the CUD vs. Paxton case.

In a special meeting in October 2024, the Commission considered the recommendations of the State Office of Administrative Hearings in the matter of the bylaw amendment for field of membership expansion of Cooperative Teachers Credit Union (CTCU). At that meeting, and ratified at the November 2024 meeting, the Commission remanded the matter to the Commissioner for issuance of a final order. CTCU appealed that order, which is again before the Commission for final action.

In addition to the documents included with this item, the record from that matter can be found in the materials from the October 2024 special meeting.

CTCU's application for field of membership expansion and draft orders are being provided separately.

CTCU has requested oral argument.

July 23, 2026

Via Email

Devon Bijansky
General Counsel
Texas Credit Union Department
914 East Anderson Lane
Austin, Texas 78752

Re: Request for Oral Argument—SOAH Docket No. 469-23-07487.CUD; CUD No. 22-033-01

Dear Ms. Bijansky:

Pursuant to 7 Texas Administrative Code §93.603, Cooperative Teachers Credit Union respectfully requests fifteen minutes for oral argument when its field of membership application is considered by the Texas Credit Union Commission at its August 7, 2026, meeting.

CTCU's oral argument will be limited to the existing administrative record and will emphasize and clarify CTCU's request that the Commission:

1. issue a final decision in accordance with 7 Texas Administrative Code §93.602;
2. adopt the SOAH Administrative Law Judge's Proposal for Decision in its entirety, including its proposed findings of fact and conclusions of law; and
3. approve CTCU's field of membership application without modification.

CTCU will also address the standards imposed by 7 Texas Administrative Code §93.212(c) and Texas Government Code §2001.058 if the Commission considers issuing a decision that differs from the Proposal for Decision.

CTCU's authorized representative(s) will be present and prepared to respond to questions from the Commission.

Please advise whether the request is granted, the amount of time allotted, and whether the Commission intends to limit oral argument to particular issues.

Respectfully submitted,

/s/ Tim Miller
Tim Miller
President/CEO
Cooperative Teachers Credit Union

STATE OFFICE OF ADMINISTRATIVE HEARINGS RECEIVED ON 8/14/2024 1:58 PM

FILED
469-23-07487
8/14/2024 1:58 PM
STATE OFFICE OF
ADMINISTRATIVE HEARINGS
Jessica Rodriguez, CLERK

ACCEPTED
469-23-07487
8/14/2024 2:16:30 pm
STATE OFFICE OF
ADMINISTRATIVE HEARINGS
Jessica Rodriguez, CLERK

August 14, 2024

Casey Bell
Cooperative Teachers Credit Union — **VIA EFILE TEXAS**

Zachary Rhines — **VIA EFILE TEXAS**
Reuben Blum — **VIA EFILE TEXAS**
Texas Credit Union Department

RE: Docket No. 469-23-07487.CUD; CUD No. 22-033-01; Cooperative Teachers Credit Union v. Texas Credit Union Department

Dear Parties:

Please find attached a Proposal for Decision in this case.

Exceptions and replies may be filed by any party in accordance with 1 Texas Administrative Code section 155.507(b), a SOAH rule which may be found at www.soah.texas.gov.

CC: Service List

BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

COOPERATIVE TEACHERS CREDIT UNION,
PETITIONER
V.
TEXAS CREDIT UNION DEPARTMENT,
RESPONDENT

PROPOSAL FOR DECISION

Cooperative Teachers Credit Union (CTCU) contests the modifications incorporated by the Texas Credit Union Department (CUD) Commissioner in the Order approving CTCU's application to amend its bylaws (Application). The Administrative Law Judge (ALJ) finds that CTCU met its burden to show the Application meets the applicable requirements and considerations. Accordingly, the ALJ recommends that the Application be granted without modification.

I. NOTICE, JURISDICTION, AND PROCEDURAL HISTORY

There are no contested issues of notice or jurisdiction in this proceeding. Those matters are addressed solely in the findings of fact and conclusions of law.

CTCU seeks to expand its field of membership to include all counties within the State of Texas. The commissioner (Commissioner) of the Texas Credit Union Department (CUD) approved the application with modifications, limiting CTCU's field of membership (FOM) to nine counties (Smith County and surrounding eight counties), rather than all counties in Texas. CTCU requested a hearing to contest the Commissioner's Order.

The hearing on the merits convened via videoconference on May 13, 2024, before State Office of Administrative Hearings (SOAH) ALJ Linda Brite. Attorney Casey Bell represented CTCU. Attorneys Zachary Rhines and Reuben Blum represented CUD. The record closed on June 27, 2024, after submission of written closing briefs.

II. APPLICABLE LAW

In Texas, CUD regulates state-chartered credit unions, including supervision and regulation of credit unions and their fields of membership.[1] A credit union's field of membership (FOM) "refers to the totality of persons a credit union may accept as members."[2]

[1] *See* Tex. Fin. Code §§ 121.0011, .002.

[2] 7 Tex. Admin. Code § 91.101(a)(11); *see* 7 Tex. Admin. Code § 91.301(a).

To be a member of a Texas credit union, a person must fall under at least one of three categories of a "definable community of interest . . . including a community of interest based on occupation, association, or residence[.]"[3] A community of interest is a "unifying factor among persons that by virtue of its existence, facilitates the successful organization of a new credit union or promotes economic viability of an existing credit union."[4] Each credit union must state "the definable community of interest shared by the members of the credit union at the time of incorporation."[5]

A residential community of interest category is "based on a clearly defined and specific geographic area where persons have common interests and/or interact."[6] A geographic community of interest incorporates four types of affinity: persons who "(i) live in; (ii) worship in; (iii) attend school in; or (iv) work in that community. The geographic community of interest requirements are met if the area to be served is in a recognized single political jurisdiction, e.g., a city or a county, or a portion thereof."[7]

If a credit union wishes to expand its FOM via a change in its articles of incorporation or by-laws, the credit union must submit an application seeking the

[3] Tex. Fin. Code § 122.051(a)(1).

[4] 7 Tex. Admin. Code § 91.101(a)(7).

[5] Tex. Fin. Code § 122.001(c)(1)(H); *see also* 7 Tex. Admin. Code § 91.101(a)(7).

[6] 7 Tex. Admin. Code § 91.101(a)(7)(C).

[7] 7 Tex. Admin. Code § 91.101(a)(7)(C).

approval of the CUD Commissioner.[8] The Commissioner may impose a geographic limitation on any Group if the Commissioner reasonably determines that the applicant credit union does not have the ability to serve a larger group or there are other operational or management concerns.[9]

In reviewing an application to amend a credit union's articles of incorporation or by-laws to expand a FOM, the Commissioner must consider:

1. whether the Group has adequate unifying characteristics or a mutual interest such that the safety and soundness of the credit union is maintained;
2. the ability of credit unions to maintain parity and to compete fairly with their counterparts;
3. service by the credit union that is responsive to the convenience and needs of prospective members;
4. protection for the interest of current and future members of the credit union; and
5. the encouragement of economic progress in this State by allowing opportunity to expand services and facilities.[10]

The applicant bears the burden of proving each of the statutory and regulatory requirements for approval by a preponderance of the evidence.[11] In preparing a Proposal for Decision, the ALJ shall consider all statutes, rules, and policies upon

[8] Tex. Fin. Code § 122.011(b).

[9] 7 Tex. Admin. Code § 91.301(a).

[10] 7 Tex. Admin. Code § 91.301(g).

[11] 7 Tex. Admin. Code § 93.303(b);1 Tex. Admin. Code § 155.427; *see* 7 Tex. Admin. Code § 91.301(g).

which the preliminary decision—the Order—was based, along with the testimony and documentary evidence presented in hearing.[12]

III. Discussion

CTCU and CUD had two joint exhibits admitted.[13] CTCU had seven additional exhibits admitted and presented the testimony of President and CEO Tim Miller.[14] CUD had four additional exhibits admitted and presented the testimony of former Interim Commissioner Robert Etheridge.[15]

A. Unifying Characteristics and Definable Community Interest

The Commissioner shall consider whether the Group has adequate unifying characteristics or mutual interest.[16] The geographic area requirement is met if the area to be served is in a recognized single political jurisdiction.[17] The Commissioner

[12] 7 Tex. Admin. Code § 93.303(a).

[13] Joint Exhibit 1 (CTCU's Application to Amend its By-Laws, filed 5/5/2022); and Joint Exhibit 2 (CUD's Modified Order Approving CTCU's Application).

[14] CTCU Exhibit 3 (CTCU's Form 5300 Call Report, effective 3/31/2022); CTCU Exhibit 4 (CTCU's Financial Performance Report (FPR) – Historical Ratios for the Quarter ending March 2022); CTCU Exhibit 5 (CTCU's FPR – Key Ratios for the Quarter ending December 2023); CTCU Exhibit 6 (CTCU's FPR – Financial Summary for the Quarter ending December 2023); CTCU Exhibit 7 (CTCU's Responses to CUD's Requests for Interrogatories numbers 7-10 and 12-14); CTCU Exhibit 8 (Complete Deposition Transcript of Tim Miller); and CTCU Exhibit 9 (Monthly Report for April 2024).

[15] CUD Exhibit 3 (CTCU's Financial Data); CUD Exhibit 4 (CUD's Requests for Interrogatories and CTCU's Responses); CUD Exhibit 5 (Transcript Excerpts from the Deposition of Tim Miller); and CUD Exhibit 6 (Complete FPR from March 2024).

[16] 7 Tex. Admin. Code § 91.301(g)(1).

[17] 7 Tex. Admin. Code § 91.101(a)(7)(C).

may impose a geographical limitation on any Group if the Commissioner reasonably determines that the applicant credit union does not have the ability to serve a larger group or there are other operational or management concerns.[18]

1. CTCU's Position

The Group that CTCU seeks to add to its FOM consists of 254 counties. CTCU contends that the people share the same community interest based on their living, working, attending school or worshipping in those counties, and the shared economic, social, and cultural ties bind Texans together. According to CTCU, common interests among Texans are education needs, home ownership, small businesses, and family ties, which are substantial unifying characteristics.[19]

The prior version of 7 Texas Administrative Code section 91.301 (FOM Rule) required each community of interest to be "within the credit union's local service area."[20] However, the Commission amended the FOM Rule effective November 28, 2021, removing the definition of local service area and related physical office requirements.[21] The stated purpose of the amendment included:

- ensure consistency with and provide the full extent of the field of membership language provided by Texas Finance Code Section 122.051;

[18] 7 Tex. Admin. Code § 91.301(a).

[19] Resp. Ex. 4-a at 583.

[20] 7 Tex. Admin. Code § 91.301(a) (effective July 13, 2008, to Nov. 27, 2021). The local service area generally consisted of "one or more contiguous political subdivisions within reasonable proximity of a credit union's offices."

[21] 46 Tex. Reg. 7873 (Nov. 19, 2021).

- recognize the growing consumer expectation of operational efficiencies obtained through, and safety and soundness implications of digital delivery of financial services,

- help ensure parity with both federal and foreign state credit unions doing business in Texas;

- allow the commissioner to consider an institution's ability to provide financial services through digital channels to meet the needs of its membership.[22]

The amended version of the FOM Rule applies to CTCU's application. CTCU asserts that the Commissioner's preliminary decision on CTCU's application erroneously applied the local service area requirement of the previous FOM Rule.

2. CUD's Position

CUD argues that the entire state of Texas is not a single political jurisdiction as indicated in the application, because 7 Texas Administrative Code section 91.101(a) defines a political jurisdiction as a "city or a county, or a portion thereof." Mr. Etheridge testified that if CTCU had checked the correct box on the application, it would have been prompted to provide a narrative "demonstrating how the proposed geographic community of interest is based on a clearly defined and specific geographic area where persons have common interest and/or interact." Mr. Etheridge therefore concluded the application did not provide sufficient detail

[22] 46 Tex. Reg. 7873-74 (Nov. 19, 2021).

about the unifying characteristics among prospective members in all 254 counties in Texas.

CUD has never granted a FOM expansion to all 254 counties in Texas. According to Mr. Etheridge, approving CTCU's proposed expansion would set a precedent for other credit unions to also apply for statewide expansion, which would undermine the unifying nature of the community of interest requirement. A common bond among members is one of the defining characteristics of a credit union. State regulations uphold common bond requirements among members of credit unions "to promote their safety and soundness and allow access to credit to persons otherwise unable to borrow."[23]

CUD asserts that the rule amendment did not affect the Commissioner's ability to consider prospective members' proximity to a physical branch in a FOM expansion application. The amendment simply enabled the Commissioner to consider digital service offers as one of several factors in determining a credit union's ability to provide service that is responsive to the convenience and needs of prospective members. CUD points out that the current rules still give the Commissioner discretion to impose a geographical limitation on any group.[24]

The rule amendment reflected federal statutory and regulatory changes which loosened requirements that limited a community credit union to a "well-defined *local*

[23] *See Nat'l Credit Union Admin. v. First Nat. Bank & Tr. Co.*, 522 U.S. 479, 493 n.6 (1998).

[24] 7 Tex. Admin. Code § 91.301(a).

community, neighborhood, or rural district."[25] The court noted that the National Credit Union Administration (NCUA) had "struck a balance by ensuring that members within the local community maintain somewhat of a commuter relationship with each other."[26] CUD urges that it seeks a similar balance in expanding beyond small, local footprints while retaining the principle that members share unifying geographic characteristics.

3. ALJ's Analysis

Whether CUD has ever approved a FOM that encompasses a geographic community of interest of all 254 counties in the State of Texas is not determinative of whether CTCU's Application meets statutory and regulatory requirements. The geographic area requirement is met if the area to be served is in a recognized single political jurisdiction.[27] The rule does not require the geographic area to be a city or county. The rule provides "a city or a county, or a portion thereof" as *examples* of political jurisdictions, but not an exhaustive list.[28] Accordingly, the State of Texas is a recognized single political jurisdiction and fulfills the geographic area requirement. Texans have unifying characteristics, mutual interests, common interests, and interact regularly with each other. The Group shares economic, social, and cultural ties. The record does not establish any inability to serve a larger group or other

[25] *Am. Banks Ass'n v. Nat'l Credit Union Admin.*, 934 F.3d 649, 657-58 (D.C. Cir. 2019) (quoting 12 U.S.C. § 1759(b)). *See also* 81 Fed. Reg. 88440 (Dec. 7, 2016) (explaining the meaning of "well-defined local community").

[26] *Am. Bankers Ass'n*, 934 F.3d at 666.

[27] 7 Tex. Admin. Code § 91.101(a)(7)(C).

[28] *See* 7 Tex. Admin. Code § 91.101(a)(7)(C). *Compare with* 12 U.S.C. § 1759(b)(3) describing a membership field based on community as "[p]ersons or organizations within a well-defined local community, neighborhood, or rural district."

operational or management concerns to warrant a geographic limitation of the Group.[29]

The ALJ finds that CTCU's requested expansion of the FOM would further the stated goals of the rule amendment. Notably, the rule amendment eliminated the "local service area" requirement from subsection (a) of the FOM Rule but did not add "local service area" to the list of consideration factors in subsection (g). While CUD references interpretations of the federal "local community" requirement, the current Texas statutes and rules do not include any "local" requirement. The credit unions' fields of membership are no longer limited to a "local service area" of "contiguous political subdivisions within reasonable proximity of a credit union's offices." Therefore, the ALJ finds that the Group encompassing all 254 counties in Texas has adequate unifying characteristics and a mutual interest such that the safety and soundness of the credit union is maintained.

B. Service Responsive to the Convenience and Needs of Prospective Members

The Commissioner shall consider whether service by the credit union is responsive to the convenience and needs of prospective members.[30]

[29] *See* 7 Tex. Admin. Code § 91.301(a).

[30] 7 Tex. Admin. Code § 91.301(g)(3).

1. "Prospective Members"

CUD points out that most of the prospective members in the proposed FOM would not have adequate access to in-person facilities, because CTCU only has a physical presence in Smith County. CUD contends that any prospective member should have adequate access to all of CTCU's services, not just the digital services.

CUD contends that "prospective members" in the context of 7 Texas Administrative Code section 91.301(g) means persons who can become members because they live, work, worship, or attend school within the expanded geographic community of interest. In contrast, CTCU's interprets "prospective members" to be "those persons likely or expected to become members of CTCU" according to their willingness to use digital or remote services.

CTCU acknowledges that it cannot provide services that will be responsive to the convenience and needs of *every* person within the Group that it seeks to add to its field of membership. However, CTCU points out that the statutory and rule requirements required services responsive to the convenience and needs of "prospective members," not "all individuals" or "all potential members" within the Group.

