
THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. **644** Session of
1961

INTRODUCED BY MESSRS. MAHADY, STIEFEL AND
DEVLIN, MAY 10, 1961.

REFERRED TO COMMITTEE ON BANKING, MAY 10, 1961.

AN ACT

To provide for the organization incorporation operation and supervision of cooperative savings and credit associations to be termed credit unions designating such credit unions as corporations and defining their powers and duties conferring certain powers and duties on the Department of Banking and providing penalties

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows

EXPLANATION—CAPITAL LETTERS indicate new matter added to bill. Matter stricken through is to be omitted from bill.
Underscoring indicates new matter added to existing law. [Brackets] indicate matter stricken from existing law.

1 Section 1 Short Title This act shall be known and may be cited
2 as the "Credit Union Act"

3 Section 2 Definition and Purpose The term "credit union" as used
4 in this act means a cooperative association incorporated under this act
5 or under the act of May 26 1933 (P L 1070) its amendments and
6 supplements for the purpose of promoting thrift among its members
7 and creating a source of credit for such members at reasonable rates of
8 interest for provident purposes

9 Section 3 Method of Incorporation A A credit union may be formed
10 pursuant to the provisions of this act by seven or more incorporators
11 Such incorporators shall be natural persons of full age who are residents
12 of this Commonwealth and who have a common bond of association as
13 provided in section 6 of this act

14 B Articles of incorporation shall be signed by each of the in-
15 corporators and acknowledged by at least seven of them before any
16 officer authorized to take acknowledgments within this Commonwealth
17 The articles of incorporation shall set forth

18 (1) The name of the proposed credit union which shall contain
19 the words "credit union"

1 (2) The class of services to be performed by the credit union which
2 services shall be within the scope of activities of such associations as
3 set forth in this act

4 (3) The principal place where its business is to be transacted which
5 shall be within this Commonwealth

6 (4) The term for which it is to exist which may be perpetual

7 (5) The par value of its shares which par value shall not exceed
8 ten dollars (\$10) for each share

9 (6) The names and post office addresses of the incorporators and
10 the number of shares subscribed by each

11 (7) The names and residences of each of the first directors not
12 less than five in number who shall serve until the first annual meeting
13 of the credit union and the name and residence of the treasurer

14 (8) The common bond of membership

15 (9) Any provision not inconsistent with law which the incorporators
16 may choose to insert for the regulation of the business and the internal
17 affairs of the credit union

18 C The articles of incorporation and two copies of the proposed
19 bylaws for the general governance of the credit union shall be presented
20 to the Department of Banking together with such reasonable fees as

1 shall be established by the department for such examination and such
2 investigation as it may deem necessary to ascertain

3 (1) Whether the character and general fitness of the incorporators
4 directors and the treasurer named in the articles of incorporation is
5 satisfactory

6 (2) Whether the character and number of the group proposed to
7 be served affords reasonable promise of sufficient support for the enter-
8 prise so as to make the establishment of the proposed credit union
9 economically advisable

10 (3) Whether the incorporators directors and group proposed to be
11 served have a common bond of association as provided in section 6 of
12 this act

13 (4) Whether the proposed credit union unduly encroaches upon
14 the field of membership of any other credit union

15 (5) Whether the application is in proper form and within the pur-
16 pose of this act

17 Within sixty days after receipt of the articles the Department of
18 Banking shall upon the basis of the facts disclosed by the application
19 and its investigation either approve or disapprove the articles

1 D If it approves the articles it shall endorse its approval thereon
2 and forward the articles to the Department of State The Department
3 of State shall upon the receipt of the articles file the same and issue
4 to the incorporators or their representative a certificate of incorporation
5 Upon the issuance of the certificate of incorporation the corporate
6 existence of the credit union shall begin The certificate of incorporation
7 shall be conclusive evidence of the fact that the credit union has been
8 incorporated

9 E If the Department of Banking disapproves the articles it shall
10 return them to the incorporators stating in detail its reasons for doing so

11 Section 4 Amendment of Articles The articles of incorporation may
12 be amended at any regular or special meeting of the credit union pro-
13 vided written notice of the meeting and of the proposed amendment or
14 amendments is furnished each member at least ten days prior to the
15 meeting at which such amendment or amendments will be considered
16 Amendments to the articles of incorporation must be approved by two-
17 thirds of the members present at any meeting at which the amendments
18 are considered and the proposed amendments shall be acted upon only
19 in the event a quorum of the members as provided in the bylaws is
20 present Articles of amendment shall be filed with the Department of

1 Banking If the Department of Banking finds that the articles of amend-
2 ment conform to law it shall endorse its approval thereon and forward
3 the articles of amendment to the Department of State Upon receipt of
4 the articles of amendment the Department of State shall file the same
5 and issue to the credit union a certificate of amendment

6 The articles of amendment shall be signed and verified by the
7 president and secretary of the association and shall set forth

8 (1) The name and principal place of business of the credit union

9 (2) The amendment or amendments as adopted by the members

10 (3) The date of the meeting at which the amendment or amend-
11 ments was adopted

12 (4) That notice of the meeting at which the amendment or amend-
13 ments was considered was given to each member as provided in this act

14 (5) That at the meeting at which the amendment or amendments
15 was considered a quorum of the members was present as provided in
16 the bylaws

17 (6) That the amendment or amendments was approved by two-thirds
18 of the members then present

19 Section 5 Powers A A credit union shall have the following
20 general powers

1 (1) To continue as a corporation for the time specified in its articles
2 of incorporation subject to the power of the General Assembly under
3 the Constitution of this Commonwealth

4 (2) To maintain and defend judicial proceedings in its corporate
5 name

6 (3) To adopt and use a corporate seal and alter the same at pleasure

7 (4) To have and exercise all of the powers and means necessary
8 to effect the purpose or purposes for which the credit union is organized

9 B A credit union shall have the following special powers

10 (1) To receive the savings of its members as payments on shares

11 (2) To make loans to members for provident or productive purposes

12 (3) To make loans to any cooperative society or societies or other
13 organization or organizations which have membership in the credit
14 union

15 (4) To make loans to members secured by mortgages which are
16 first liens on improved real property situated within this Common-
17 wealth the improvement being an established dwelling house for not
18 more than four families which is owned by the member of the credit
19 union making the mortgage and occupied or to be occupied in whole
20 or in part by such member Such mortgages shall not exceed seventy-

1 five per centum of the fair market value of the property provided that
2 shares of the credit union owned by the mortgagor may be assigned
3 or pledged as additional collateral security for the mortgage loan and
4 in such event the mortgage loan granted upon such property may be
5 increased by the withdrawal value of the additional pledged shares to
6 an amount not to exceed a maximum total mortgage loan of ninety per
7 centum of the fair market value of such real property and the credit
8 union may release this additional collateral whenever the mortgage
9 loan meets all of the requirements of this act and could be made legally
10 at the time of release without the requirement of additional collateral
11 Mortgage loans shall be amortized by approximately equal payments
12 sufficient in amount to pay all interest and effect full repayment of
13 principal within a period not in excess of twenty years Mortgage loans
14 on any one property shall not exceed twenty thousand dollars (\$20,000)
15 or five per centum of the paid-in capital of the credit union whichever
16 is lesser The aggregate total of mortgage loans shall not exceed twenty-
17 five per centum of the paid-in capital of the credit union The provisions
18 of this clause shall not be construed to apply to any mortgage loan
19 owed to the credit union upon the effective date of this act or to the

1 readjustment or refinancing of any such mortgage loan nor to a pur-
2 chase money mortgage taken by the credit union upon real estate owned
3 by it

4 Without regard to the limitations as to the amount and term of
5 any mortgage loan or the aggregate amount of all mortgage loans set
6 forth in this clause a credit union may grant any mortgage loan which
7 is insured or guaranteed in whole or in part by the United States or
8 any instrumentality thereof or if there is a commitment to so insure
9 or guarantee

10 (5) To make loans to other credit unions or Federal credit unions
11 located within this Commonwealth provided that the term of such
12 loans shall not exceed one year and the aggregate amount outstanding
13 on all such loans shall not exceed ten per centum of the paid-in capital
14 of the lending credit union

15 (6) To deposit its funds in State banks bank and trust companies
16 savings banks or national banking associations located in the Common-
17 wealth of Pennsylvania

18 (7) To invest its funds in the following investments

19 (a) Bonds or other interest-bearing obligations of the United
20 States or those for the payment of the principal and interest on which

1 the faith and credit of the United States are pledged

2 (b) Bonds or other interest-bearing obligations of the Common-
3 wealth of Pennsylvania or any county city borough township incorpo-
4 rated town or school district thereof or an Authority which has been
5 created as a body corporate and politic under any law of this Common-
6 wealth

7 (c) Shares of any building and loan or savings and loan association
8 organized under the laws of this Commonwealth or of any Federal
9 savings and loan association to the extent to which the withdrawal
10 or repurchase value of such shares is insured by the Federal Savings
11 and Loan Insurance Corporation pursuant to the provisions of the
12 National Housing Act its amendments and supplements heretofore or
13 hereafter enacted

14 (d) Bonds and notes of the Pennsylvania Housing Agency created
15 by the act of December 3 1959 (P L 1688) known as the "Housing
16 Agency Law"

17 The provisions of this clause shall not apply to any investments
18 lawfully owned by a credit union upon the effective date of this act

19 (8) To borrow money subject to the limitations hereinafter set
20 forth

1 (9) To make amend alter and repeal bylaws not inconsistent with
2 law for the regulation of its affairs and the conduct and management
3 of the credit union Immediately upon the adoption of the bylaws or
4 any additions thereto or any alteration amendment or repeal thereof
5 notice of such fact and a copy of such bylaws or such alteration amend-
6 ment or repeal shall forthwith be sent to the Department of Banking
7 The Department of Banking shall within sixty days after receipt
8 thereof have the power to disapprove for any reasonable cause stated
9 in writing any such bylaw or any such alteration amendment or repeal
10 thereof but the bylaw alteration amendment or repeal shall be effective
11 until the department disapproves it and gives notice thereof to the
12 credit union

13 (10) To hold purchase mortgage alter improve and sell such real
14 property and furniture and fixtures to be used therein as the purposes
15 of the credit union require and which the credit union occupies or
16 intends to occupy for the transaction of its business or partly so oc-
17 cupies and partly leases to others provided that the cost at the time
18 of acquisition of such real property and furniture and fixtures therein
19 shall not exceed in the aggregate fifty per centum of the unimpaired