CTCU's target market—which also comprises the majority of its current members—will be the middle-income market of persons between the ages of 35 and 55 or older, with average household incomes of $50,000 to $125,000, who have children and are interested in basic checking account services, debit and credit cards, loans (specifically, auto loans), basic retirement services like individual retirement accounts, certificates of deposit, high-yield savings accounts, and second mortgages.[31] Persons in this demographic are more mobile-driven or technology-driven than others.[32]

The ALJ agrees with CTCU that the rule does not require CTCU to be responsive to the convenience and needs of *all* potential members of the Group. This interpretation is consistent with the rule amendment's stated purposes, which include allowing the consideration of an institution's ability to provide financial services through digital channels to meet the needs of its membership. There are prospective members in the 254 counties of Texas who are interested in using digital financial services. Within this context, a prospective member of CTCU would be a person within the Group that is interested in the digital services that CTCU offers.

2. Digital and Remote Services

a) CTCU's Position

CTCU contends that the presence of a physical branch in the geographic area it seeks to serve is not determinative of whether the services are responsive to the convenience and needs of prospective members. CTCU seeks to serve the 254 Texas counties through digital channels, telephonic, and postal communications, an expansive automated teller machine (ATM) network, and physical, in-person services at CTCU's three branches located in Smith County. CTCU will provide

[31] Pet. Ex. 8 at 41-42.

[32] Pet. Ex. 8 at 42.

prospective members with conversational artificial intelligence and online and mobile banking, supported by a recently implemented open-source core data processor.[33] CTCU currently provides services, including personal loans, spending accounts, and online banking solutions, to meet the convenience and needs of its members in 437 Texas cities, including El Paso and Amarillo, as well as members residing in Washington state and Florida. According to CTCU, its existing and planned digital service offerings, ATM solutions, additional staff, and conversion of in-branch service providers to roles developing digital infrastructure will allow it to serve the expected growth in its membership with the addition of the Group to its FOM.[34]

CTCU urges that its Application shows it is responsive to the convenience and needs of persons who live, work, worship, or attend school in all Texas counties that are likely or expected to join a credit union that provides financial services digitally, telephonically, through and expansive ATM network, and through traditional mail, that also maintains physical locations in Smith County.

b) CUD's Position

CUD argues that CTCU failed to demonstrate that it can provide service responsive to the convenience and needs of prospective members in the proposed FOM. The remote and digital offerings CTCU has listed are typical industry offerings and practice. Additionally, the Commission Order recognized that "[t]he

[33] Joint Ex. 1 at 175.

[34] Joint Ex. 1 at 156-57.

convenience and needs of prospective members include the need for credit services as well as deposit services."[35] According to Mr. Etheridge, the Application provided only a "limited and broad and vague" description of the services that it could offer prospective members, without indicating an ability to offer important credit products (such as auto, real estate, and home equity loans) or deposit products (such as share accounts, certificates of deposits, money market accounts, and IRA accounts). Mr. Etheridge opined that it would not be possible for a credit union to offer the full set of these services without providing members reasonable access to a physical branch location.

CUD points out that the Application indicated CTCU participates in a shared network of ATMs that members can use without a surcharge.[36] However, the Application did not identify the locations of the ATMs, and Mr. Miller could not confirm that each county CTCU seeks to expand to contains at least one participating ATM.

c) ALJ's Analysis

No evidence was presented of any CUD rule or policy that outlines which credit or deposit products a credit union must provide to prospective members. Moreover, the ALJ is not convinced that credit and deposit products must be offered through a physical branch location. The ALJ finds that CTCU's digital services (personal loans, spending accountings, and online and mobile banking solutions)

[35] Joint Ex. 2 at 3.

[36] Joint Ex. 1 at 7.

support its ability to provide service that is responsive to the convenience and needs of prospective members.

3. Financial Ability

a) CUD's Position

CUD asserts that CTCU failed to show it had the financial ability to support the proposed FOM expansion based on its financial data.[37] The standard application to amend bylaws requires an applicant credit union to provide a three-year budget and supporting financial information, including "any assumptions or projection figures used in preparing the budget."[38] According to CUD, CTCU provided estimated budget projections but failed to provide sufficient supporting information to explain how it prepared the budget or any balance sheet data.[39] The Application did not include any data about its net worth to asset ratio, delinquency ratio, net charge-off ratio, or return on average assets. CUD also contends that CTCU provided an inadequate explanation of how it planned to accomplish the proposed expansion because it did not include a strategic business plan, granular data for its products, or a comprehensive marketing plan.

Mr. Etheridge described CTCU's net income figures of $20,000 in its projected 2022-24 budget as "minuscule . . . for a $140 million institution." CTCU

[37] *See* Joint Ex. 1 at 16.

[38] *See* Joint Ex. 1 at 47.

[39] *See* Joint Ex. 1 at 55-57.

anticipated adding 4,800 members (a projected membership growth of approximately 66%) that would presumably lead to a proportional increase in assets due to new members' deposits. According to Mr. Etheridge, the asset increase would significantly "dilute" CTCU's net worth to total asset ratio, with the comparatively low projected net income growth.

The quarterly financial performance reports (which are publicly available) that CTCU submitted to NCUA showed a loss of nearly $500,000 in the two quarters before CTCU submitted its Application. This negative trend continued into the following quarter, when CUD was reviewing the Application.[40] Thus, Mr. Etheridge was concerned that CTCU's expansion was either financially infeasible or that CTCU would be unable to operate in a way that would serve the convenience and needs of prospective members.

CUD points out in post-hearing briefing that CTCU filed modifications to the financial report with NCUA on May 17, 2024, after the SOAH hearing. The modifications altered key ratios for the quarter ending December 2023, including an increase to delinquent loans balances. The delinquent loan values that CTCU submitted prior to the hearing were more favorable to CTCU than the actual (modified) values. After the modification, CTCU's "delinquent loans / total loans" ratio as of December 2023 was 0.93, with a peer average of 0.72.[41] Prior to the modification, CTCU indicated a delinquent loan ratio of 0.53.[42] A high delinquent

[40] Resp. Ex. 3-b.

[41] Resp. Ex. 6 at 10; Pet. Ex. 5 at 1.

[42] Pet Ex. 5.

loan value indicates poor asset quality and unpaid loans comprising a larger portion of the credit union's business. CUD contends that this increase pushed the ratio above the peer average. Similarly, the modification pushed CTCU's "delinquent loans / net worth" ratio from 4.64, which was slightly above peer average of 4.42, to 8.14.[43]

b) CTCU's Position

CTCU asserts that it is financially capable of expanding its FOM to 254 counties because it is well-capitalized and positioned to take full advantage of the opportunities that the expanded FOM will provide for additional revenue and profit. As of March 2022, CTCU had an average profitability of $224 per member, and in 2023, CTCU had net income of $292,612 as of December 2023.[44] Mr. Miller attributed the net loss in 2022 to loss on investments and loan loss. CTCU plans to expand the number of members: 900 in the first year; 1,800 in the second year; and 2,100 in the third year. CTCU plans to maintain the assets in equivalent level, so the return on assets will increase along with CTCU's net worth.[45] At the end of 2023, CTCU had a net worth ratio of 8.15%, and any net worth ratio over 7% is considered well-capitalized.[46] At the time of hearing, CTCU's net worth ratio was approximately 8%. While no additional expenses are expected if the FOM expansion is approved, additional expenses would be incurred if the membership rose to a level

[43] Pet. Ex. 5; Resp Ex. 6 at 3.

[44] Pet. Ex. 7 at 2; Pet. Ex. 6 at 1.

[45] Pet. Ex. 8 at 58-59; Joint Ex. 1 at 157.

[46] Pet. Ex. 5 at 1; Resp. Ex. 4-a at 583.

that would require additional staff hires, and to cover the per-application fees charged for online loan and deposit accounts that may increase.[47] CTCU argues that it has the financial capacity to grow its membership profitably and that this sustainable growth and profitability would be in the best interests of its members.

CTCU points out that the amount of delinquent loans compared to total loans at CTCU went down considerably from March to April 2024, as did the total dollar amount of delinquent loans held by CTCU.[48] Despite any temporary changes to financial ratios, CTCU has remained above NCUA's standard for being well-capitalized.[49]

c) ALJ's Analysis

Although CUD focused heavily on CTCU's financial situation, it is unclear how CTCU's financial situation would prevent it from providing service that is responsive to the convenience and needs of prospective members. The financial information in the record includes many metrics; CTCU performed better in some and worse in others. CUD points out the higher-than-average delinquent loan ratio. However, CUD did not establish any maximum delinquent loan ratio threshold for credit unions seeking FOM amendments. Additionally, it is unclear how this metric would affect CTCU's ability to provide service to prospective customers. CUD criticized CTCU's "miniscule" 2023 and 2024 projected annual net income of

[47] Pet. Ex. 8 at 63.

[48] Pet. Ex. 9 at 74.

[49] Pet. Ex. 8 at 59; Resp. Ex. 6 at 3; *see* 12 C.F.R. § 702.102.

$20,000; however, a non-profit credit union's low net income does not necessarily detract from its ability to provide service that is responsive to the convenience and needs of prospective members.

It is undisputed that CTCU, based on its net worth ratio, meets NCUA's standard for being well-capitalized. CTCU does not anticipate any additional expenses associated with the expanded FOM, aside from additional staffing that may be needed to serve additional members. Therefore, the ALJ finds that CTCU is able to provide service that is responsive to the convenience and needs of prospective members.

C. OTHER REQUIREMENTS

The Commissioner shall also consider: the ability of credit unions to maintain parity and to compete fairly with their counterparts; protection for the interest of current and future members of the credit union; and the encouragement of economic progress in this State by allowing opportunity to expand services and facilities.[50] These consideration factors were generally uncontested by CUD.

The credit unions are able to maintain parity and compete fairly with their counterparts.[51] CTCU does not plan to solicit business from every person who lives, attends school, worships, or works in each Texas county. CTCU intends to utilize a targeted marketing campaign to attempt to grow its membership through persons in

[50] 7 Tex. Admin. Code § 91.301(g)(2), (4)-(5).

[51] *See* 7 Tex. Admin. Code § 91.301(g)(2); *see* Joint Ex. 2 at 3, Finding of Fact No. 10.

these counties who desire financial products and services through predominantly digital channels, either through mobile application or web browser. Customer and technical support will be available to prospective members via telephone.[52]

The expansion of the FOM would protect the interest of current and future members of the credit union.[53] The expansion would enhance the CTCU's economic and financial stability and ensure its long-term safety and soundness.[54] Additionally, the character and size of the field of membership to be served by the credit union favor CTCU's economic viability.[55]

Expansion of the FOM will encourage economic progress in this state by allowing CTCU the opportunity to expand services and facilities.[56] CTCU continues to develop and create additional digital solutions, including remote account management tools, user-friendly mobile apps, online loan and account applications, and conversational artificial intelligence.[57]

IV. RECOMMENDATION

After consideration of the evidence and applicable law, the ALJ recommends that CTCU's Application be granted without modification, expanding CTCU's

[52] Pet. Ex. 8 at 10-12.

[53] *See* 7 Tex. Admin. Code § 91.301(g)(4).

[54] Resp. Ex. 4-a at 583.

[55] *See* Tex. Fin. Code § 122.006(a)(2)(B).

[56] *See* 7 Tex. Admin. Code § 91.301(g)(5).

[57] Joint Ex. 1 at 156.

FOM to a geographic community of interest which encompasses all 254 counties in the State of Texas.

V. FINDINGS OF FACT

1. On May 5, 2022, Cooperative Teachers Credit Union (CTCU) filed an application to amend its by-laws (Application), seeking to expand its field of membership (FOM) to a include an additional group, consisting of all 254 counties within the State of Texas (the Group).

2. On August 8, 2022, the commissioner (Commissioner) of the Texas Credit Union Department (CUD) issued an Order Approving Application with modifications, which permitted CTCU's FOM to comprise of nine counties (Smith County, plus eight additional counties near Smith County), rather than all 254 counties in Texas.

3. On September 22, 2022, CTCU requested a hearing to contest the Commissioner's Order.

4. On December 7, 2024, CUD submitted a Request to Docket to the State Office of Administrative Hearings (SOAH), referring the matter to for a contested case hearing.

5. On February 9, 2024, the Administrative Law Judge (ALJ) issued Order No. 2, setting the hearing and providing participation instructions.

6. Together, the Request to Docket and Order No. 2 contained a statement of the time, place, and nature of the hearing; a statement of the legal authority and jurisdiction under which the hearing was to be held; a reference to the particular sections of the statutes and rules involved; and either a short, plain statement of the factual matters asserted or an attachment that incorporated by reference the factual matters asserted in the complaint or petition filed with the state agency.

7. The hearing on the merits convened via videoconference on May 13, 2024, before Administrative Law Judge Linda Brite of SOAH. Attorney Casey Bell represented CTCU. Attorneys Zachary Rhines and Reuben Blum represented

the CUD. The record closed on June 20, 2024, after submission of written closing briefs.

8. CTCU's proposed FOM of the entire State of Texas is unprecedented for Texas-chartered credit unions.

9. CTCU maintains its principal place of business in Smith County, Texas.

10. CTCU serves its current members through a website, mobile banking, physical branch, and a nationwide ATM network.

11. The Group has unifying characteristics and mutual interests.

12. The State of Texas is a recognized single political jurisdiction.

13. There are prospective members in the 254 counties of Texas who are interested in using digital financial services.

14. CTCU offers current members—and plans to provide future members—services through remote account management tools, user-friendly mobile apps, online loan and account applications, and conversational artificial intelligence.

15. CTCU is well-capitalized based on its net worth ratio, per National Credit Union Administration standard.

16. CTCU is able to provide service that is responsive to the convenience and needs of prospective members.

17. Remote and mobile banking services are responsive to some prospective members' convenience and needs.

18. The credit unions are able to maintain parity and compete fairly with their counterparts.

19. The expansion of the FOM would protect the interest of current and future members of CTCU.

20. Expansion of the FOM will encourage economic progress in this state by allowing CTCU the opportunity to expand services and facilities.

VI. CONCLUSIONS OF LAW

1. CUD has jurisdiction over the Application. Tex. Fin. Code §§ 122.005, .011; 7 Tex. Admin. Code § 91.202.

2. SOAH has the authority to hear this matter and issue a proposal for decision with findings of fact and conclusions of law. Tex. Gov't Code ch. 2003.

3. Sufficient notice of the hearing was provided. Tex. Gov't Code §§ 2001.051-.052.

4. Applicant CTCU bears the burden of proving each of the statutory and regulatory requirements for approval by a preponderance of the evidence. 7 Tex. Admin. Code § 93.303(b); 1 Tex. Admin. Code § 155.427.

5. The Group has adequate unifying characteristics or a mutual interest such that the safety and soundness of the credit union is maintained. 7 Tex. Admin. Code § 91.301(g)(1).

6. Credit unions will be able to maintain parity and compete fairly with their counterparts. 7 Tex. Admin. Code § 91.301(g)(2).

7. CTCU is able to provide service that is responsive to the convenience and needs of prospective members. 7 Tex. Admin. Code § 91.301(g)(3).

8. Expansion of the FOM will protect the interest of current future members of CTCU. 7 Tex. Admin. Code § 91.301(g)(4).

9. Expansion of the FOM encourages the economic progress in this State by allowing opportunity to expand services and facilities. 7 Tex. Admin. Code § 91.301(g)(5).

10. The Commissioner should approve the Application without modification.

Signed August 14, 2024

ALJ Signature:

Linda Brite

Linda Brite
Presiding Administrative Law Judge

Automated Certificate of eService

This automated certificate of service was created by the efiling system. The filer served this document via email generated by the efiling system on the date and to the persons listed below. The rules governing certificates of service have not changed. Filers must still provide a certificate of service that complies with all applicable rules.

Envelope ID: 90899204
Filing Code Description: Proposal for Decision
Filing Description: PROPOSAL FOR DECISION
Status as of 8/14/2024 2:17 PM CST

Associated Case Party: Cooperative Teachers Credit Union

Name	BarNumber	Email	TimestampSubmitted	Status
Tim Miller		tim@coopteachers.com	8/14/2024 1:58:13 PM	SENT
Casey ABell		cbell@dwmrlaw.com	8/14/2024 1:58:13 PM	SENT
Nate Gillen		ngillen@coopteachers.com	8/14/2024 1:58:13 PM	ERROR

Associated Case Party: Texas Credit Union Department

Name	BarNumber	Email	TimestampSubmitted	Status
Zachary L.Rhines		zachary.rhines@oag.texas.gov	8/14/2024 1:58:13 PM	SENT
Reuben Blum		Reuben.Blum@oag.texas.gov	8/14/2024 1:58:13 PM	SENT

CREDIT UNION DEPARTMENT

Michael S. Riepen
Commissioner

Robert W. Etheridge
Deputy Commissioner

February 5, 2025

Tim Miller, President & CEO
Cooperative Teachers Credit Union
1424 WSW Loop 323
Tyler, Texas 75701

Re: Field of Membership Expansion Request – Cooperative Teachers Credit Union (CTCU) – Final Order on Remand

Dear Mr. Miller:

Enclosed please find the Final Order (Order) on Remand related to CTCU's request for a bylaw amendment to modify its field of membership.

The request is Denied. This decision is final. Notice of rights to appeal can be found at the end of the Order.

Please feel free to contact our office if you have any questions.

Sincerely,

Michael S. Riepen
Commissioner

MSR:KLM/iv

cc: Casey Bell, Attorney
Via Email: cbell@dwmrlaw.com

Carrisa Stiles
Via email: Carrisa.stiles@oag.gov

Credit Union Commission Members

Enclosure

914 East Anderson Lane • Austin, Texas 78752-1699 • Telephone (512) 837-9236 • Fax (512) 832-0278

CREDIT UNION DEPARTMENT
STATE OF TEXAS

Docket No. 469-23-07487

In the Matter of the Appeal of the August 08, 2022, Preliminary Decision of the Credit Union Commissioner and Remand from the Credit Union Commission to consider Application to Amend Bylaws By: Cooperative Teachers Credit Union 1424 WSE Loop 323 Tyler, Texas 75701 Applicant.	))))))))))))))	**ORD 22-033-01**

FINAL ORDER ON REMAND

The Commissioner of the Credit Union Department (Commissioner) has reviewed the Application of Cooperative Teachers Credit Union to amend bylaws, the Preliminary Order Approving Application, the record of the appeal proceeding (SOAH Docket 469-23-07487), the Proposal for Decision, the Exceptions to the Proposal for Decision, Response to Exceptions, letter denying Exceptions and the laws and rules applicable to this case to issue this Final Order.

The Commissioner, after review and due consideration of the matter, has determined that:

- Cooperative Teachers Credit Union (CTCU) failed to demonstrate its bylaw amendment (expansion request) met the requirements of the Texas Credit Union Act (Act).
- The Administrative Law Judge (ALJ) in the Proposal for Decision (PFD) did not properly apply and interpret the provisions of Sections 122.006 and 122.011 of the Texas Finance Code (Act).
- The ALJ in the PFD did not properly apply and interpret the provisions of the Rules for Credit Unions, including but not limited to, 7 Texas Administrative Code (Rules) Section 91.301; 91.101 (7)(C).

The Commissioner, after remand, makes findings of fact and conclusions of law as stated and explained below.

STATEMENT OF THE CASE

Applicant, CTCU, is a state-chartered credit union organized under the laws of this State with authority to engage in the credit union business. CTCU applied for a bylaw amendment to add a geographical area listing 254 individual counties (all Texas counties). This added 253 individual counties, because CTCU's bylaws already had the geographical area of Smith County. The acting commissioner of the Texas Credit Union Department (CUD) approved the application by preliminary order on August 8, 2022. This approval imposed a geographical limitation[1], allowing eight additional counties (of the 253 requested) rather than all counties in Texas (Order Approving Application—Joint Exhibit 2).

CTCU appealed the order to the State Office of Administrative Hearings (SOAH). The hearing convened via videoconference on May 13, 2024 with Administrative Law Judge (ALJ) Linda Brite presiding. Attorney Casey Bell represented CTCU. Attorneys Zachary Rhines and Reuben Blum represented CUD. The record closed on June 27, 2024, after submission of written closing briefs.

SOAH issued a Proposal for Decision (PFD) recommending the application be approved without modification on August 14, 2024. The Credit Union Department filed exceptions on September 12th which were overruled by a letter on October 2, 2024.

Pursuant to Rule 93.212, the Commission was required to hear the matter within 30 days. Under Rule 93.602, their options were to adopt or decline to adopt all or part of the Commissioner's decision or the ALJ's PFD or they may remand to the Commissioner for further consideration. On October 25, 2024. The Commission determined that the case should be remanded to the Commissioner for issuance of a final order[2].

STANDARD FOR REVIEW

CTCU has burden of proof for establishing facts supporting approval of the application by a preponderance of the evidence. Pursuant to 7 TAC Section 93.303(d), CTCU has the burden of proving each of the statutory and regulatory requirements to expand its FOM outlined in Tex. Fin. Code (Section 122.006 and Section 122.011) and the Rules for Credit Unions.

A state agency may change the finding of fact or conclusion of law made by the Administrative Law Judge (ALJ) only if they determine:

1. That the ALJ did not properly apply or interpret applicable law or agency rules; or
2. That a technical error in a finding of fact should be changed.

This ruling must state the specific reason and legal basis for any change made.

---

[1] 7 Tex Admin. Code 91.301a provides: "... The commissioner may impose a geographical limitation on any Group if the commissioner reasonably determines that the applicant credit union does not have the ability to serve a larger group or there are other operational or management concerns."

[2] The Texas Rules for Credit Unions were amended to have decisions from SOAH go directly to the Commission before a final order. Prior to 2018 rule amendments the decision went to the Commissioner for review and issuance of a final order that could be then appealed to the Commission."

SUMMARY OF THE EVIDENCE

Application (Joint Exhibit 1)

The initial application was for the "all counties in the State of Texas" but was amended to list all Texas counties individually. The application was accompanied by a four page "Service Narrative" and attachments which showed:

- no physical locations would be added to serve the expanded geographic areas,
- the focus would be serving any new members online and with "mobile banking", "for prospective members that wish to conduct their business through digital channels",
- details about specific digital and mobile offerings were vague;
- no map of locations of the shared ATM network was provided;
- there was a minimal marketing budget,
- there were no balance sheet projections showing anticipated asset growth and projected capital as a result of the expansion; and
- any anticipated increases to net income would be modest.

Preliminary Order (Joint Exhibit 2)

This order made findings required by statute but only for the application as modified, limiting the expansion to eight additional counties. This order was withdrawn upon the appeal by CTCU.

Testimony

At the SOAH hearing, the testimony of Tim Miller, CEO of Applicant, and Robert Etheridge, was given.

Tim Miller testified he had worked in insurance and banking for approximately 23 years and had been working for CTCU the last 12 years (Transcript (T) at 15). The plan was to not offer any additional physical locations and market solely to people who were only interested in digital channels (T at.17 & 30). CTCU had more employees than their peers, supporting the capacity to add 2,800 members without additional staffing. (T at 25-28). CTCU currently can enroll anyone as a member if they join the CTCU Foundation. (T at 32 & 33). CTCU had losses of over $4.6 million due to investments that had to be sold at a loss (T at 35). He was not aware of the locations of the shared ATM's and did not know if there were any in the counties requested (T at 45 &46); most Credit Unions offer web and mobile services comparable to CTCU (T at 46). "being a Texan" is a unifying characteristic (T at 50). Prospective members would have to travel to Smith County if they needed services that could not be delivered remotely (T at 52).

Robert Etheridge testified he had worked in the Credit Union industry for 38 years, 17 years as a regulator and 11 years in executive positions at Credit Unions (T at 54 & 55). He undertook review of the application after it had been accepted. The application incorrectly designated the request for an additional 253 counties as a "single political jurisdiction", and the applicant should have provided information detailing how the 253 counties' residents have common interest and interact to be considered together. (T at 59-63). The Credit Union Department has never considered or granted an expansion request for all counties in the state of Texas (T at 62 & 63). The application submitted did not contain the loan and deposit services CTCU planned to offer, and not all services can be provided without an accessible physical location (T at 64 & 65). Proximity is a factor analyzed when considering the convenience and needs of members (T at 65 & 66). It would not be reasonable to require members to travel long distances to Smith county for services (T at 67). CTCU did not provide any details of the features of their mobile offerings and the services proposed appeared to be commonly provided by most credit unions (T pages 68-71). There was no explanation in the submission of how the applicant could serve prospective members with a disability (T at 74). Most applications provide detailed data related to projected users, transactions and market penetration which were absent in the CTCU application (T at 77). Members in different locations noted as support of the application were legacy members, meaning the account was established when residing near CTCU, but the member moved without closing their account (T at 77). The application did not provide details about any target marketing campaigns and there was no full scope marketing plan common to large expansions (T at 78-79). The statewide geographic field of membership request was unprecedented (T at 81). The application estimated an addition of 4,800 members over three years; since the current membership of CTCU is approximately 7,500 members this would be 60 to 70% growth, but there was no comprehensive balance sheet, delinquency, return on assets (ROA) and net worth projections. Therefore, the financial impact could not be reviewed. (T at 83 & 93). The income projections of 10 and 20 thousand dollars annually would be too low to sustain a stable capital ratio (T at 85 and 86). If assets grew, the nominal income projected would not be enough to prevent the dilution of CTCU's net worth. (T at 86) CTCU's 7.98% capital was not adequate from a regulator's perspective (T at 83). Future potential loan losses were not addressed in the application (T at 87). CTCU failed to demonstrate financial capability to expand (T at 87). CTCU had negative operating income of over one-half million in the two quarters preceding the application (T at 88). In making the determination overlap was considered (T at 100).

Financial Performance Reports (Exhibit 6)

A complete Financial Performance Report (FPR) showing key financial indicators of the Applicant from 2020 to March of 2024 was admitted as an exhibit after the hearing. This report includes the following financial data:

- In the 3.25 years from year-end 2020 to March 2024, the credit union lost over eight million dollars, $8,013,346 in Total Equity, or a 54% decline.
- CTCU's Net Worth Ratio (Net Worth to Total Assets) has fallen from 11.35% to 7.98% over 3.25 years.
- CTCU's Net Worth Ratio is only in the 10^{th} percentile, meaning 90% of credit unions in their asset range are better capitalized.
- Delinquency and loan losses compare unfavorably to their peers.
- In March 2024 the Delinquent Loans to Total Loans Ratio is 1.96% compared to the peer average of 0.65%. Ninety six percent (96%) of credit unions in their peer group have a lower delinquency ratio.
- Loan charge-offs are high at 2.12%, over five times the peer average of 0.40%, putting CTCU in the bottom 1% of peer credit unions.
- Earnings are also a safety and soundness concern. CTCU's Net Income to Average Assets Ratio is in the bottom 10% of peer credit unions as of March 2024.
- CTCU incurred losses of $537,274 in 2020, $4,627,201 in 2022 and a loss of $43,238 as of March 2024.

Other Evidence

Other Evidence consisting of deposition transcripts and interrogatory answers was offered but was redundant of the evidence summarized above.

ISSUES

1. The ALJ in their PFD failed to make the statutorily required findings of fact and conclusion of law necessary to approve of CTCU bylaw amendment request.

"In approving an amendment, the Commissioner shall make the findings and may take actions provided by Sections 122.006 (Decision on Application to Incorporate; Issuance of Certificate) (a) and (b)"[3].

Specific findings dictated in the Credit Union Act are required for approval of a bylaw amendment. The ALJ, while recommending the application be approved without modification, failed to make the factual or legal findings required by the law for any approval.

Under Section 122.006 (a) of the Finance Code, the Commissioner must determine:

1) The incorporators have complied with the Act and rules
2) From information available showing:
   a. The character and general fitness of the incorporators;
   b. The character and size of the field of membership to be served by the credit union conform with the Act and favor the credit union's economic viability; and
   c. The board members are acting in good faith.

Section 122.006 (b) further requires "...the commissioner shall consider the effect of overlapping fields of membership on the applicant credit union and existing state or federal credit unions doing business in this state."

Criteria for Field of Membership Expansion. The required findings to approve a membership expansion are exclusively listed in the Act Sections 122.011 and 122.006. The PFD did not make any of the findings related to those required by the Credit Union Act.

Considerations outlined in the Rules. 7 Tex Admin Code 91.301 (g) outlines factor(s) the Commissioner shall consider.[4] The ALJ incorrectly applied the law when she substituted the criteria to be considered for the actual statutory requirements. The enumerated items of 7 Tex. Admin. Code 91.301(g) are to be considered in the Commissioner's determination on an application to amend bylaws, but they are not the legal standard for approval of a bylaw amendment. The standard for approval or denial of a request is set in the Act. The ALJ did not properly apply or interpret the law when reviewing the criteria outlined in the rules, and ignoring the requirements of the Act.

[3] Tex. Fin. Code 122.011 (c) (emphasis added)

[4] "...In reviewing such application, the commissioner shall **consider**: (1) Whether the Group has adequate unifying characteristics or a mutual interest such that the safety and soundness of the credit union is maintained; (2) The ability of credit unions to maintain parity and to compete fairly with their counterparts; (3) Service by the credit union that is responsive to the convenience and needs of prospective members; (4) Protection for the interest of current and future members of the credit union; and (5) The encouragement of economic progress in this State by allowing opportunity to expand services and facilities."

a. Conformance to the Act

Under Section 122.006 (a) of the Finance Code, the Commissioner (or fact finder) must determine the **(1) character and (2) size of the field of membership to be served by the credit union conform with the Credit Union Act**."

Credit unions have been granted charters in Texas since 1913. The language in the Act, Section 122.006, has been the standard for membership of a new credit union or an amendment since 1983, or over forty years. In all this time, testimony at the hearing established, and the ALJ's Finding of Fact No. 8 found, no credit union has ever requested a geographic field of membership of all counties in Texas.

Character of the field of membership to be served. The character of a field of membership contemplated by the Act focuses on unifying characteristics. This is sometimes referred to as a "common bond". In the current application the proposed field of membership proposes to be geographic, but only for those people who can avail themselves of mobile services. The ALJ failed to correctly interpret agency laws or rules with respect to a geographic request.

The PFD also finds that the state of Texas is a "single political jurisdiction" to establish a "unifying characteristic" (PFD Finding of Fact No. 12). This interpretation is incorrect and also is not applicable to the request under consideration.

CTCU's application does not request "all residents of Texas". The application requests amendment to change a single county currently served geographically by CTCU to add 253 individual counties. Because the application and SOAH record fails to demonstrate how each of these counties' residents relate to one another, the character of the field of membership proposed fails to conform to the Credit Union Act.

Lastly, Finding of Fact No. 13 in the PDF finds "there are prospective members who are interested in using digital financial services.". Nowhere in the rules or Act is this a plausible "unifying characteristic". This finding is clearly not a "character of a proposed member group contemplated" required by the Statute. There is not a category in the Rules or Act which considers "members who are interested ..." as a unifying characteristic.

The size of the field of membership to be served contemplated by the Act. The uncontested information on the proposed group in the preliminary order (Joint Exhibit 2) demonstrates the enormity of the size of the request:

- 254 counties
- 268820 square miles
- 2020 population estimate of 29 million people
- 805 maximum miles north to south
- 703 maximum miles east to west
- 1250 public school districts
- 25 metropolitan statistical areas

The ALJ did not make a finding the field of membership contemplated to be served is of the size contemplated by the Act. The proposed size of the request is not one "contemplated by the act", therefore the Application fails to meet the requirements of the Act.

Favoring the Applicant's economic viability. The Act requires a determination that the proposed field of membership expansion favors the Applicant's economic viability. Again, the PFD did not make specific findings relative to economic viability. The proposed expansion would not be favorable to CTCU's economic viability.

Not only did ALJ fail to make the "economic viability" finding required by law, but in the PFD, Finding of Fact No. 19 that this unprecedented expansion would "protect the interest of current and future members of CTCU" has no factual support. Unlike a bank, CTCU is owned by its members, and capital can only increase through earnings. CTCU's members have experienced over a fifty percent erosion in their capital in the 3.25 years leading to this hearing. CTCU's financial position will be further stressed by any major expansion, especially attempts to service groups where the Credit Union has no familiarity.

The ALJ's reliance exclusively on a capital ratio, using the definition in a statute providing for prompt corrective action, in the PFD's finding of fact number 15 and 19, demonstrates a complete lack of understanding as to "economic viability", or the interest of members continuing to have an independent credit union where their deposits are secure. The PFD demonstrates a lack of comprehension of how capital adequacy is determined. "Adequacy" is determined not only by a simple capital to assets ratio, but the ratio compared to the credit union's risk and growth profile. Failure to include a projected balance sheet showing anticipated assets and capital in the application prompted Robert Etheridge's testimony that CTCU's capital position was not adequate from a regulatory point of view (T at 83-86). To analyze "economic viability", these projections were necessary to determine any potential erosion of this ratio due to asset growth from the expansion.

The interests of credit union members are protected by profitability, good asset quality, controlled expenses, competitive products and management of interest rate risks combined with adequate capital. Instead of giving credibility to Mr. Etheridge's testimony, the ALJ relied on testimony of the CTCU's President, who had no regulatory experience, and the simple ratio of net worth to assets when making a determination about capital adequacy in a complex financial environment. This stands in contrast to considering the testimony of Robert Etheridge, with seventeen years regulatory and eleven years of executive experience in the credit union industry.