1 surplus and undivided profits of the credit union or five per centum
2 of its unimpaired capital up to one million dollars (\$1,000,000) plus
3 three per centum of its capital over one million dollars (\$1,000,000)
4 whichever is greater except with the prior written approval of the
5 Department of Banking

6 (11) To purchase group insurance at reasonable rates on the lives
7 of its members in an amount not to exceed the respective shares bal-
8 ances of such members

9 Section 6. Membership Credit union organizations shall be limited
10 to groups having a potential membership of one hundred or more adult
11 persons and a common bond of association within a well defined com-
12 munity or rural district by reason of occupation or of membership in
13 a religious congregation or fraternal or labor organization The member-
14 ship of a credit union shall be limited to and consist of the incorpo-
15 rators of the credit union and such other persons having the common
16 bond of association set forth in the bylaws as have been duly admitted
17 members have paid the entrance fee as provided in the bylaws have
18 subscribed for one or more shares and have paid the initial installment
19 thereon Organizations composed principally of the same general group
20 as the credit union membership may be members Employees of credit

1 unions may be members of such credit unions but no such employes
2 shall be permitted to vote or hold office Persons who are members
3 of the immediate family of a member of the credit union and who
4 share the same domicile with a member may be elected to membership
5 but may not hold office

6 Shares may be issued in trust for or in joint tenancy with the
7 right of survivorship with any person designated by the credit union
8 member but no joint tenant or beneficiary of a trust shall be permitted
9 to vote obtain a loan or hold office unless he is within the field of
10 membership and is a qualified member in his own right

11 Section 7 Reports and Examination Credit unions shall be under
12 the supervision of the Department of Banking of the Commonwealth
13 The Department of Banking is hereby authorized and empowered to
14 issue general rules and regulations and specific orders for the protec-
15 tion of members of credit unions for insuring the conduct of the busi-
16 ness of credit unions on a safe and sound basis and for the effective
17 enforcement of this act Credit unions shall report to the Department
18 of Banking as often as may be required by it and at least annually on
19 blanks supplied by the department for that purpose Supplementary
20 reports may be required by the department from time to time Credit

1 unions shall be examined as often as may be required by the depart-
2 ment and at least annually and the department may use such other
3 methods of assuring itself of the condition of the credit unions as it
4 shall deem advisable The cost of all such examinations and inspections
5 shall be paid by the credit union A credit union shall also pay an-
6 nually its proportionate share of the overhead expense of the Depart-
7 ment of Banking determined by general rule or regulation of the de-
8 partment For failure to file reports when due unless excused for cause
9 a credit union shall pay to the Department of Banking five dollars (\$5)
10 for each day of its delinquency

11 If the department determines that a credit union (i) is violating
12 any of the provisions of this act or any rule or regulation of the de-
13 partment issued under and within the authority of this act (ii) is con-
14 ducting its business in an unsafe manner (iii) is in an unsafe and
15 unsound condition to transact its business or (iv) is insolvent the de-
16 partment may serve written notice of its intention to take possession
17 of the credit union If the condition continues for a period of fifteen
18 days after the giving of such notice the department may in its discre-
19 tion take possession of the business and property of the credit union

1 and retain possession until such time as the condition predicating
2 such action is remedied or until the affairs of the credit union are
3 finally liquidated The department may take similar action if any report
4 is not filed within a period of fifteen days after it is due

5 Any person aggrieved by the action of the Department of Bank-
6 ing in taking possession of a credit union may within forty-five days
7 but not thereafter appeal to the Dauphin County Court whereupon
8 the matter shall be set down for hearing de novo

9 Section 8 Fiscal Year The fiscal year of all credit unions shall
10 end on December thirty-first of each year

11 Section 9 Meetings The annual meeting shall be held at the time
12 place and in the manner indicated in the bylaws Special meetings may
13 also be held in the manner provided in the bylaws At all meetings a
14 member shall have but one vote irrespective of his shareholdings There
15 shall be no voting by proxy but any member other than a natural
16 person may cast its vote through an agent duly delegated and appointed
17 agent in writing

18 Section 10 Elections At the organization meeting and at all sub-
19 sequent annual meetings the credit union shall elect a board of directors
20 of not less than five members a credit committee of not less than three

1 members and a supervisory committee of three members all to hold
2 office for such terms respectively as the bylaws provide and until suc-
3 cessors are duly qualified A member shall not serve on more than one
4 of the committees Not more than one member of the board who shall
5 not be the treasurer or an assistant treasurer may serve as a member
6 of the supervisory committee or of the credit committee A statement
7 in writing of the names and addresses of the members of the board
8 and the committees and the officers shall be filed with the Department
9 of Banking within ten days after their election and qualification For
10 failure to file such statements when due unless excused for cause the
11 credit union shall pay to the Department of Banking five dollars (\$5)
12 for each day of its delinquency

13 Section 11 Bylaws The original bylaws of a credit union shall be
14 adopted by the incorporators of the credit union and copies thereof
15 shall be transmitted to the department along with the articles of in-
16 corporation as provided heretofore in this act Thereafter bylaws shall
17 be adopted altered amended or repealed by the majority of the share-
18 holders at any annual or special meeting of the credit union if notice
19 thereof is given in accordance with the bylaws at which a quorum of
20 the members as provided in the bylaws is present