Because there was no ALJ finding on economic viability, we reviewed the record to analyze if CTCU met the requirement that, if granted, the expansion favors CTCU's economic viability, and our review determined the following:

The application fails to demonstrate the character and size of the proposed field of membership favors the credit union's economic viability. CTCU's current geographic field of membership is only one county (Smith County). CTCU's application did not demonstrate ability and experience in serving an enormous, demographically diverse geographic area. CTCU's President testified that they serve members in 400 cities. (T at 32). However, he also testified that these were members that had an established relationship with the CTCU prior to moving to these cities. The application did not demonstrate an ability or experience in attracting new members who are not conveniently located to the CTCU, have no familiarity with the CTCU, and have multiple known, quality digital and other financial service options already available to them in their geographic area.

Gaining market share is critical to the success and profitability of the credit union when entering new markets where prospective members have no knowledge or awareness of the credit union. However, CTCU's application did not present evidence of a strategic plan outlining key strategies to attract and serve the financial needs of prospective members in an enormous new, competitive field of membership, so the credit union's efforts may not be successful or profitable. (T at 76, 77)

Being unknown and competing in new geographic areas with known, established local financial institutions that offer digital services comparable to CTCU (that also have convenient physical locations) puts the entering credit union at a competitive disadvantage, and does not favor its economic viability. To overcome the competitive disadvantage with local competitors, there would need to be a reason to utilize CTCU's digital services such as noticeably lower loan rates or higher deposit rates, both of which limit potential profitability. The credit union's three-year projected profitability is minimal and would likely weaken their modest capital ratios.

Safety and soundness concerns related to the CTCU's financial performance raise significant doubts that an enormous field of membership expansion favors their economic viability. Management efforts would be best focused on addressing the deteriorating financial condition, operating losses, high delinquency and loan losses rather than focusing on a major field of membership expansion.

The Summary Financial and Key Ratio Pages of the March 2024 Financial Performance Report (FPR) (Exhibit 6) reflect numerous concerns. In the 3.25 years starting with 2020 to March 2024, the credit union has lost $8,013,346 in Total Equity, or a 54% decline, and the Net Worth Ratio has fallen from 11.35% to 7.98%. Given the decline in financial strength in 3.25 years, if the Net Worth Ratio drops less than one percent, the credit union will be considered only adequately capitalized and will be under Prompt Corrective Action requiring the credit union to develop and submit to their regulator plans to rebuild their Net Worth Ratio and financial strength. Currently, the credit union's Net Worth Ratio is only in the 10th percentile, meaning that 90% of the credit unions in their asset range are better capitalized.

Delinquency and loan losses compare very unfavorably to their peers and is also a safety and soundness concern. As seen on the Key Ratio Page, the March 2024 Delinquent Loans to Total Loans Ratio is 1.96% compared to the peer average of 0.65%. 96% of credit unions in their peer group have a lower delinquency ratio. Additionally, loan charge-offs are high at 2.12% compared to the peer average of 0.40%, putting CTCU in the bottom 1% of peer credit unions.

Earnings are also a safety and soundness concern. CTCU's Net Income to Average Assets Ratio is in the bottom 10% of peer credit unions as of March 2024, and the credit union incurred operating losses of $537,274 in 2020, $4,627,201 in 2022 and a loss of $43,238 as of March 2024. This demonstrates capital is not adequate to support asset growth.

CTCU's economic viability would be best served by denying the application, allowing them to focus on reversing operating losses, strengthening net worth, and reducing high delinquency and loan losses. This would prevent the distraction of marketing to an enormous and unknown potential membership with modest returns of only $20,000 estimated net income annually, as stated in the application.

b. Overlapping Fields of Membership.

The effect of overlapping fields is a required consideration to approve a Bylaw Amendment under the Act (Tex. Fin. Code 122.006 (b)). CTCU's application proposes to overlap the membership of every credit union in the state of Texas. Allowing an expansion of this size and scope would have a determinantal effect on all credit unions operating in the state, sets an unwelcome industry precedent, and is an additional basis for denial of the application.

The preliminary Order Approving Application (admitted as Joint Exhibit 2) recognized that six credit unions objected to the application in a timely manner (finding of fact 7) and that nine of eleven credit unions provided evidence that CTCU failed to mail letters of notification of the overlap within a reasonable timeframe to object. These overlap notification letters were mailed less than one week prior to the expiration of the thirty day publication period.

The ALJ erred in not considering the effect of overlapping fields of membership in their findings, as required by the Act, in its PFD.

Power to Impose Geographical Limitation.

The Commissioner may impose a geographical limitation on any Group if the commissioner reasonably determines that the applicant credit union does not have the ability to serve a larger group or there are other operational or management concerns. The ALJ failed to properly interpret law by not reviewing a reasonable basis for imposing a geographical limitation as was applied in the preliminary order.

Rules give the Commissioner broad discretion to impose any geographical limitation when making a final determination on an application. Again, the ALJ in the PFD failed to properly apply the rule and to analyze whether there was a reasonable basis for a geographical limitation.

FINDINGS OF FACT

1) Cooperative Teachers Credit Union (CTCU, Credit Union or Applicant) is a corporation organized under the laws of this State with the authority to engage in the credit union business.

2) On May 6, 2022, CTCU filed this application to amend its bylaws. The application was deemed complete on June 6, 2022, after requests for additional information to support the application.

3) The Notice of Application was published in the *Texas Register* dated June 24, 2022, and in the Department's Newsletter dated June 15, 2022.

4) The Applicant seeks authority to amend its Bylaws to expand its field of membership to include an additional group (Group). The proposed Group consists of adding 253 enumerated counties within the State of Texas. (The Applicant currently has a geographical field of membership for Smith County).

5) Each enumerated county within the Group is a political subdivision within the meaning assigned by TEX. LOCAL GOV'T Code § 172.003(3).

6) The Applicant maintains its principal place of business in Smith County, Texas.

7) The Application does not contemplate any additional locations to service the requested group.

8) The Application did not demonstrate online or mobile banking that is unique and not the same as offered by most financial institutions, including Credit Unions.

9) The Application proposes overlap with all state and federal chartered credit unions and foreign credit unions operating anywhere in the State of Texas.

10) Six credit unions, four state-chartered and two federal-chartered, filed individual Notices of Protest to the Application.

11) The overlap notification letters were not mailed by the Applicant within a reasonable timeframe. During the publication process, eleven credit unions provided the dates of receipt for the letters from the Applicant. Nine of the eleven credit unions received the overlap notifications between July 18 and July 22, 2022; less than one week prior to the expiration of the thirty-day publication period.

12) The 254-county area of the proposed Group covers approximately 268,820 square miles, and a population estimate for 2020 of 29 million. The area extends approximately 805 miles at its largest north/south expanse and 703 miles at its largest east/west expanse. Over 1,250 public independent school districts are within the area covered by the proposed Group, and it also encompasses 25 Metropolitan Statistical Areas (MSA) as that term is defined by the Federal Office of Management and Budget.

13) The Application fails to show the character of the proposed field of membership conforms to the Credit Union Act.

14) The Application fails to show the size of the proposed field of membership conforms to the Credit Union Act.

15) The Application fails to demonstrate that the character and size of the proposed field of membership favors the credit union's economic viability.

16) The Application fails to demonstrate the effect of overlapping membership on other credit unions. Testimony by the credit union president implies that members will be "cherry picked", only seeking those members who can conveniently be served digitally. This excludes a substantial number of potential members in each county who may not have access to digital services and are unable to conveniently come into one of two credit union physical locations.

17) The Application fails to demonstrate any investment or attachment to all County communities it proposes to serve.

18) The Application fails to demonstrate that, despite the expanded role of technology in financial services, service by the Credit Union will be responsive to the convenience and needs of prospective members in the Group. The convenience and needs of prospective members include the need for credit services as well as deposit services.

19) The Applicant did not provide a strategic plan which included specific marketing strategies to support the plan and the requested field of membership expansion.

20) The Application lacked comprehensive balance sheet projections and specificity on how the requested geographic community of interest would impact the credit union's statement of financial condition and economic viability.

21) Geographic proximity of a credit union's facilities in relationship to where a person lives, works, or worships substantially impacts a person's ability to access services, and is a factor in determining whether the convenience and needs of the prospective members will be met, supporting a geographic request.

22) The Applicant cannot extend its services to all persons within the proposed Group solely through its existing facilities. The existing facilities would not meet the convenience and needs of prospective members within the proposed expansion.

23) The record demonstrates several financial factors related to ongoing economic viability; these include:

   a. Applicant experienced a decline in assets from $124 million on December 31, 2020, to $121 million as of March 31, 2024, and a decline in total loans from $90 million at year end 2020 to $82 million as of March 31, 2024.

   b. Applicant incurred aggregate net income losses of $4,577,470 from January, of 2020 through March of 2024.

   c. Applicants' total equity has decreased from $14,842,337 at year end 2020 to $6,828,991as of March 31, 2024, a decline of over $8 Million or 54% since December of 2020 (3.25 years).

   d. Applicant's net worth as of March 2024 is in the 9th percentile of its asset size peer group at 7.98% compared to the peer average of 11.48%

   e. Applicant's delinquent loans to total loans as of March 31, 2024, was 1.96%, much higher than the peer group ratio of 0.65% (the bottom 4%).

   f. Applicants net operating expense to average assets as of March of 2024 is higher than its peer group at 3.36% compared to 2.96%.

24) The Applicant does not have the ability, and the application did not establish the ability to serve the larger group (requested geographic area).

25) The application demonstrates significant operational and management concerns, as reflected in high delinquency, high loan losses, significant operating losses and rapidly declining capital from 2020 through March of 2024.

CONCLUSIONS OF LAW

1) Granting or denying the Application to expand a field of membership is determined pursuant to the Texas Finance Code, Sections 122.005, 122.006, 122.011, and 122.051 (Act).

2) The application was evaluated considering the factors outlined in 7 Tex. Admin Code 93.101 (g). It is the Applicant's responsibility to demonstrate to the Department such

facts and data that support the requirements and considerations in 7 TEX. ADMIN CODE §91.301 and the Act.

3) The Credit Union is properly incorporated under the Texas Finance Code.

4) The character and general fitness of the members of the board of directors' warrant belief that the business and affairs of the Credit Union will be properly administered in accordance with the Texas Finance Code and the Rules adopted thereunder.

5) The members of the board of directors are acting in good faith and are making the application in accordance with the purposes of the Texas Finance Code.

6) No protestant reasonably established a basis for denying Applicant's request to expand its field of membership as prescribed by 7 TEX. ADMIN CODE §91.301.

7) The character and size of the proposed field of membership does not conform with the Credit Union Act.

8) The character and size of the proposed field of membership does not favor the applicant credit union's economic viability.

9) The effect of the proposed overlap with all state, federal and foreign credit unions operating in Texas was considered when making this ruling.

10) The commissioner may impose a geographical limitation on any Group if the commissioner reasonably determines that the applicant credit union does not have the ability to serve a larger group or there are other operational or management concerns.

11) The applicant does not have the demonstrated ability to serve the larger group and there are operational and management concerns.

12) The application fails to meet the requirements of the Credit Union Act.

REASONS FOR CHANGING ALJ'S FINDINGS OF FACT AND CONCLUSIONS OF LAW IN THE PROPOSAL FOR DECISION (PFD)

Findings of fact and conclusion of law made in the PFD are rejected to the extent they conflict with the findings in this order.

<u>The Credit Union Act and Rules for Credit Unions were not properly applied or interpreted as follows:</u>

1) Conclusions of law in the PFD, numbers 5 to 9, are only considerations when reviewing an application. The criteria to approve a bylaw amendment are stated in the Act, not the Rules. The ALJ failed to properly apply the law when they treated regulatory considerations as analogous to the statutory requirements for a bylaw amendment.

2) The PFD failed to make the Conclusions of Law and Findings of Fact required by the Credit Union Act to approve CTCU's application:

    a. the character size and scope of the requested field of membership is
        i. conform with the Credit Union Act; and
        ii. favors the Credit Union's economic viability.
    b. Consider the effect of any overlap

3) The PFD failed to address the operational, management and economic viability concerns.

4) The PFD failed to consider the effect of the overlapping fields of membership because of the requested expansion. This consideration is required under the Act, section 122.006 (b).

5) The ALJ failed to consider the application to add 253 additional counties to the field of membership in CTCU bylaws. The PFD incorrectly held the State of Texas is a "single political jurisdiction" (FOF 12), however "the State of Texas" was not the bylaw amendment requested upon which the "unifying characteristic" should be established in the record for approval.

6) The ALJ failed to evaluate imposing a geographic limitation as outlined in the rules, specifically 91.301(a):

7) The ALJ's Conclusory Findings in the PFD relating to the financial condition and economic viability of the Applicant are not supported by any evidence.

Findings in the Proposal for Decision (PFD) had Technical Errors:

1) Finding of Fact 1 recites the wrong date for receipt of the application. The correct date is May 6, 2022.

2) Finding of Fact 4 should reflect a date December 7, 2022, (not 2024).

3) Finding of Fact 5 should reflect a February 9, 2023, date (not 2024).

4) Finding of Fact number 15 recites the wrong standard, as this classification is solely for the purpose of instituting prompt corrective action, and is not the sole factor in "economic viability" or other financial considerations.

5) Conclusions of Law 5-9 relate to factors to be considered, not legal criteria outlined in the Act.

IT IS ORDERED that Cooperative Teachers Credit Union's application to expand its field of membership, as submitted, is Denied.

SIGNED this 5th day of February 2025.

Michael S. Riepen

Michael S. Riepen
Commissioner

NOTICE OF OPPORTUNITY TO APPEAL COMMISSIONER'S FINAL DETERMINATION TO THE COMMISSION

The Applicant is advised that pursuant to Rule 93.601, a motion for appeal to the Credit Union Commission must be filed with the Commissioner within ten days of service of this final determination. The motion must state the identities and interests of the parties, the matters complained of, any specific objections, and the action sought from the Commission.

ORIGINAL of the foregoing filed this 5th day of February 2025, in the office of:

Michael S. Riepen, Commissioner
Credit Union Department State of Texas
914 East Anderson Lane
Austin, Texas 78752-1699

COPY MAILED SAME DATE to:

Tim Miller, President & CEO
Cooperative Teachers Credit Union
1424 WSW Loop 323
Tyler, Texas 75701

[Signature of Mailer]

DUGGINS
WREN
MANN &
ROMERO, LLP

One American Center
600 Congress
Suite 2700
Austin, TX 78701

P.O. Box 1149
Austin, TX 78767

p: 512.744.9300
f: 512.744.9399
www.dwmrlaw.com

February 13, 2025

Via Certified Mail, Return Receipt Requested
and Via Email to:
mike.riepen@cud.texas.gov and
karen.miller@cud.texas.gov

Michael Riepen
Commissioner
Karen L. Miller
General Counsel
Texas Credit Union Department
914 East Anderson Lane
Austin, Texas 78752

Re: SOAH Docket No. 469-23-07487.CUD; CUD No. 22-033-01; *Cooperative Teachers Credit Union v. Texas Credit Union Department*; Final Order on Remand issued by Commissioner on February 5, 2025

Dear Mr. Ripien and Ms. Miller:

I am writing on behalf of my client Cooperative Teachers Credit Union ("CTCU") regarding the Final Order on Remand issued by the Commissioner on February 5, 2025, denying CTCU's May 5, 2022 application made to the Texas Credit Union Department ("Department") for approval to amend CTCU's bylaws to expand its field of membership (the "Application").

Following a timely appeal by CTCU of the Interim Commissioner's preliminary decision on the Application, the Application was the subject of a contested case hearing in the above-referenced docket at the State Office of Administrative Hearings ("SOAH"), and the SOAH Administrative Law Judge ("ALJ") issued a Proposal for Decision ("PFD") recommending the Application be granted without modification. The PFD included findings of fact and conclusions of law supporting such recommendation. The Final Order on Remand issued by the Commissioner improperly rejects the PFD's recommendation and fails to comply with Texas Government Code requirements and Department rules for changing the ALJ's findings of fact and conclusions of law.

The Final Order of Remand included a notice of opportunity to appeal the Commissioner's final determination to the Texas Credit Union Commission. However, that notice refers to a rule (7 Tex. Admin. Code §93.601) that the Commission repealed in 2018 and thus does not apply to this proceeding. The Department's applicable procedural rules applicable to this proceeding are unclear as to the process for obtaining a final decision from the Commission following a final order on remand issued by the Commissioner. However, 7 Tex. Admin. Code § 93.602 states that the Commission may adopt or decline to adopt all or part of the Commissioner's decision or the ALJ's PFD and the underlying findings of fact and conclusions of law.