1 Section 12 Directors and Officers A At the first meeting the
2 directors shall elect from their own number a president one or more
3 vice presidents a treasurer and a secretary The same individual may
4 be both treasurer and secretary The directors may appoint one or more
5 assistant treasurers The directors may appoint a membership officer
6 from among the members of the credit union other than the treasurer
7 an assistant treasurer or a loan officer to approve applications for mem-
8 bership under such conditions as the directors may prescribe except
9 that such membership officer so authorized shall submit to the directors
10 at each monthly meeting a list of approved or pending applications for
11 membership received since the previous monthly meeting together with
12 other related information as the bylaws or the board may require The
13 directors shall have general management of the affairs of the credit
14 union and are specifically required

15 (1) To act on applications for membership

16 (2) To determine interest rates on loans

17 (3) To fix the amount of the surety bond which shall be required

18 of all officers and employes handling money which amount shall be not

1 less than the minimum schedule established by the Department of
2 Banking

3 (4) To declare dividends or recommend dividends as provided in
4 the bylaws

5 (5) To transmit or cause to be transmitted to the members all
6 proposed amendments to the bylaws

7 (6) To fill vacancies in the board and in the credit committee
8 until successors are duly chosen and qualified

9 (7) To determine the maximum individual share holdings and
10 subject to the limitations contained in this act the maximum individual
11 loan which can be made with or without security

12 (8) To have charge of investments mortgage loans and loans to
13 other credit unions and Federal credit unions but not loans to members
14 which are under the supervision of the credit committee as provided
15 hereinafter

16 (9) To fix the amount of compensation of directors officers com-
17 mittee members the loan officer and employes and

18 (10) To authorize an interest refund to members of record at the
19 close of business on December thirty-first in proportion to the interest
20 paid by each borrower during that year except that no interest

1 refund may be authorized unless a share dividend of not less than
2 three per centum has been declared from the earnings of the last pre-
3 ceding year

4 B Duties of the officers shall be as determined by the bylaws A
5 member of the board of directors and members of the credit committee
6 and the supervisory committee may be compensated if the credit union
7 paid a dividend of not less than three per centum from the earnings
8 of the last preceding year provided that the Department of Banking
9 may prohibit or regulate the payment of compensation of directors
10 committee members and officers exclusive of the treasurer if it deems
11 such compensation excessive or if in its opinion the financial condition
12 of the credit union is not such as to warrant the payment of such
13 compensation

14 Section 13 Credit Committee The credit committee shall have the
15 supervision of all loans to members other than mortgage loans and
16 loans to other credit unions and Federal credit unions Applications
17 for loans shall be in writing on a form prepared for that purpose by
18 the credit committee and all applications shall set forth the purpose
19 for which the loan is desired the security if any offered and such other
20 data as may be required Within the meaning of this section a pledge

1 of shares in the credit union or the endorsement of a note may be
2 deemed security At least a majority of the members of the credit com-
3 mittee shall pass on all loans and no loan shall be approved unless it
4 is approved unanimously by the members of the credit committee
5 present provided that the credit committee may with the approval of
6 the board of directors authorize one of its members acting individually
7 to approve on behalf of the committee only loans which are fully
8 secured by the pledge of shares The credit committee shall meet as
9 often as may be necessary after due notice to each member

10 Section 14 Supervisory Committee The duties of the supervisory
11 committee shall be as follows

12 (a) To make an examination of the affairs of the credit union at
13 least quarterly including an audit of its books and in the event the com-
14 mittee feels such action to be necessary it shall call the members of
15 the credit union together thereafter and submit its report to them

16 (b) To make an annual audit and report and submit it at the
17 annual meeting of the members of the credit union

18 (c) By unanimous vote if it deems such action to be necessary to
19 the proper conduct of the affairs of the credit union to suspend any
20 officer director or member of any committee other than the supervisory

1 committee In such event the committee shall call the members of the
2 credit union together within ten days of the suspension to act on such
3 suspension The members at the meeting called for this purpose may
4 sustain such suspension or remove such person from office or may re-
5 instate such person

6 (d) By majority vote the supervisory committee may call a special
7 meeting of the members to consider any matter submitted to it by the
8 committee The committee shall fill vacancies in its own membership

9 (e) Whenever the supervisory committee fails to make the exam-
10 inations reports and audits as provided in clauses (a) and (b) of this
11 section the board of directors shall remove from office the members
12 of the supervisory committee and appoint a new committee to make
13 such examinations and audits or the board may employ the services
14 of a public accountant to make such examinations and audits The
15 charges for the services of such public accountants shall be paid by the
16 credit union If the board of directors under such circumstances fails
17 or refuses to act the Department of Banking may remove the members
18 of the supervisory committee and issue an order on the board of direc-
19 tors requiring such examinations and audits to be made by a public
20 accountant at the expense of the credit union

1 Section 15 Capital The capital of a credit union shall consist of
2 the payments that have been made to it by the members thereof on
3 shares The credit union shall have an automatic lien on the shares of
4 a member for any sum due it from such member or for any loan en-
5 dorsed by him Shares of a credit union shall be transferable only to
6 other members of the credit union

7 Section 16 Joint Accounts A Whenever shares of a credit union
8 shall be issued in the names of two or more persons the credit union
9 shall not pay any dividends or earnings thereon or the repurchase value
10 thereof except upon proper receipt acquittance or other action as the
11 case may be of all of such persons unless at the time of subscribing
12 to the shares or at a subsequent time all the parties agree to a different
13 arrangement and give the credit union written notice thereof

14 B Whenever any share accounts of a credit union shall be issued
15 in the names of two or more persons and such share accounts shall have
16 been subscribed for under an arrangement with the credit union where-
17 by the dividends thereon or the repurchase value thereof may be paid
18 upon receipt acquittance or other action as the case may be of either
19 or any of such persons the credit union may pay such dividends or
20 repurchase value upon such receipt acquittance or other action as the

1 case may be of either or any of such persons pursuant to the arrange-
2 ment provided for in this section notwithstanding the fact that one or
3 more of the other persons may be dead and the credit union has notice
4 thereof

5 C This section shall not be construed to affect share accounts in the
6 names of a husband and his wife

7 Section 17 Shares Held in the Name of a Minor or as Trustee
8 A Shares may be issued and payments on subscribed shares received in
9 the name of a minor or in trust in such manner as the bylaws may provide

10 B Whenever shares of a credit union shall be issued in the name
11 of any minor not less than twelve years of age the credit union may
12 pay the dividends or earnings thereon as well as the withdrawal value
13 of such shares to such minor without the assent of his parent or guardian
14 The receipt acquittance or other action required by the credit union
15 to be taken by the minor shall be binding upon such minor with like
16 effect as if such minor were of full age and shall be a valid release to
17 the credit union The parent or guardian of such minor shall not in his
18 capacity as parent or guardian have the power to attach or in any
19 manner transfer any shares issued to or in the name of such minor

20 C Whenever shares of a credit union shall be issued to any person

1 describing himself in subscribing for such shares as trustee for any
2 person or persons and no other notice of the existence and terms of a
3 valid trust than such description shall have been given to the credit
4 union the dividends or earnings on such shares as well as the withdrawal
5 value of such shares shall in the event of the death of the person so
6 described as trustee be paid to the person or persons for whose benefit
7 the shares were stated to have been subscribed if at the time of payment
8 such beneficiary is over sixteen years of age Payment may be made to
9 any such beneficiary who is not less than sixteen years of age under
10 the same conditions as if such shares had been originally subscribed for
11 by him If there are two or more beneficiaries named on any such shares
12 the credit union shall in the absence of written notice to the contrary
13 make payment to such of the beneficiaries as may survive the trustee
14 in equal portions The receipt or acquittance of any such beneficiary
15 or beneficiaries for payments made in accordance with this section shall
16 be a full complete and valid release of the credit union from any
17 further liability for the amounts so paid

18 Section 18 Entrance Fees A credit union may charge an entrance
19 fee of an amount not in excess of one dollar (\$1) as may be provided
20 by the bylaws

1 Section 19 Rates and Fines Interest rates on loans made by a
2 credit union to its members shall not exceed the rate of six per centum
3 per annum when discounted on loans which are repayable in equal in-
4 stallments or the rate of twelve per centum per annum when calculated
5 on the unpaid principal balances On a discounted loan which is prepaid
6 by cash renewal or otherwise at any time prior to maturity the credit
7 union shall refund to the borrower the amount of unearned interest
8 or discount calculated at the original contract rate on the total amount
9 of full installments to become due for the term of all subsequent full
10 installment periods provided the credit union shall not be required to
11 refund any such unearned interest or discount when the amount due
12 computed as herein provided is less than one dollar (\$1) For failure to
13 pay an installment or installments on a discounted loan when due a
14 fine may be charged which shall in no case exceed one-fourth of one per
15 centum for each week of delinquency on the amount in arrears except
16 that a minimum fine of five cents may be charged When interest is
17 calculated on the unpaid principal balances it shall be computed for the
18 actual number of days which have elapsed at the time of payment
19 No other charges or fines shall be collected other than fees to public
20 officials and reasonable fees of attorneys and outside collectors or out-

1 side collection agencies provided the aggregate of such fees does not
2 exceed twenty per centum of the outstanding loan balance The taking
3 receiving reserving or charging interest greater than allowed by this
4 section shall be deemed a forfeiture of the entire interest on the loan
5 except when such overcharge is the result of a clerical error in compu-
6 tation In case the greater interest has been paid the borrower may
7 within six months after payment recover from the credit union the
8 entire amount of interest paid except when such overcharge is the result
9 of a clerical error in computation in which case only the excess interest
10 paid may be recovered

11 Section 20 Power to Borrow A credit union may borrow from any
12 source a sum not exceeding fifty per centum of its capital surplus and
13 undivided profits for the purpose of meeting the demand for loans to
14 members or for the purpose of meeting demands for share withdrawals
15 provided that a credit union shall not borrow for the purpose of making
16 investments authorized by section 5 clause (7) of this act

17 Section 21 Loans A credit union may make loans to its members
18 only Loans must be for a purpose deemed by the credit committee to
19 be provident or for productive purposes and must be made subject to
20 the conditions contained in the bylaws A borrower may repay his loan