Therefore, CTCU requests the Commission to issue a final decision on the Application in accordance with 7 Tex. Admin. Code § 93.602. Specifically, CTCU requests the Commission to adopt the SOAH ALJ's PFD in its entirety, including the proposed findings of fact and conclusions of law. Pursuant to 7 Tex. Admin. Code § 93.212(c), if the Commission's decision differs from the PFD, the Commission's decision must comply with the standards set forth in Texas Government Code § 2001.058.

Yours very truly,

DUGGINS WREN MANN & ROMERO, LLP

By: ______________________
Casey A. Bell

cc: Tim Miller
Carrisa Stiles (Carrisa.stiles@oag.texas.gov)

7. Commissioner's report – Commissioner Robert Etheridge:
    a. Department's FY 2026 budget and financial performance
    b. Department operational status and accomplishments
    c. Employee/team highlights
    d. Upcoming priorities

<u>Background</u>
Commissioner Etheridge will present on the Department's budget and financial performance as reflected in the following report, as well as other Department news and plans.

<u>Staff recommendation</u>
No action is anticipated.

Credit Union Department
BY 2026 Budget Analysis
For the Period Ended 05/31/26 Final

	BY 2026 Budget	BY 2026 YTD Budgeted	BY 2026 YTD Actual	Budget Variance	Percent of YTD Budget
REVENUES:					
Operating Income					
Operating Fees	$6,208,420	$6,208,420	$5,612,041	($596,379)	90%
Out-of-State Branch Fees	$0	$0	$20,000	$20,000	100%
Examination Fees	$0	$0	$60,050	$60,050	
Application Fees	$0	$0	$0	$0	
Penalties	$0	$0	$2,056	$2,056	
Open Records Revenue	$0	$0	$212	$212	
Other	($100,000)	($100,000)	($100,000)	$0	
Operating Income Subtotal	**$6,108,420**	**$6,108,420**	**$5,594,359**	**($514,061)**	92%
Interest Income (Operating Acct)	$0	$0	$89,466	$89,466	
Interest Income (Contingency Acct)	$0	$0	$42,464	$42,464	
TOTAL REVENUES - FUNDS AVAILABLE TO COVER EXPENDITURES	**$6,108,420**	**$6,108,420**	**$5,726,288**	**($382,132)**	**94%**
EXPENDITURES:					
Personnel Expenses:					
Salaries and Wages	$3,788,922	$2,819,191	$2,691,247	$127,944	95%
Employee Benefits	$1,138,543	$853,907	$824,285	$29,622	97%
Total Personnel Expenses	**$4,927,464**	**$3,673,098**	**$3,515,532**	**$157,567**	**96%**
Travel Expenses:					
In State					
Examinations			$0		
Training/Conferences			$37,009		
Meetings			$2,562		
Public Forums			$0		
Other			$16,089		
Total In-State	$437,028	$327,771	$326,818	$953	100%
Out-of-State	$12,500	$9,375	$7,600	$1,775	81%
Commission	$12,000	$9,000	$6,131	$2,869	68%
Total Travel Expenses	**$461,528**	**$346,146**	**$340,548**	**$5,597**	**98%**
Other Operating Expenses:					
Communication/Utilities	$56,339	$42,254	$38,793	$3,461	92%
Professional Services/Fees	$229,500	$172,125	$201,367	($29,242)	117%
Supplies/Materials	$109,000	$81,750	$26,677	$55,073	33%
Printing and Reproduction	$1,000	$750	$175	$575	23%
Repairs/Maintenance	$54,240	$40,680	$8,495	$32,185	21%
Rentals and Leases	$4,500	$3,375	$3,158	$217	94%
Other Operating	$264,850	$154,388	$43,561	$110,827	28%
Total Other Operating Expenses	**$719,429**	**$495,322**	**$322,227**	**$173,095**	65%
TOTAL EXPENDITURES	**$6,108,421**	**$4,514,566**	**$4,178,307**	**$336,259**	**93%**
REMAINING FUNDS TO COVER EXPENDITURES (Actuals)			**$1,547,982**		

8. Department operating plan and FY 2027 budget

Background

Finance Code Section 16.003 gives the Commission the exclusive responsibility for approving the Department's budget each year. Consistent with the FY 2027 Budget Assumptions approved by the Commission in March 2026, the following pages detail a proposed budget for FY 2027 of $6,183,204 which represents a 0.41% decrease from the FY 2026 budget. The proposed budget includes strategic initiative funds for the funding of equity adjustments for certain staff positions ($33,800), merit increases and anticipated promotions ($148,018); modernization of the Department's online systems/website ($27,000), modernization of our Information Technology Infrastructure ($35,000), server room buildout costs which did not occur during FY 2026 ($28,000), and capital improvement funding for building maintenance and repairs ($25,000).

Staff Recommendation

Staff recommends the Commission approve the proposed FY 2027 Operating Plan and Budget.

Recommended Motion

I move that the Commission approve the proposed FY 2027 Operating Plan and Budget, with a total budget of $6,183,204 and 36 FTEs.

BUDGET ASSUMPTIONS FOR BUDGET YEAR 2027

The following broad assumptions will establish the foundation for the development of the Department's Budget Year (BY) 2027 budget and provide a framework to staff and the Commission for setting priorities, determining service levels, and allocating limited financial resources.

1. **Balance Budget** – In accordance with Commission policy, the budget will be balanced using BY 2026 ending reserve balance funds exceeding the aggregate contingency reserves limit.
2. **Contingency Fund Reserve** – The budget will provide for the funding of the Department's Contingency Fund Reserve account, in accordance with the Commission's Reserve Policy.
3. **Contractual Obligations** – The Department intends to meet all contractual obligations. Purchase orders or contracts which were placed and committed prior to the end of Fiscal Year (FY) 2026 for which the requested services performed until after the start of FY 2027 are considered obligated funds. The budget authority for these obligated funds will automatically be carried over to BY 2027 and the BY 2027 budget will be increased by an amount exactly equal to the obligated amount.
4. **Compliance** – The budget shall provide enough funding to continue compliance with all applicable statutes, governmental requirements, administrative rules, and Department policy in regulating and supervising the safety and soundness of credit unions.
5. **Strategic Plan Initiatives** – Consistent with the FY 2027-2031 Strategic Plan, the budget will provide appropriate funding to implement the delineated initiatives for FY 2027.
6. **Salary and Benefits** – The expenditures for FY 2027 will be based on authorized and existing positions as of April 30, 2026 and include any scheduled salary increases/promotions based on the satisfactory performance and progression of staff. Filled positions will be budgeted at the actual salary for the individual in that position and vacant examiner positions will be budgeted at the base salary level for a Financial Examiner (FE) III position. Vacant office positions and above FE III level examiner positions will be budgeted at the midpoint of the salary range for those positions. Employee Benefits will be automatically calculated on all salaries with the appropriate benefit rates established for state agencies. The Department will also monitor legislative initiatives which could result in required legislative pay increases for State of Texas employees.

7. **Merit Increases** – To foster, support, and reward outstanding performance and to retain key high performing staff, aggregate merit increase awards for staff are estimated at an amount equivalent to 3.50% of the total salaries for those positions and will be awarded based on the established merit pay tiers. The corresponding increase in Employee Benefits, resulting from the proposed merit awards, will also be properly reflected in the budget. Funds for anticipated promotions for FY 2027 may be submitted as a separate strategic initiative in the FY 2027 budget which is proposed to the Commission for consideration.
8. **Retiree Insurance Cost** – Retiree Insurance Cost are a result of staff retiring from the Department. Changes in retiree insurance costs are anticipated to be allowable budget adjustments.
9. **Inflation Factor** – No additional inflationary increases are anticipated, except for increases in the cost of utilities and in-state staff travel. Increases in utility costs will be based on the prior year ending Consumer Price Index for the U.S. published by the U.S. Bureau of Labor Statistics. In-state travel costs will be adjusted based on the ability of examination staff to complete 30% of their work remotely.
10. **Statewide Indirect Cost** – Statewide indirect cost allocations are a result of a statewide plan established by the Comptroller of Public Accounts. Changes in indirect cost allocations are anticipated to be allowable budget adjustments.
11. **Out-of-State Travel** – Out of state travel related to examinations, conferences, training, or other authorized purposes. Includes travel for office staff and the Commissioner to NASCUS and other relevant regulatory related meetings. The annual budget for this category will be increased from $12,500 to $20,000.
12. **Commission Travel** – The number of preplanned Commission meetings is currently three per year. The budgeted annual travel costs for these meetings are estimated at $12,000.
13. **Internal Audit Services** – As outlined in the Sunset Advisory Commission's (SAC) report on the Department and the SAC's recommendation, the budget will provide funding for annual audits (i.e., third-party internal audits) of the Department, including other related costs, etc.
14. **Electronic Document Management System (EDMS)** – The budget shall provide for the costs associated with the ongoing development and maintenance of our EDMS (i.e., SharePoint).
15. **Information Technology** – The budget shall provide enough funding for computer network upgrades and computer equipment replacement in accordance with the Department's technology needs.
16. **Improvements** – The budget shall provide enough funding for scheduled maintenance and repairs in accordance with the Replacement/Capital Improvement Plan. Strategic initiatives will be detailed in the final budget for the most significant anticipated items.

17. **NASCUS Dues** – The budget shall provide enough funding to accommodate the projected increase in the professional association's dues.
18. **Accreditation Fees** – The budget shall provide enough funding to accommodate the fees associated with the Department's continued NASCUS accreditation.
19. **Overnight Travel Stipend** – The budget shall provide enough funding to pay examiners an overnight travel stipend in accordance with the qualifying conditions included in the Department's policy. The stipend will not be considered a one-time merit award and may be paid to the eligible examiners regardless of their last merit pay or promotion action.
20. **Examiners' Laptops and Support** – The budget will be adequate to provide laddered funding for the replacement of Department laptops (office and field staff) every three years. Under this assumption, up to 12 laptops will be replaced each fiscal year at an average cost of $2,800 each. The budgeted amount includes costs associated with the purchase and set-up of each laptop and procuring all software licensing, security, and support for the new machines as well as maintaining two (2) laptops in inventory as backup devices in the event a laptop issue arises. The Department will exercise diligence and discretion with this assumption and whenever possible, the life of certain laptops may be extended (i.e., from 3 to 4 years, etc.).
21. **Legal Research Tools** – The budget will provide funding to provide the Department's General Counsel with the funds to obtain the necessary research tools (i.e., legal subscriptions, etc.) to perform the duties of the position.

SUMMARY OF PROPOSED FY 2027 BUDGET

Budget Needed to Continue Existing Services		$5,886,386
Strategic Initiatives:		
Priority #2 – Promotions and Merit Increases	$148,018	
Priority #4 – Equity Adjustments	$33,800	
Total Strategic Initiatives		$181,818
Replacement /Capital Improvement Plan:		
Priority #1 – Modernization of Online Systems	$27,000	
Priority #3 – IT Infrastructure Modernization	$35,000	
Priority #5 – Server Room Buildout	$28,000	
Priority #6 – Building Maintenance/Repairs	$25,000	
Total Replacement Capital Improvements		$115,000
Grand Total Agency Requested Budget FY 2027		**$6,183,204**
Grand Total Agency Budget FY 2026		**$6,208,421**
$ Decrease Versus FY 2026 Budget		**($25,217)**
% Decrease Below FY 2026 Budget		**(0.41%)**
Full-Time-Equivalent Positions		**36**

BUDGET NEEDED TO CONTINUE EXISTING SERVICES

FY 2027 Base Budget Reconciliation			
Object of Expenses	**Budget FY 2026**	**Adjustment**	**Base FY 2027**
Salaries and Wages	3,788,922	<56,254>[1]	3,732,668
Payroll Related Costs	1,138,542	<54,364>[2]	1,084,178
Travel	461,528	12,972[1a]	474,500
Professional Services/Fees	229,500	1,000[3]	230,500
Supplies/Materials	109,000	<30,800>[3a]	78,200
Communication/Utilities	56,339	211[4]	56,550
Repairs/Maintenance	54,240	<46,200>[5]	8,040
Rentals and Leases	4,500	0[6]	4,500
Printing and Reproduction	1,000	0	1,000
Other/State of Texas Services	264,850	<88,600>[7]	176,250
Contingency Reserve	100,000	<60,000>	40,000
Grand Total	**$6,208,421**	**<$322,035>**	**$5,886,386**

[1]Reduced FY 2026 baseline salary and wages costs by $56,254 based on projected salary costs for FY 2027 using budget assumptions, a $2,640 salary increase approved for Commissioner at the September 2025 Commission meeting, estimated merit/promotion increases of $37,848 for remainder of FY 2026, a $10k estimated increase in pay for the hourly part-time position, an estimated decline in longevity pay of $1k due to actual monthly longevity cost of $2,080 as of April 2026 and the retirement of a long term employee in BY 2027 ($260/month longevity), & $3k (10%) reduction in travel stipend costs. Longevity budget provides for up to nine $20 month increases in FY 2027.

[2]Decrease in Payroll Related Costs of $54,364 primarily to an estimated $74,756 reduction in Employee Retirement, a $4,080 estimated increase in CUD contribution of employee insurance, a decline of $431 in Additional PR Retirement Contributions, a $690 drop in PR Health Inc. Contributions, a $9,987 decrease in FICA Employee Match Contributions, and a $27,420 increase in Retire Group Insurance.

[1a]Increased $12,972 due to 2.7% upward budget adjustment for in-state travel due to 2026 CPI. Reallocated funding to various travel categories based on 2026 trends and rounded each category up to nearest $1k increment. No change for aggregate out-of-state travel and Commission travel but reallocated funding to various travel expense categories based on 2025-26 trends.

[3]Increased $1,000 due to a $6,000 reduction in Contract Services (#7242) which was reallocated to 5 other COBJ codes; and a $7,000 increase in Comp/Programs (#7275) costs. Increased DIR-Data Center Services (#7285 – document portal) costs of $25k offset by a $25,000 reduction in estimated Legal Services (#7258).

[3a]Decrease of $30,800 due to reductions of $36k in Furniture & Equipment, Parts-Computer Equipment & Computer Equipment Expenses, & $4k increase in Consumables & Software.

[4]Communications/Utilities increase by $211 due to applying CPI to utility costs. $1k reduction in communication services reallocated to two other COBJ codes under same category.

[5]Baseline reduced $46,200 due to $27k reduction in #7262, a $20,000 reduction in #7266, and an $800 increase in #7271.

[6]No change in this category due to baseline being sufficient.

[7]$99,050 reduction in other operating costs, no reduction in training & registration costs, and a $10,450 increase in state services costs.

OVERVIEW OF AGENCY REQUESTED FY 2027 BUDGET

Proposed Budget with Strategic Initiatives			
Object of Expenses	**Base Budget**	**Strategic Initiatives**	**Budget Request**
Salaries and Wages	3,732,668	156,000	3,888,668
Payroll Related Costs	1,084,178	25,818	1,109,996
Travel	474,500	0	474,500
Professional Services/Fees	230,500	57,000	287,500
Supplies/Materials	78,200	30,000	108,200
Communication/Utilities	56,550	0	56,550
Repairs/Maintenance	8,040	28,000	36,040
Rentals and Leases	4,500	0	4,500
Printing & Reproduction	1,000	0	1,000
Other/State of Texas Services	176,250	0	176,250
Contingency Reserves	40,000	0	40,000
Grand Total	**$5,886,386**	**$296,818**	**$6,183,204**

Percentage Decrease Below FY 2027 Budget	**(0.41%)**

Operating Fees and Proposed Expenditures		
Estimated Operating Fees		$5,888,950[1]
Proposed Expenditures		$6,183,204
Est. FY 2027 Operating Fee Adjustment	$ Shortage	$294,254
% Revenue Needed		5.00%

[1]Using assets as of March 31, 2027. Actual fees/revenue will be based on assets as of June 30, 2027. **Note:** As required by Commission policy, staff have reviewed all fees established by Rule 97.113 and recommends that the Commission make no changes to the annual operating fee structure.

POTENTIAL REVENUE

Estimated Operating Fees and Other Revenue Sources	
Estimated Operating Fees	$5,888,950[1]
Estimated Fees for Out-of-State Branches	20,000[2]
Estimated Interest Income from Deposits	$122,459[3]
Estimated Income from Remedial Exams	$99,680[4]
Total Estimated Revenue	$6,131,089

[1]Using assets as of March 31, 2026 and based on 100% of calculated operating fees. Actual fees/revenue will be based on assets as of June 30, 2026. In accordance with 7 TEX. ADMIN. CODE 97.113(b), the Commissioner may increase the fee schedule as needed to match revenue with appropriations. An increase greater than 5% shall require prior approval of the Commission.
[2]Out-of-state branch fees calculated using average number of branches of 20 times $1,000 per branch.
[3]Based on interest income earned through first eight months of Fiscal Year (FY) 2026 of $116,628. That amount was then annualized ($174,942) and multiplied by a factor of 70 percent to conservatively allow for reductions in future interest rates on deposits.
[4]Estimated income on remedial exams based on the average number of remedial exam days for FY 2024, FY 2025 and FY 2026 (through 05-31-26 and annualized) of 178 days. The average remedial days for the last three fiscal years were then multiplied by the $100 per hour examination fee provided by current Commission rules. The total was then multiplied by a conservative factor of 70 percent to allow for situations where the Commissioner may waive the remedial examination fees.