1 in whole or in part any day the office of the credit union is open for
2 business A director officer or member of any committee may only bor-
3 row from the credit union in which he holds office an amount not exceed-
4 ing his total shareholdings plus the total shares of any other member
5 free and unpledged which are pledged to secure the loans of such direc-
6 tor officer or committee member No director officer or member of any
7 committee may endorse a loan granted by the credit union in which he
8 holds office

9 Section 22 Reserves All entrance fees collected and twenty per
10 centum of the annual net earnings shall be set aside as a reserve fund
11 When the reserve fund equals ten per centum of the capital of the
12 credit union or ten per centum of the total amount outstanding in loans
13 to members whichever is larger the credit union may with written
14 approval of the Department of Banking reduce the amount annually
15 set aside from net earnings to ten per centum When the reserve fund
16 equals twenty per centum of the capital or twenty per centum of the
17 amount outstanding in loans to members whichever is larger the credit
18 union may with written approval of the Department of Banking discon-
19 tinue increasing the reserve fund The reserve fund thus established
20 shall not be loaned out to members and shall be deposited in a bank

1 account or invested in such investments as are authorized by section
2 5B clause (7) of this act The reserve fund shall belong to the credit
3 union and shall not be distributed except in case of liquidation The
4 board of directors shall decide the loans which are to be charged off
5 against the reserve fund provided that the Department of Banking may
6 at the time of examination of a credit union recommend for charge-off
7 such loans which in its opinion are unsound which loans shall be charged
8 against the reserve fund within sixty days of the receipt of such recom-
9 mendation from the Department of Banking Any amount received from
10 the repayment of a loan after it has been charged off against the reserve
11 fund shall be credited back to said fund

12 The directors are authorized after the required reserve has been
13 provided for to make additional transfers from undivided profits to a
14 contingent reserve for other anticipated losses and expenses provided
15 that the members at the annual meeting may retransfer any part or all
16 of such contingent reserve to the undivided profit account

17 Section 23 Dividends The directors of a credit union or the mem-
18 bers on recommendation of the directors whichever the bylaws provide
19 may declare an annual or semi-annual dividend from net earnings which

1 dividend shall be paid on all shares outstanding at the end of the fiscal
2 year or semi-annual period thereof whichever the bylaws provide Shares
3 which become fully paid-up during the year shall be entitled to a pro-
4 portional part of such dividend calculated from the first day of the
5 month following such payment in full The equivalent of the par value
6 of one share of stock shall be considered as a full paid share in the
7 calculation of dividends Within the discretion of the board of directors
8 payments on all shares which are made within the first five days of a
9 month may be entitled to dividends for the full month in which such
10 payment is made Dividends may be added to the credit of the members'
11 share accounts paid in cash or partially credited to share accounts and
12 partially paid in cash at the option of the board of directors

13 Section 24 Expulsion and Withdrawal A member may be expelled
14 by a vote of two-thirds of the members present at a regular or a special
15 meeting called to consider the matter at which a quorum as provided
16 in the bylaws is present but only after a hearing after due notice to
17 the member of the time and place of the meeting and of the reason or
18 reasons for such proposed expulsion Any member may withdraw from
19 the credit union at any time but notice of withdrawal may be required
20 All amounts paid on shares of an expelled or withdrawing member with

1 any dividends accrued thereto to the date thereof shall as funds be-
2 come available and after deducting all amounts due from the member
3 to the credit union be paid to him The credit union may require sixty
4 days' notice of intention to withdraw shares Withdrawing or expelled
5 members shall have no further rights in the credit union but they shall
6 not by such withdrawal or expulsion be released from any remaining
7 liability to the credit union

8 Section 25 Change in Place of Business A credit union may change
9 its place of business upon the filing of a certificate of such change with
10 the Department of State and the Department of Banking

11 Section 26 Notice to Members All written notices required by this
12 act to be given to members shall be delivered in person to each member
13 or mailed to each member at the address for such member appearing on
14 the records of the credit union

15 Section 27 Conversion A A credit union may be converted into a
16 Federal credit union under the laws of the United States by complying
17 with the following requirements

18 (1) The proposition for such conversion shall first be approved
19 by a majority vote of the directors of the credit union who shall also

1 set a date for the vote thereon by the members The vote of the mem-
2 bers shall be conducted at a meeting held on such date or by written
3 ballot to be filed on or before such date Written notice of the proposition
4 and of the date set for the vote shall be given each member not more
5 than thirty nor less than ten days prior to such date Approval of the
6 proposition shall be by the affirmative vote of a majority of the members
7 in person or in writing

8 (2) A statement of the result of the vote verified by the affidavits
9 of the president or vice president and the secretary shall be filed with
10 the Department of Banking within ten days after the vote is taken

11 (3) Promptly after the vote is taken and in no event later than
12 ninety days thereafter if the proposition for conversion was approved
13 the credit union shall take such action as may be necessary under the
14 applicable laws of the United States to make it a Federal credit union
15 and within ten days after receipt of the Federal credit union charter
16 it shall file a copy of the charter thus issued with the Department of
17 State which shall furnish a copy thereof to the Department of Banking
18 Upon such filing with the Department of State the credit union shall
19 no longer be subject to any of the provisions of this act The successor
20 Federal credit union shall be vested with all of the assets and shall

1 continue responsible for all of the obligations of the credit union thus
2 converted to the same extent as though the conversion had not taken
3 place

4 B (1) A Federal credit union organized under the laws of the
5 United States may be converted into a credit union subject to the
6 provisions of this act by

7 (a) Complying with all Federal requirements requisite to enabling
8 it to convert to a credit union or to cease being a Federal credit union

9 (b) Filing with the Department of Banking proof of compliance
10 with such Federal requirements in form satisfactory to the Department

11 (c) Filing with the Department of Banking articles of conversion
12 which shall set forth

13 (i) The proposed name of the converted credit union

14 (ii) The exact location of the principal place of business of the
15 credit union into which the Federal credit union plans to become con-
16 verted

17 (iii) The number names and addresses of the persons to be the first
18 directors of the converted credit union

19 (iv) All other statements required by this act to be set forth in
20 original articles of incorporation in the case of the formation of a

1 credit union in so far as such information is applicable to a Federal
2 credit union proposing to become converted into a credit union

3 (2) Immediately upon the receipt of the articles of conversion the
4 Department of Banking shall conduct such examination as may be
5 deemed necessary to ascertain from the best sources of information at
6 its command

7 (a) Whether the name of the proposed credit union conforms with
8 the requirements of law for the name of a credit union and whether it
9 is the same as one already adopted or reserved by another corporation
10 or person or is so similar thereto that it is likely to mislead the public

11 (b) Whether the conversion is made for legitimate purposes

12 (c) Whether the interests of members and creditors are adequately
13 protected

14 (d) Whether the proposed credit union meets all of the require-
15 ments of this act and violates none of its prohibitions applicable to a
16 credit union incorporated under this act

17 (e) Whether the Federal credit union has complied with the re-
18 quirements of the laws of the United States as they relate to the con-
19 version of a Federal credit union into a credit union

1 (3) Within sixty days after receipt of the articles of conversion
2 the Department of Banking shall upon the basis of the facts disclosed
3 by its investigation either approve or disapprove such articles If the
4 department approves the articles it shall register its approval thereon
5 and shall forward them to the Department of State for filing Immedi-
6 ately upon receipt of the approved articles of conversion the Depart-
7 ment of State shall file the articles and shall issue to the credit union
8 a certificate of conversion The conversion shall become effective im-
9 mediately upon such filing and the converted credit union shall have
10 all the rights privileges immunities and franchises of the Federal credit
11 union except that it shall not thereafter acquire authority to engage in
12 any business or exercise any right which is forbidden to a credit union
13 when originally incorporated under this act

14 If the Department of Banking disapproves the articles of con-
15 version it shall return them to the Federal credit union desiring to
16 become converted into a credit union stating in detail its reasons for
17 so doing

18 Section 28 Voluntary Dissolution A Any credit union may elect
19 to dissolve voluntarily and wind up its affairs in the manner hereinafter
20 provided in this section However if it shall appear to the Department

1 of Banking upon an examination of the business assets and affairs of the
2 credit union that its assets will probably be insufficient to pay in full
3 its members and creditors it shall take possession of the business and
4 property of the credit union and retain possession until its affairs are
5 finally liquidated

6 B The procedure for voluntary dissolution shall be as follows

7 (1) A plan of dissolution setting forth in detail the number of
8 liquidating trustees which shall be one three or five to be elected by the
9 members the amount of the bond which shall be supplied by each of
10 the liquidating trustees and the powers duties and compensation of such
11 trustees shall be adopted by a vote of at least two-thirds of all directors
12 of the credit union

13 (2) A meeting of the membership shall be called for the purpose
14 of acting on the plan of dissolution Written notice setting forth the
15 date and purpose of such meeting shall be furnished each member at
16 least ten days prior to the date of the meeting The plan of dissolution
17 shall be adopted upon the affirmative vote of a majority of the entire
18 membership of the credit union in person or by written ballot

1 (3) Upon approval of the plan the members shall forthwith proceed
2 to elect the number of liquidating trustees provided for in the plan
3 on dissolution. If more than one liquidating trustee is to be elected
4 each member shall have the right to multiply his vote by the number
5 of trustees to be elected and cast the whole number of such votes for
6 one candidate or distribute them among two or more candidates. The
7 candidates receiving the highest number of votes up to the number of
8 liquidating trustees to be chosen shall be elected.

9 (4) A certificate of election to dissolve signed and verified by at
10 least two duly authorized officers of the credit union shall be executed
11 and delivered to the Department of Banking. The certificate shall set
12 forth

13 (a) The name of the credit union

14 (b) The exact location of its place of business

15 (c) The names and addresses of its officers and directors

16 (d) The number of directors voting for and the number voting
17 against the proposed plan of voluntary dissolution

18 (e) The total number of members and the number of members vot-
19 ing for and the number voting against the proposed plan of voluntary
20 dissolution

1 (f) The names and addresses of the proposed liquidating trustees
2 and the number of votes received by every candidate for the position
3 of liquidating trustee

4 (g) The amount of the bond required to be supplied by each trustee

5 (h) The signed statement under oath or affirmation of each of the
6 proposed liquidating trustees that he is willing to serve as liquidating
7 trustee subject to the provisions of this act and to the terms of the pro-
8 posed plan of voluntary dissolution that he will so far as the duty de-
9 velopes upon him diligently and honestly liquidate the affairs of the
10 association and will not knowingly violate or permit to be violated any
11 of the provisions of this act or of the proposed plan of voluntary liqui-
12 dation