Estimated Revenues and Proposed Expenditures	
Total Estimated Revenue	$6,131,089
Proposed Expenditures	$6,183,204
Estimated FY 2027 Additional Revenue Needed $	$52,115
Estimated FY 2027 Additional Revenue Needed %	0.85%

REVENUE HISTORY[1]

Fiscal Year 2024	
Total Fees Prescribed by Rule 97.113	$5,615,912
$ Installment Adjustment Permitted	<$799,702>
% Operating Fee Installment Adjustment	14.2%
Actual Assessment Collected	$4,816,210

Fiscal Year 2025	
Total Fees Prescribed by Rule 97.113	$5,948,556[2]
$ Installment Adjustment Permitted	<$373,806>
% Operating Fee Installment Adjustment	6.3%
Actual Assessment Collected	$5,574,750

Fiscal Year 2026	
Total Fees Prescribed by Rule 97.113	$5,739,274
$ Installment Adjustment Permitted	<$127,233 >
% Operating Fee Installment Adjustment	2.2%
Actual Assessment Collected	$5,612,041

[1]Operating revenue history based on operating fees only. It does not include funds received from interest on agency deposits, remedial examinations or from other sources.
[2]The fee schedule was increased by 4.87161 percent in accordance with the Commissioner's authority under 7 TAC 97.113(b).

PERFORMANCE/KEY MEASURES

Measure	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026 YTD – 4/26
Number of Credit Unions	173	168	165	160	157
Credit Union Total Assets (billions)	$59.0	$57.5	$58.5	$60.1	$62.6
Percent Increase in Credit Union Total Assets	8.9%	-2.5%	1.7%	2.7%	4.2%
Average Regulated Assets per Examiner (billions)	$3.85	$3.59	$3.44	$3.54	$3.48
Number of Examinations	148	137	144	146	92
Percent of Credit Unions Examined	86%	82%	87%	90%	58%
Percent of Credit Union Assets Examined (based on assets at last regular exam)	90%	92%	96%	96%	59%
Number of Remedial Exams	38	36	31	33	15
Percent of Credit Unions Rated 1 or 2 (CAMELS)	86%	87%	85%	88%	85%
Percent of Assets in 1 or 2 Rated Credit Unions (CAMELS)	98%	98%	89%	96%	95%
Percent of Well-Capitalized Credit Unions	98%	99%	99%	99%	99%
Number of Credit Unions Rated 3, 4, or 5 (CAMELS)	25	22	25	19	23
Annual Examiner Turnover*	17.3%	22.7%	15.9%	15.3%	0.0%
Average Tenure of Departing Examiners (Mos.)	51	19	122**	15	n/a
Number of Examiners Hired	3	5	4	3	1
Annual Staff Turnover	14.2%	24.2%	12.7%	12.5%	5.9%
Number of Formal Training Days	294	321	412	259	196
Number of Applications Processed	79	65	97	79	31
Number of Requests – Interpretation/ Opinion	1	0	1	0	0
Number of Public Information Requests	40	37	44	30	21
Number of Written Credit Union Complaints Processed	344	400	604	687	575
Department Costs/$100k Assets	$6.61	$7.42	$8.44	$8.94	TBD

*Excludes retirements.
**Includes retirements.

STRATEGIC INITIATIVE FUNDING REQUEST #1

Initiative Name: **Merit Increases (includes promotions)**
Priority: **2**

Merit Increases and Promotions	
Objects of Expense	**Estimated Costs**
Salary & Wages (Merit and Promotions)	$127,000*
Payroll Related Costs**	$21,018
Total	**$148,018**

* Rounded to closest $1,000 increment.
**Payroll related costs estimated at 16.55 percent of increased payroll amounts.

Description/Justification:

"Ensuring Texas has a safe and sound credit union system," is an undeniable obligation of our agency. Evaluating the safety and soundness of credit unions requires that we have competent and capable examiners, and the ability to retain qualified examiners is essential in meeting this objective. Credit unions continue to grow in assets. The average asset size of a Texas chartered credit union has increased approximately 36.8 percent over the last five years, from $274.6 million at fiscal year-end (FYE) 2020, to $375.6 million as of August 2025. It is essential that the Department maintains qualified staff and control examiner turnover numbers, given the increasing size, complexity, and sophistication of the institutions that we examine/regulate. Offering an attractive compensation and benefits package, including a competitive salary, is a key component impacting examiner retention.

The Department's merit pay program, and staff promotions have traditionally been some of the most effective tools to motivate and retain qualified staff. Recognizing and rewarding high performance is a key priority for driving excellence in the Department. A monetary reward is an effective incentive for staff who exhibit greater enthusiasm, commitment, and developmental skills than the other staff around them. When budgeted and approved by the Commission, all classified staff members are eligible to participate in the Department's merit pay program and/or be considered for a promotion during the budgeted fiscal year (FY). The last merit increases for staff were budgeted in the FY 2026 budget. During FY 2027, the Department has field examination staff and office staff who are expected to reach certain skill and tenure levels which generally result in merit increases or promotions.

Funding this item is necessary for the Department to maintain examiner and office staff resources to ensure effective supervision to meet regulatory responsibilities, achieve performance measures, and preserve a safe and sound Texas credit union system. As credit unions grow more sophisticated, retaining highly skilled examiners and office staff is essential to achieve these objectives. It is imperative that the Department keep examiner/office staff salaries competitive to maximize the retention of key staff members.

In the absence of a merit-based pay program and opportunities for career progression through promotions, there is the risk of discouragement for high performing staff. The most talented staff are aware of their strengths and abilities and like to accept the challenges of performance-linked pay. If all staff are awarded uniform pay without regard to individual performance or contribution, there is a risk of the best performing staff becoming disenchanted and leaving the Department. Further, if pay levels are perceived to be below market levels, it is difficult to attract and retain a qualified, motivated examiner and office workforce, which ultimately affects examination quality, effectiveness and productivity.

External/Internal Factors:

Merit pay helps the Department differentiate between the performance of high and low performing employees and reward the higher performance accordingly. As a result, it is believed that merit pay is an opportunity to ensure that outstanding staff members remain with the Department and continue to make significant contributions.

The complexity of work required by the examination staff continues to increase, as credit unions continue to grow and become more sophisticated. Therefore, it is essential that the Department continue to attract and retain skilled examiners and competent office staff. The Department must continue to make every effort to maintain competitive pay levels with other financial institution regulators (i.e., National Credit Union Administration, Department of Banking, etc.) to sustain a high retention rate and maintain a strong examination workforce, benefiting all stakeholders.

The Commission approved a 3.50 percent Merit Pool for Department staff when approving the FY 2027 budget assumptions at its March 2026 Commission meeting. Because of funds that will be necessary for anticipated promotions during FY 2027 and a higher number of less tenured (< 3 years) staff and examiners currently on staff, we may allocate some of the funds from the merit pool for staff promotions.

If approved, it is proposed that the merit and promotion funds be utilized to compensate employees anticipated to hit certain tenure/experience and skill thresholds during FY 2026 which have typically resulted in merit/promotion pay increases applicable to their positions.

STRATEGIC INITIATIVE FUNDING REQUEST #2

Initiative Name: **Equity Adjustments**
Priority: **4**

Equity Adjustments	
Objects of Expense	**Estimated Costs**
Salary & Wages (Equity Adjustments)	$29,000*
Payroll Related Costs**	$4,800
Total	**$33,800**

*Rounded up to closest $1,000 increment.
**Payroll related costs are estimated at 16.55% of increased payroll amounts.

Description/Justification:

Ensuring Texas has a safe and sound credit union system," is an undeniable obligation of our agency. Evaluating the safety and soundness of credit unions requires that we have competent and capable examiners, and the ability to retain qualified examiners is essential in meeting this objective. Credit unions continue to grow in assets. The average asset size of a Texas chartered credit union has increased approximately 36.8 percent over the last five years, from $274.6 million at fiscal year-end (FYE) 2020, to $375.6 million as of August 2025. It is essential that the Department maintains qualified staff and controls examiner turnover numbers, given the increasing size, complexity, and sophistication of the institutions that we examine/regulate. For Fiscal Years 2022 through 2025, examiner turnover figures were elevated, averaging 17.8 percent. This means that approximately three to four examiners have left the Department each year during the prior four fiscal years. Offering an attractive compensation and benefits package, including a competitive salary, is a key component impacting examiner retention.

The Commission approved the Department's budget assumptions for FY 2027 which were presented to them at their March 2026 Commission meeting. As part of those assumptions, the Commissioner proposed a 3.50 percent Merit Pool for staff increases for the upcoming FY 2027. Those funds will be utilized to recognize the performance of all Department staff through merit payments and promotions. However, after completing an annual salary survey, equity adjustment funding for some field staff positions who are being compensated below their peer level, is also being requested.

Similar to last year's budgetary process, salary surveys were conducted with other state and federal agencies. During the survey process, it was determined that several of the Department's non-management field examiner positions were being compensated at levels which were below competitive wages for similar positions with other state and federal agencies. Thus, the Department is proposing to establish a pool to fund equity adjustments for certain examiner positions. The proposed equity adjustment compensation will be to provide greater parity (with comparable positions at other similar state and federal agencies.

Funding this item is necessary for the Department to maintain examiner and office staff resources to ensure effective supervision to meet regulatory responsibilities, achieve performance measures, and preserve a safe and sound Texas credit union system. As credit unions grow more sophisticated, retaining highly skilled examiners and office staff is essential to achieve these objectives. It is imperative that the Department keep examiner/office staff salaries competitive to maximize the retention of key staff members.

In the absence of a competitive pay program, there is the risk of discouragement for staff. Further, if pay levels are perceived to be below market, it is difficult to attract and retain a qualified, motivated examiner and office workforce, which ultimately affects examination effectiveness and productivity.

External/Internal Factors:

The complexity of work required by the examination staff continues to increase as credit unions continue to grow and become more sophisticated. Therefore, it is essential that the Department continues to be able to attract and retain skilled examiners and competent office staff. The Department must continue to make every effort to maintain competitive pay levels with other financial institution regulators (i.e., National Credit Union Administration, Department of Banking, etc.) to sustain a high retention rate and maintain a strong examination workforce, benefiting all stakeholders.

To improve compensation parity with other financial regulators, we are proposing that a separate pool be established for equity adjustments. Tables 1, 2 and 3 on the following pages depict salary comparisons for similar examiner positions at other state and federal agencies.

Table 1:	CUD Examiner Salaries		**Department of Banking (DOB)**	Comparison	
Position	Salary Group	CUD Base Salary (FY 2026)	Base Salary (FY 2026)	$ Diff. CUD vs. DOB (FY 2026)	% Diff. CUD vs. DOB (FY 2026)
Financial Examiner I	B17	$64,380	$70,920	-$6,540	-9.22%
Financial Examiner II	B19	$72,126	$78,336	-$6,210	-7.93%
Financial Examiner III	B21	$79,951	$85,572	-$5,621	-6.57%
Financial Examiner IV	B23	$91,581	$102,504	-$10,923	-10.66%
Financial Examiner V	B25	$104,086*	$110,856**	-$6,770	-6.11%

*No base salary for an FE V. Figures estimated based on 12% higher than base for an FE IV.
**Estimated based on available information published. Actual amount could be higher.

Table 2:	CUD Examiner Salaries		**Department of Savings and Mortgage Lending (SML)**	Comparison	
Position	Salary Group	CUD Base Salary (FY 2026)	Median Base Salary (FY 2026)	$ Diff. CUD vs. SML (FY 2026)	% Diff. CUD vs. SML (FY 2026)
Financial Examiner I	B17	$64,380	$62,232	+$2,148	+3.45%
Financial Examiner II	B19	$72,126	$68,136	+$3,990	+5.86%
Financial Examiner III	B21	$79,951	$78,965**	+$986	+1.25%
Financial Examiner IV	B23	$91,581	$87,330	+$4,251	+4.87%
Financial Examiner V	B25	$104,086*	$101,706	+$2,380	+2.34%

*No base salary for an FE V. Figures estimated based on 12% higher than base for an FE IV.
** No examiners were found for this position. Estimated salary based on the salary for position during last year’s survey of $76,665, plus 3%.

Table 3:	CUD Examiner Salaries		**National Credit Union Administration (NCUA)**	Comparison	
Position	Salary Group	CUD Base Salary (FY 2025)	Mid-point W/Min. Locality Adj. of 17.06%**	$ Diff. CUD vs. NCUA (FY 2026)	% Diff. CUD vs. NCUA (FY 2026)
Financial Examiner I	B17	$64,380	$62,961	$1,419	+2.25%
Financial Examiner II	B19	$72,126	$77,714	-$5,588	-7.19%
Financial Examiner III	B21	$79,951	$99,459	-$19,508	-19.61%
Financial Examiner IV	B23	$91,581	$114,990	-$23,409	-20.36%
Financial Examiner V	B25	$104,016*	$132,840	-$28,824	-21.70%

* No base salary for an FE V. Figures estimated based on 12% higher than base for an FE IV.
**Mid-point salary for position, plus minimum locality adjustment paid by the NCUA in the United States.

Federal Locality Pay:

One of the Department's biggest challenges in retaining staff is offering competitive pay, compared to the levels paid by our federal counterpart, the National Credit Union Administration (NCUA). While our base pay levels are consistently competitive with the NCUA's, we are unable to provide our examiners with pay adjustments based on where they are headquartered. The 2026 locality pay adjustments provided for NCUA examiners in Texas metropolitan cities are significant, ranging from 24.32 percent to 46.06 percent, depending upon where the NCUA examiner is headquartered (i.e., Austin, Dallas, Houston or San Antonio).

With the passage of the Federal Employees Pay Comparability Act in 1990, the revised General Schedule (GS) scale established local salary schedules incorporating locality pay. The locality pay program provides for localized pay differentials (also known as comparability payments) for Federal employees paid under the GS who work in the continental United States. The processes for determining locality adjustments are highly technical. However, the basic hypothesis underlying locality pay is that the differences in the competitiveness of local labor markets affect the federal government's ability to recruit and retain federal workers.

Locality adjustments are paid within each area determined to have a Federal - non-Federal pay disparity greater than 5 percent. There currently are 57 locality pay areas, including the remainder of the U.S. areas of Alaska, Hawaii, and other Non-foreign Areas, defined in 5 CFR Part 591. Locality pay counts toward accumulation of retirement benefits, life insurance coverage, Thrift Savings Plan investment levels, and most other benefits based on salary.

NCUA currently pays its Texas examiners a Locality Pay adjustment as shown below in Table 4. The amount of the adjustment is determined by increasing the base salary by the applicable locality rate (i.e., a Dallas Financial Examiner IV with a base salary of $80,000 and the locality rate of 38.25 percent is paid a salary of $110,600).

Table 4: Federal Locality Pay in Texas – 2026

Pay Area	Locality Rate
Houston	46.06%
Dallas	38.25%
Austin	30.32%
San Antonio	24.32%
Remainder of United States*	17.06%

*Includes areas in Texas not listed.

In keeping with the Legislature's philosophy, the Department has not paid examiners based on local labor market conditions. Despite regional differences in labor markets and costs of living, the Department pays the same wage for the same job regardless of location.

Examiner Turnover:

The success of the Department depends on the ability of its examiners to detect problems promptly and to adapt supervisory strategies for resolution. Vital to this ability is a skilled, competent examination staff who can independently perform extensive analysis and exhibit sound judgment.

The Department's examiner talent is generally homegrown. Typically, the Department hires recent college graduates and following a developmental period of three to five years, examiners are deemed self-sufficient and competent to handle most situations. However, the Department often finds itself in an almost continual process of hiring and replacing examiners who leave before they have reached a tenure where they are fully capable and productive, or more tenured staff that feel undercompensated. Examiners that have either voluntarily or involuntarily left the Department from FY 2022 through February 2026, along with the average tenure of departed examiners, are displayed in Table 5 on the following page.

Table 5: Examiner Turnover

Performance Measure	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026 (04-30-2026)
Annual Examiner Turnover*	17.3%	22.7%	15.9%	15.3%	0.0%
Average Tenure of Departed Examiners (Mos.) **	51	19	122	15	n/a
No. of Examiners Hired	3	5	4	3	1

*Excludes examiner(s) who retired.
**Includes examiners who retired.

Although the Department's average turnover ratio was low between FY 2017 and FY 2020, the high turnover trend among examiners since FY 2020 has been a persistent drain on the agency's resources. Needless to say, a reduction in examiner turnover could improve examination quality and effectiveness.

Employee Survey:

Every two years, the Department engages a third party to conduct a survey of its employees to determine their level of engagement. The survey encompasses several key constructs and highlights areas of strength and of concern. The first indication of the level of employee engagement is the overall response rate to the survey. In the most recent survey conducted in the fall of 2025, the response rate was 55.6%, which is considered high, although it is a lower response rate than the prior survey.

There are twelve different survey constructs to assess the employee's level of engagement. In the Department's most recent survey, 45% of employees were considered Highly Engaged, 20% Engaged, 30% Moderately Engaged, and 5% were Disengaged. Scores associated with each construct can range from the low of 100 to a high of 500, with 350 being the tipping point between positive and negative perceptions. The most recent survey reflected 11 construct areas with average scores of 379 and higher (9 above 400); and only one construct with scores below the tipping point threshold of 350. The two areas with the lowest scores over time have been ***Job Satisfaction and Pay***, although ***Job Satisfaction*** was scored high in the most recent survey. Both the current and the historic scores for these two constructs are displayed in Table 6 below:

Table 6: Employee Survey (Pay and Job Satisfaction)

Construct	2015	2017	2019	2021	2023	2025	Average
Pay	370	363	339	343	296*	318	338.2
Job Satisfaction	368	376	354	369	341*	398	367.7

*Represents lowest score for this construct over the last six employee engagement surveys over a ten-year period.

Overall, the base salary for Department examiners is based upon an individual's skill, education, and experience. Our goal is to provide base salaries which are competitive with our federal counterpart, the NCUA, as well as the Department of Banking for the State of Texas. If an examiner is underpaid compared to their peers in similar positions, it can result in the examiner feeling underappreciated and becoming unsatisfied with the job. Further, such thoughts can ultimately result in increased turnover due to the examiner(s) pursuing other employment opportunities.

The intent of this proposed initiative is to focus most of the requested funds for equity adjustments to the second through fifth tier of financial examiner positions, and any office positions where equity adjustments are determined to be necessary when comparing the current salaries of those positions to our state and federal counterparts. The approval of this funding in conjunction with the FY 2027 budget will improve compensation parity relative to other Texas agencies with similar positions as well as the salaries being paid to federal credit union examiners. The equity adjustments for the impacted positions are recommended at 2 percent, with the total dollar amount allocated not to exceed the total amount requested under this strategic initiative.

Proposed Equity Adjustment and Base Level for Financial Examiners I - IV

Under this salary plan there are proposed base pay levels (annualized) for the Financial Examiner I through IV positions, as follows:

Examiner Type	**Equity Adjustment %**	**Base Pay w/Adjustment** (Annualized)
Financial Examiner II	2%	$73,572
Financial Examiner III	2%	$81,552
Financial Examiner IV	2%	$93,408
Financial Examiner V	n/a	$104,616*

*Financial Examiner V is a new base pay level. A promotion to an FEV position will result in a pay increase of at least 5%, with a starting base pay no lower than the amount indicated above. Previously, there was not a base pay starting level for this position.

REPLACEMENT/CAPITAL IMPROVEMENT PLAN FY 2027 – 2029

FY 2027

Proposed Capital Improvements:	Estimated Cost
Priority #1: Modernization of Online Systems	$27,000
Priority #3: IT Infrastructure Modernization & Cloud Transition	$35,000
Priority #5: Server Room Buildout	$28,000
Priority #6: Misc. Building Maintenance/Repairs	$25,000
Total Funds Requested for Capital Expenditures - FY 2027 Budget	**$115,000**

Assess and Modernize Online Systems – Priority #1

Assess and Modernize Online Systems	
Objects of Expense	**Estimated Costs**
Build New/Update Website	$18,000
Maintenance (ongoing)*	$3,000
Hosting (ongoing)*	$1,500
Miscellaneous One-Time Costs**	$3,600
Miscellaneous Recurring Costs*	$900
Total	**$27,000**

*Miscellaneous costs estimated at 20% of budgeted amounts for each category. If actual miscellaneous costs far exceed budgeted amounts, a portion of the funding of this initiative may be requested from the Department's reserve funds.
**Annual recurring costs.

This item will support the modernization of the Department's public-facing website and digital services. This initiative provides an opportunity to update our website to better align with modern website standards, with accessibility, usability, mobile responsiveness, clear navigation, and improved public access to information as the primary areas of focus.

The modernization of our website will help ensure the Department's compliance with both state and federal digital accessibility requirements. At the state level, HB 5195 requires Texas state agencies to assess their websites and online service portals and identify opportunities to improve accessibility, navigation, usability, responsive design, search functionality, page-load performance, service integration, and the reduction of unnecessary paper-based or manual processes. At the federal level, the Department must consider accessibility requirements under Title II of the Americans with Disabilities Act, which establishes technical standards for public entity websites and mobile applications. Applicable public entities are required to ensure that web content and mobile applications conform to WCAG 2.1 Level AA accessibility standards by April 26, 2027.

In summary, this initiative provides a budgeted amount for anticipated website accessibility improvements, modernization, hosting, maintenance, and other related project costs.

IT Infrastructure Modernization and Cloud Transition – Priority #3

Hardware, Software and Services	
Objects of Expense	**Estimated Costs**
Hardware	$0
Software and Services	$35,000
Total	**$35,000**

This budget item will support the Department's continued modernization of its IT infrastructure, including the phased migration to Microsoft Entra ID, Microsoft 365 cloud-based services, and the Power Apps platform. Further, this initiative will reduce long-term dependency on traditional on-premises infrastructure while improving security, remote device management, business continuity, and access to Department systems and data.

Phase 1 of the Entra ID migration has been completed and focused on migrating and enrolling remote examiner laptops. Phase 2, which involves migrating Department files to SharePoint and configuring Microsoft Teams to provide staff with secure, organized access to those documents, is currently in process. Phase 3 will focus on migrating the remaining office desktops to Entra ID and reducing the Department's on-premises server footprint where possible.

Overall, this migration will improve remote device management, strengthen security through centralized access controls and Multi-Factor Authentication, improve business continuity, and reduce long-term dependency on legacy on-premises infrastructure.

The Department's efforts to modernize its internal business processes will begin with transitioning the current Microsoft Access-based complaints process to Microsoft Power Apps. Power Apps can provide a centralized platform for complaint intake, tracking, reporting, workflow automation, and improved visibility into open complaints and backlog. Power Apps also align with the Department's existing Microsoft environment and may support future integration of AI tools to assist with document review, data entry, complaint classification, and other administrative tasks.

Budgeted funds will also be used for Microsoft Cloud/Azure transition support and the purchase of a virtual Windows Server 2022 with Data Gateway, including the cost of vendor installation and configuration, security hardening, testing, and other implementation support services. In summary, the funding of this initiative will provide flexibility to maintain essential legacy applications as needed, support the remaining Entra ID migration phases, reduce long-term dependency for on-premises infrastructure, and modernize aging systems and business processes through secure, efficient, and scalable technology solutions.

Items Included in Fiscal Year 2027 Budget

Services:

- **Microsoft Cloud / Azure Transition Support – $3,000 estimate (recurring annually).** This funding supports core CUD IT modernization initiatives, including the Department's Entra ID migration and the Power Apps replacement effort. It also provides essential resources for related transition activities such as legacy system support, disaster-recovery evaluation, test workloads, and hybrid-service connections, ensuring continuity and stability throughout the modernization process.

- **Vintage – Assistance with Cloud-Services Implementation and Transition Support – $12,000.** These funds are needed for vendor installation, configuration, testing, documentation, security hardening, cable management, and related implementation support for virtual services/systems. This will include support for the Entra ID migration, Data Gateway setup, legacy system connectivity, and other technical work needed to maintain operations while reducing long-term dependency on on-premises infrastructure.

- **Windows Server 2022/Data Gateway Implementation Support – $7,500.** Funding will support professional services needed to update and configure the Department's server environment and improve connectivity between existing systems and Microsoft cloud-based services. This work will help maintain secure and reliable access to Department data while supporting ongoing technology modernization efforts.

- **Entra ID Migration Phase 3 Support – $7,500.** These funds are being requested to support Phase 3 of the Entra ID migration project, which will transition the Department's remaining office desktops to Microsoft Entra ID and Intune.

- **Power Platform Licensing – $5,000 estimate (recurring annually).** This budget item provides funding for Microsoft Power Platform licensing and related subscription costs needed to support the Department's initial rollout of a complaint processing application in Power Apps. This initiative will modernize the current Microsoft Access-based process by providing a more centralized, secure, and efficient platform for managing complaints. Beginning with the complaints process will allow the Department to introduce the Power Platform within a focused business area and evaluate its effectiveness before expanding its use to other processes. Expected benefits will include:

    - improved complaint tracking,
    - strengthened access controls,
    - reduced manual data entry,
    - improved visibility into open complaints and backlog,
    - better reporting through Power BI, and
    - the assessment of potential AI-assisted features such as complaint summarization, document review support, or workflow assistance.

  Final licensing costs will depend on the number of users, approved licensing model, reporting needs, and whether additional automation, Dataverse capacity, Copilot/AI features, or premium connectors are required.

Server Room Buildout – Priority #5

Server Room Buildout	
Objects of Expense	**Estimated Costs**
Server Rack Enclosure	$10,000
Server Rack installation	$3,000
New CH&A Unit (back-up)	$5,000
Secure window covering	$5,000
Miscellaneous	$5,000
Total	**$28,000**

The funding of this capital improvement will allow the Department to clean out and reconfigure the current server room into a shared IT workspace while keeping the Department's servers, UPS, and related network equipment in a secure, ventilated server cabinet. The cabinet, cooling support, UPS work, cable management, and related installation services will improve physical security, reduce noise/heat exposure in the office area, and better protect core systems while allowing the room to function as a usable office for IT personnel.

Building Maintenance/Upgrades – Priority #6

Building Maintenance	
Objects of Expense	**Estimated Costs**
General Maintenance	$25,000
Total	**$25,000**

General Building Maintenance
At the present time, there are no specific maintenance items identified for this proposed capital improvement. However, it is anticipated that over the course of FY 2027, and in subsequent years, building upgrade/maintenance items will be identified that are necessary annually. These items may include, but not be limited to: Painting, Carpeting, Landscaping, HVAC, Replacement of Structural Materials, Carport for Employees Vehicles, Parking Lot Painting and Repair, New Plumbing Fixtures, etc.

FY 2028

Proposed Capital Improvements:	Estimated Cost
IT Maintenance (hardware/software/services)	$30,000
General Building Maintenance/Repairs	$25,000
Total Funds Requested for Capital Expenditures	**$55,000**

IT Maintenance
This capital improvement is an estimated annual cost to maintain the Department's network protection functionality and protection protocols. Funds are allocated $15,000 for various IT related services and to maintain and update software; and $15,000 to maintain and update hardware/equipment. This amount is presumed to be part of our ongoing annual IT costs to invest in the necessary infrastructure for security, hardware, software, etc.

General Building Maintenance
At the present time, there are no specific maintenance items identified for this proposed capital improvement. However, it is anticipated that over the course of FY 2027, and in subsequent years, building upgrade/maintenance items will be identified which are necessary annually. These items may include, but not be limited to: Painting, Carpeting, Landscaping, HVAC, Replacement of Structural Materials, Carport for Employees' Vehicles, Parking Lot Painting and Repair, New Plumbing Fixtures, etc.

FY 2029

Proposed Capital Improvements:	Estimated Cost
IT Maintenance (hardware/software/services)	$30,000
General Building Maintenance/Repairs	$25,000
Total Funds Requested for Capital Expenditures	**$55,000**

IT Maintenance
This capital improvement is an estimated annual cost to maintain the Department's network protection functionality and protection protocols. Funds are allocated $15,000 for various IT related services and to maintain and update software; and $15,000 to maintain and update hardware/equipment. This amount is presumed to be part of our ongoing annual IT costs to invest in the necessary infrastructure for security, hardware, software, etc.

General Building Maintenance
At the present time, there are no specific maintenance items identified for this proposed capital improvement. However, it is anticipated that over the course of FY 2028 and in subsequent years, building upgrade/maintenance items will be identified which are necessary annually. These items may include, but not be limited to: Painting, Carpeting, Landscaping, HVAC, Replacement of Structural Materials, Carport for Employees' Vehicles, Parking Lot Painting and Repair, New Plumbing Fixtures, etc.

Credit Union Department
State of Texas

<u>FY 2027 Annual Operating Plan & Budget</u>

Approved by the Credit Union Commission
On: _______________

INTRODUCTION

In accordance with Chapter 16 of the Finance Code, the Department has crafted the following *FY 2027 Annual Operating Plan and Budget.* This document aligns the goals and measures developed for the Department's *Strategic Plan for Fiscal Years 2027-2031* with the Department's proposed budget. It aims to improve the links between the Department's resource needs, effectiveness, and outcomes.

THE DEPARTMENT TODAY

The Department is a self-directed and semi-independent agency that is responsible for ensuring a safe and sound credit union system for all Texans. This is accomplished through the effective chartering, regulation, and supervision of Texas-chartered credit unions. The operations of the Department are funded primarily by semi-annual assessments levied on credit unions. The Department receives no state monies from the General Revenue Fund.

As of December 31, 2025, the Department was responsible for regulating and supervising 159 credit unions. Based on the year-end call reports, Texas-chartered credit unions held $60.8 billion in assets.

GOALS AND OUTCOMES

The Credit Union Commission has established four strategic goals to guide the operations of the Department and to contribute to the achievement of its mission and performance goals. The Commission's goals are:

1. to ensure a safe and sound state credit union industry.
2. to provide a flexible regulatory framework that enables credit unions to provide a full competitive array of financial services.
3. to safeguard the interest of credit union members; and
4. to develop a professional and motivated staff that provides quality service to the citizens of Texas and supports achievement of the Department's statutory mission.

The Department works to meet these goals by, among other things, detecting violations and potential problems or issues in the Texas credit union system and ensuring that the violations are addressed; crafting rules that strengthen corporate governance and operations; ensuring credit union members are treated fairly; and making sure that the Department's human capital strategies, information technology initiatives, and resources are appropriately aligned to achieve the Department's mission, goals, and outcomes.

Like other regulatory agencies, the Department has found it challenging to develop measures that accurately depict the outcomes of the agency's activities. In many instances, the effects of the agency's efforts can only be indirectly assessed. The Department intends to continue refining its work in this area as it gains more experience in integrating its budget and performance functions. As part of this effort, the Department will continue to assess alternatives for measuring outcomes that help the public gauge the Department's progress in achieving its mission, as well as assisting staff in meeting their objectives.

Strategic Goal 1: To Ensure a Safe and Sound Credit Union Industry

Strategic Objective 1.1: The Department anticipates, understands, addresses, and communicates risk to credit unions. The Department seeks to fulfill this objective by:

1. establishing the appropriate regulatory framework.
2. being a prudent steward of Department resources.
3. ensuring risk-based supervision is properly implemented and focused on material risks to the industry and individual credit unions.
4. identifying emerging risk areas related to industry and individual credit unions.
5. complying with the examination requirements of 7 TAC Section 97.105;
6. resolving problem credit unions in a timely fashion, effectively, and when possible, without loss to the share insurance provider; and
7. taking prompt and effective enforcement actions when warranted.

Strategic Objective 1.2: The Department cooperates with other regulatory authorities on common interests. The Department seeks to fulfill this objective by:

1. working effectively with the NCUA, private share insurance providers, and other state regulators to identify and address risks and emerging issues; and
2. implementing and developing new coordination and collaboration agreements with NCUA, private share insurance providers, and other applicable state regulators regarding supervisory activities performed in credit unions and information exchange.

Strategic Objective 1.3: Supervisory methods and analytical tools keep pace with industry changes and appropriately support the broader mission of the Department. The Department seeks to fulfill this objective by:

1. utilizing analytical tools and reports to effectively use the data collected from credit unions to foster informed decision making for supervisory operations and policy.
2. deploying supervisory technology solutions to enhance data quality and provide user-friendly examiner access to key credit union and industry information; and
3. Providing transparency through the Department's reporting.