13 (i) The proposed plan of voluntary dissolution

14 (5) Upon receipt of the certificate of election to dissolve the De-
15 partment of Banking shall conduct an examination or an investigation
16 or take such other action as it deems necessary to determine whether
17 to approve the plan of voluntary dissolution If the department deter-
18 mines that the plan of voluntary dissolution does not prejudice the
19 interests of members or creditors it shall endorse its approval on the
20 certificate of election to dissolve and send it to the Department of State

1 for filing If the Department of Banking disapproves the plan it shall
2 return the certificate to the credit union stating in detail its reasons
3 for doing so

4 (6) Upon the filing by the Department of State of the certificate
5 of election to dissolve the Department of State shall furnish a copy
6 thereof to the Department of Banking and the credit union Upon such
7 filing the credit union shall cease to transact its business and the liquidat-
8 ing trustee or trustees shall commence the liquidation of the association
9 The liquidating trustee or trustees shall thereafter be authorized to
10 carry out in his own name or in their own names as liquidating trustee
11 or trustees of the association the powers granted to him or them by
12 the plan of voluntary dissolution and may sue and be sued for the pur-
13 pose of determining and enforcing the debts due the credit union and
14 its obligations

15 C The liquidating trustee or trustees shall proceed in the manner
16 provided by regulation of the Department of Banking to gather the
17 assets determine the liabilities and distribute the assets of the credit
18 union until its affairs are fully adjusted and wound up The liquidating
19 trustee or trustees shall notify all creditors and members appearing
20 on the records of the association by notice sent to or given at the address

1 appearing for such creditor or member on the records or if no address
2 appears there at the last known address of the creditor or member of
3 the amount which the records show to be due such member or creditor
4 The liquidating trustee or trustees shall also advertise once a week for
5 three consecutive weeks in a newspaper of general circulation and in
6 a legal newspaper if any in the county in which the credit union is lo-
7 cated that the credit union is liquidating pursuant to a plan of voluntary
8 liquidation The advertisement shall set forth a date not less than ninety
9 days after the date of the first published advertisement before which
10 all creditors or members must present their claims under oath or affirma-
11 tion to the trustee or trustees or be bound by the amount shown on
12 the records of the credit union to be due them Thereafter all claims
13 shall be permanently barred Any claim which is rejected or disallowed
14 by the trustee or trustees shall be barred unless suit is instituted thereon
15 within ninety days after mailing of the notice of rejection or disallowance
16 D The Department of Banking shall continue to supervise the
17 credit union in the hands of the liquidating trustee or trustees until
18 the liquidation is complete and the affairs of the credit union are fully
19 settled

1 Section 29 Adverse Claims Notice to a credit union of an adverse
2 claim against shares standing in the name of any member shall not
3 be effectual to cause the credit union to recognize such adverse claim
4 unless the adverse claimant shall procure either an attachment or proper
5 restraining order against the credit union from a court of competent
6 jurisdiction in a cause of action therein instituted by him wherein the
7 member or his legal representative is made a party in the manner pro-
8 vided by law or unless he shall execute to the credit union in form
9 and with sureties acceptable to it a bond indemnifying the credit union
10 from any liability loss damages costs and expenses arising from the
11 recognition of such adverse claim

12 This section shall not apply in any instance where the person in
13 whose name the shares are held is a trustee for such adverse claimant
14 and the facts constituting such relationship as well as the facts showing
15 reasonable cause of belief on the part of the claimant that such trustee
16 is about to misappropriate the shares are made to appear by an affidavit
17 of such claimant

18 Section 30 Restriction It shall be unlawful hereafter for any
19 person association copartnership or corporation except corporations or-
20 ganized in accordance with the provisions of this act to assume and use

1 the words "credit union" in their name or title or to operate in the
2 manner of a credit union Any person copartnership or corporation
3 violating the provisions of this section shall be guilty of a misdemeanor
4 and shall be punishable by a fine which shall not be less than ten dollars
5 (\$10) nor more than one thousand dollars (\$1000) or by imprisonment
6 for a period which shall not be less than three months nor more than
7 two years or both in the discretion of the court The officers of a cor-
8 poration shall be liable to such punishment if the offense is committed
9 by a corporation

10 Section 31 Taxation A credit union organized under this act shall
11 be deemed an institution for savings and its assets together with all
12 the accumulations therein shall not be subject to taxation except as to
13 real estate owned by it The shares of a credit union shall not be subject
14 to a capital stock bonus tax or a stock transfer tax when issued by the
15 corporation

16 Section 32 Repeals The act of May 26 1933 (P L 1076) entitled
17 "An act to provide for the organization incorporation operation and
18 supervision of cooperative savings and credit associations to be termed
19 credit unions designating such credit unions as corporations and defining

1 their powers and duties conferring certain powers and duties on the
2 Department of Banking and providing penalties" is repealed

3 All other acts and parts of acts are repealed in so far as they are
4 inconsistent herewith

5 Section 33 Effective Date This act shall take effect immediately

We certify that this bill has passed the Senate and the House of
Representatives.

.....
Chief Clerk, Senate

.....
President pro tempore, Senate

.....
Speaker, House of Representatives

Approved The day of A. D. 1901.

.....
Governor