Key Performance Measures

- Percentage of credit unions receiving regular examination annually
  - Target for FY 2027: **75%**
- Percentage of applications approved or denied within 60 days
  - Target for FY 2027: **100%**
- Number of state-chartered credit unions
- Number of regular examinations performed
- Percentage of credit unions with composite CAMEL ratings of 1 or 2
  - Target for FY 2027: **85%**
- Percentage of assets held in credit unions with CAMEL ratings of 1 or 2
  - Target for FY 2027: **95%**

Internal Measures

- Number of follow-up contacts made
- Number of enforcement actions issued
- Percentage of credit unions that are "Well Capitalized" as defined by federal statute
  - Target for FY 2027: **95%**
- Percentage of reports mailed to credit unions within 25 days
  - Target for FY 2027: **98%**
- Percentage of total available work time utilized to conduct both regular and remedial examination work
  - Target for FY 2027: **70%**
- Average Cost per Credit Union Examination
- Assets Examined per Examiner Day
  - Target for FY 2027: **$17.5 million***
- Average time to complete analysis of quarterly financial data
  - Target for FY 2027: **within 40 days after the submittal deadline for the most recent 5300 Call Report**

*Same as FY 2026 target which was based on FYE 2025 results. Will be amended for FY 2027, based upon 95% of actual level realized for FYE 2026.

Strategic Goal 2: To Provide a Flexible Legal and Regulatory Framework that Enables Credit Unions to Provide a Competitive Array of Financial Services

Strategic Objective 2.1: Each Commission rule is current, clearly written, and necessary for an effective supervisory process. The Department seeks to fulfill this objective by:

1. drafting, amending, and implementing rules to fulfill legislative directives and to ensure relevance to current conditions;

2. conducting the mandatory rule review in accordance with the Commission's approved plan; and
3. implementing rulemaking through successful collaboration and consultation with interested parties.

Strategic Objective 2.2: The Department supports credit union efforts to remain competitive, and consistent with safety and soundness. The Department seeks to fulfill this objective by:

1. supporting the continued recognition of the attributes of the state credit union charter through appropriate opinions and rules.
2. developing and modernizing attributes of the credit union charter and the role and status of the industry.
3. enhancing communication with NCUA and other state regulators to facilitate better coordination on issues affecting credit unions; and
4. communicating attributes of the state charter within and outside the Department.

Strategic Objective 2.3: Application procedures are efficient and consistent with safety and soundness. The Department seeks to fulfill this objective by:

1. providing a standardized application package.
2. establishing policies and procedures that provide clear and comprehensive guidance.
3. implementing and maintaining processes for prompt screening of applications; and
4. enhancing existing technology solutions that support effective application operations.

Key Performance Measures

- Percentage of rule changes provided to credit unions within 60 days after adoption
    - Target FY 2027: **100%**

Internal Measures

- Number of new rules adopted
- Number of rules amended
- Number of rules re-adopted without change
- Number of applications processed
- Number of requests for interpretations/opinions of Act and Rules
- Number of contested cases referred to SOAH
- Number of Public Information Act requests processed
- Number of public forums in which the Department participates
- Total Assets in state-chartered credit unions

- Percentage increase in total aggregate credit union assets
- Percentage of interpretations/opinions issued within 30 days
  - Target FY 2027: **100%**

Strategic Goal 3: Safeguard the Interest of Credit Union Members

Strategic Objective 3.1: All credit union members have reasonable access to credit union services and are treated fairly and lawfully. The Department seeks to fulfill this objective by:

1. reinforcing the importance of fair and honest treatment of credit union members through appropriate supervisory and enforcement action.
2. expanding the agency's role in resolving and/or mediating member complaints handled by the Department.
3. strengthening role in addressing member privacy, information security, and identity theft; and
4. enhancing the Department's consumer compliance examination program.

Strategic Objective 3.2: Credit unions are involved in providing financial services in underserved communities within this State. The Department seeks to fulfill this objective by:

1. supporting the efforts of credit unions to expand their fields of membership to include underserved and low income communities.
2. facilitating the process for credit unions to obtain a low-income designation from NCUA; and
3. participating in financial literacy efforts by the industry and other agencies.

Key Performance Measure

- Percentage of credit unions providing services to low income or underserved populations

Internal Measures

- Number of complaints processed
- Percentage of complaints responded to within 50* days
  - Target FY 2027: **85%**

***The number and complexity of complaints have increased at a rapid pace during the last several years, making it more difficult to achieve the previously targeted level of 40 days. The change to 50 days was previously approved at the March 2026 Commission meeting, when the Commission approved the Department's FY 2027 – 2031 Strategic Plan.**

Strategic Goal 4: Develop a Professional and Motivated Staff that Provides Quality Service and Supports Achievement of the Department's Statutory Mission

Strategic Objective 4.1: The Department maintains a competent, highly motivated, and diverse workforce in a fair and inclusive work environment. The Department seeks to fulfill this objective by:

1. maintaining a comprehensive Equal Employment and Workforce Diversity Plan.
2. executing an aggressive recruiting and comprehensive training strategy for new entry-level examiners.
3. developing proactive initiatives focused on the retention of employees, including mentoring, employee feedback, incentives, and recognition programs.
4. creating a leadership development program to support and enhance management succession; and
5. implementing an external hiring strategy to augment specialized skills to enhance the Department's supervision of complex credit unions.

Strategic Objective 4.2: The Department is an efficient, effective, and ethical organization. The Department seeks to fulfill this objective by:

1. ensuring compliance with laws, rules, and stewardship of its resources through program evaluations and a quality management framework.
2. ensuring compliance with the rules, policies and procedures for ethical conduct by its employees.
3. ensuring reliable, secure, modern information technology systems are in place to support an environment that meets the Department's mission, goals, and objectives; and
4. leveraging technology, with particular focus on information management initiatives, such as records and knowledge management.

Internal Measures

- Percentage of exam related travel cost reduced by remote work
  - Target FY 2027: **20%**

Strategic Objective 4.3: The Department's resource decisions and operations reflect sound financial, security, and risk management principles. The Department seeks to fulfill this objective by:

1. implementing security controls to mitigate risk and to protect confidential information.
2. improving contingency planning for business continuity, including information technology recovery, compliance with Homeland Security requirements, and crisis management strategies; and

3. achieving reliable, accurate and timely financial resources management information.

Internal Measures

- Annual examiner turnover rate
  - Target FY 2027: **16%**
- Average regulated assets per examiner (billions)
  - Target FY 2027: **$3.4 billion***
- Number of days of formal training attended by staff
- Number of purchases made from HUB vendors
- Percentage of purchases made from HUB vendors
  - Target FY 2027: **Professional Services - 23.7%; Other Services - 26.0%; and Commodities - 21.1%**
- Percentage of credit unions indicating quality service annually
  - Target FY 2027: **90%**
- Staffing level
  - Target FY 2027: **95%**
- Number of jobs fairs attended
  - Target FY 2027: **2**
- Turnover ratio (excluding retirements)
  - Target FY 2027: **Less than 15%**
- Accreditation by NASCUS Maintained in Good Standing
  - Target FY 2027: **Yes**
- Total Department costs relative to every $100,000 in assets regulated
  - Target FY 2027: **$9.39****

*The FY 2027 amount of $3.4 billion per examiner was based on regulated assets as of March 31, 2026 divided by 19 examiners (fully staffed).

**Target based on FY 2025 cost of $8.94/$100k of regulated assets times 105% during the fiscal year. Significant increases in budgets for FY 2025 and FY 2026 has resulted in restricted increases in this target for several years. A portion of these increases were attributable to more exams being conducted on-site resulting in a rise in travel costs. The FY 2026 costs have not yet been computed as we have not reached the FYE, but it is anticipated that this cost measurement will remain relatively stable for FY 2026, as the concentration of on-site/off-site exams (which impacts costs) have stabilized over the last year.

DEPARTMENT BUDGET – FY 2027		
REVENUE:		
Operating Fees		$5,888,950[1]
Examination Fees (remedial)		99,680
Out of State Branch Fees		20,000
Interest on Deposits		122,459
Application Fees		
Penalties		
Other		52,115
TOTAL REVENUE		**$6,183,204**
EXPENDITURES:		
Personnel Expenses		
Salaries and Wages	$3,888,668	
Payroll Related Costs	1,109,996	
Total Personnel Expenses		$4,998,664
Travel Expenses		
In State	$450,000	
Out-of-State	12,500	
Commission	12,000	
Total Travel Expenses		$474,500
Other Operating Expenses		
Professional Services/Fees	$287,500	
Materials and Supplies	108,200	
Communications/Utilities	56,550	
Repairs/Maintenance	36,040	
Rentals and Leases	4,500	
Printing and Reproduction	1,000	
Other Expenditures	176,250	
Contingency Reserve Funding	40,000[2]	
Total Other Operating Expenses		$710,040
TOTAL EXPENDITURES		**$6,183,204**
CONTINGENCY RESERVE AS OF APRIL 30, 2026		$1,505,836
FULL-TIME-EQUIVALENT POSITIONS (FTEs)		36.0

[1] Budgeted operating fees will be set to cover the actual budget approved by the Commission. Any funds more than the prescribed Contingency Fund Reserve aggregate limit as of August 31, 2026, will be allocated in accordance with the applicable Commission policies and rules.
[2] Estimated amount. Will be adjusted based on Commission policy using the actual Reserve Fund balance at FYE 2026.

CUMULATIVE RESOURCES

Budget Year	2021	2022	2023	2024	2025	2026
Authorized FTE	30.0	31.0	33.0	35.0	36.0	36.0
Actual FTE	27.0	27.5	30.0	33.0	33.5	33.5*
Budgeted Dollars	$4,307,682	$4,894,832	$5,057,455	$5,556,986	5,948,556	$6,208,421
Actual Dollars Spent	$3,524,092	$3,895,886	$4,268,776	$4,938,510	5,373,589	TBD

*As of May 31, 2026.

9. Report on the status of the state credit union system – Deputy Commissioner David Borden

Background
Deputy Commissioner Borden will present the report.

Staff Recommendation
No action is anticipated.

STATUS OF THE STATE CREDIT UNION SYSTEM

Overview:

The Texas credit union system continued to demonstrate resilience and steady improvement through the first quarter of 2026. Supported by a solid state economy and strengthening financial performance, state-chartered credit unions remain well positioned to meet the financial needs of their membership. As of March 31, 2026, the 157 Texas-chartered credit unions reported higher profitability, stronger capital levels, moderate balance-sheet growth, and stable asset quality

Economic Update:

The Texas economy remained among the stronger state economies in 2025, consistently outpacing or matching national trends despite a broader U.S. slowdown.

Gross Domestic Product (GDP): Texas real GDP grew at an annual rate of 2.1 percent in the first quarter of 2026, supported by strength in technology, energy, advanced services, government, and manufacturing, positioning the state among the stronger performers even as national growth remained moderate. Real U.S. GDP expanded at the same 2.1 percent, driven by investment, exports, government spending, and consumer spending.

Labor market: Conditions remained stable in both Texas and the nation during the first quarter of 2026. The Texas unemployment rate held steady at 4.3 percent throughout the quarter, matching the national average. Texas added roughly 55,000 nonfarm jobs in the first three months of the year and gained 117,200 jobs over the twelve months ending in March, continuing to outpace national job growth.

Inflation: Price pressures moderated overall in late 2025 but accelerated in early 2026 due to energy costs linked to Middle East geopolitical tensions. Texas Consumer Price Index (CPI) rose approximately 3.0 percent year-over-year (YOY) in March 2026, remaining below the National CPI rate of 3.3 percent.

Housing: Market conditions continued to ease in the first quarter of 2026, with rising inventory and modest softening in prices. Texas median home sale prices were $332,000 in March, down approximately 2.0 percent YOY, while the U.S. median existing-home price was $413,300 representing a 2.4 percent increase YOY.

Statewide months of supply increased to 5 and average days on the market increased to 94, reflecting a gradual shift toward a more balanced market compared with the tighter conditions of prior years.

Outlook: Texas GDP growth for 2026 is generally projected in the 1.8 to 2.5 percent range, while U.S. GDP growth is projected to be 1.9 to 2.2 percent. Texas is positioned for solid performance, with the Dallas Fed's latest employment forecast calling for approximately 2.0 percent job growth this year, near the state's long-run trend. Upside potential continues to come from the rapid expansion of AI-related data centers, ongoing strength in construction, energy activity, and Texas' business-friendly economic climate. While both the Texas and the U.S. face external pressures, including trade volatility, interest-rate uncertainty, and geopolitical risks, Texas enters the second half of 2026 well positioned, outperforming the nation on growth, employment, and long-term economic fundamentals.

Industry Performance:

Texas-chartered credit unions remain in sound financial condition, marked by improved earnings, increased capital, moderate asset growth, and manageable credit risk exposure. Credit unions enter the remainder of 2026 with stable fundamentals and capacity to absorb ongoing economic and credit-cycle pressures. As of March 31, 2026, there were 157 state-chartered credit unions in Texas, down four from March 31, 2025.

Earnings Performance: Profitability improved year-over-year, supported by stronger net interest margins. The return on average assets (ROAA) increased from 0.53 percent in the first quarter of 2025 to 0.74 percent in the first quarter of 2026. The net interest margin expanded to 3.54 percent, reflecting higher yields on loans and investments amid the elevated rate environment.

Capital Adequacy: Texas credit unions remain well-capitalized. The aggregate net-worth ratio increased from 11.44 percent as of March 31, 2025, to 11.66 percent as of March 31, 2026. The risk-based capital ratio also strengthened, and total equity increased $584 million.

Growth Trends: Balance-sheet expansion continued at a moderate pace. Aggregate total assets increased from $60.03 billion as of March 31, 2025, to $62.59 billion as of March 31, 2026, representing approximately 4.3 percent growth. Total loans expanded from $43.24 billion to $44.81 billion or 3.6 percent. Shares and deposits grew from $50.80 billion to $52.71 billion, up 3.8 percent year-over-year.

Credit Risk: Asset quality indicators remained generally stable. The delinquency ratio remained steady at 0.80 percent as of both March 31, 2025, and March 31, 2026. The rolling 12-month net charge-off ratio edged up modestly from 0.81 percent to 0.85 percent. However, credit risk remains elevated in the real estate portfolios. Delinquency for residential and commercial real estate loans increased 4bps to 0.90 percent for loans 60 days or more past due. These levels warrant ongoing monitoring, particularly as higher interest rates and softening property values in certain Texas markets place pressure on real estate exposures.

Overall, state-chartered credit unions began the first quarter of 2026 with sound financial performance. It remains important for credit unions to monitor and adapt to the economic and financial environment to safeguard the interests of the more than 4 million members of Texas credit unions.

Key Ratio	2020	2021	2022	2023	2024	2025	2026
Net Worth/Total Assets	10.36	10.43	10.90	11.34	11.53	11.65	11.66
Delinquent Loans/Total Loans	0.75	0.52	0.61	0.81	1.02	1.01	0.80
Net Charge-Offs/Avg. Loans	0.57	0.37	0.37	0.59	0.80	0.85	0.85
Return on Average Assets	0.70	1.08	0.96	0.69	0.54	0.74	0.74

PROBLEM INSTITUTIONS:

As of March 31, 2026, there were 21 credit unions assigned a composite CAMELS rating of 3 or higher, which is an increase of two credit unions from December 31, 2025. These institutions represent 13.38 percent of all Texas charters under supervision. Credit unions in this category are monitored through a combination of off-site monitoring, regular on-site or remote contacts, and ongoing reviews for compliance with outstanding Documents of Resolution and other supervisory agreements or orders.

Additionally, 33 state-chartered credit unions reported net losses of $5.5 million, while the remaining 124 credit unions reported aggregate net income of $120.4 million. The profitability breakdown of credit unions, by asset category, is as follows:

Assets Size	# of CUs	# Profitable	% Profitable (03-31-2026)	% Profitable (12-31-2025)	% Profitable (12-31-2024)	% Profitable (12-31-2023)
$1 Billion & over	20	18	90%	90%	100%	100%
$500 to $999.9 Million	14	13	93%	100%	81%	80%
$250 to $499.9 Million	12	8	67%	92%	69%	100%
$100 to $249.9 Million	22	19	86%	86%	84%	88%
$50 to $99.9 Million	21	20	95%	95%	100%	85%
$10 to $49.9 Million	40	31	78%	86%	88%	89%
Under $10 Million	28	15	54%	87%	77%	59%
Totals	157	124	79%	88%	87%	86%

ENFORCEMENT ISSUES:

As of March 31, 2026, the Department had the following administrative sanctions outstanding:

Dividend Restrictions	0
LUAs	0
Determination Letters	1
Conservatorships	0
Cease and Desist	2

CHARTERING ACTIVITY

New Charters* 0

***Since last commission meeting**

RECOMMENDED ACTION:

No formal action is anticipated.

10. Future Commission meetings – dates, agenda items, and arrangements
    - Friday, November 6, 2026
    - Friday, March 5, 2027

11. Adjourn