

When effective.

Section 2. This act shall become effective immediately upon its final enactment.

APPROVED—The 18th day of May, A. D. 1937.

GEORGE H. EARLE

No. 181

AN ACT

To promote the public health, safety, morals and welfare by providing for the creation of corporations to be known as limited dividend housing companies for the purpose of eliminating unsanitary and dangerous housing conditions, and constructing and operating safe and sanitary dwellings and apartments to be let at reasonable rentals, or sold; providing for the acquisition of property by the exercise of the power of eminent domain through the State Board of Housing; providing for the supervision and regulation of the activities of such companies by the State Board of Housing in the Department of Health, and regulating the supervision by the State board of any such companies aided by the Federal Government or agencies thereof; defining the rights, powers and duties of such companies, and of persons investing in or dealing with such companies; authorizing such companies to lease and operate, or to manage projects of any housing authority, and borrow money from agencies of the United States Government; exempting all such companies from the payment of any capital stock tax; making certain securities of such corporations legal investments for funds in the hands of municipal officers, insurance companies and associations, savings banks and savings institutions; authorizing certain existing companies to accept the provisions of this act; and repealing inconsistent acts.

Public Health.

Short title.

Be it enacted, &c., As follows:

Section 1. Short Title.—This act shall be known, and may be cited, as the "Limited Dividend Housing Company Law."

Necessity for this act stated.

Section 2. Declaration of Necessity.—(a) It is hereby declared that bad housing conditions which exist in certain localities of the Commonwealth are a menace to the health, safety, morals, welfare and reasonable comfort of the citizens of the Commonwealth; and

(b) The correction of these conditions in such areas being now otherwise impossible, it is essential that provisions be made for the investment of funds at low interest rates, the acquisition at fair prices of adequate parcels of land, the gradual demolition of existing unsanitary and unsafe housing, and the construction of new housing facilities under public supervision in accord with proper standards of sanitation \* and safety, and at a cost which will permit monthly rentals which families of low income can afford to pay.

Definitions.

Section 3. Definitions.—The following words and phrases, when used in this act, shall have the meanings respectively ascribed to them in this section.—

\* "sanitary" in the original.

“Board” shall mean the State Board of Housing in the Department of Health of this Commonwealth.

“Housing Authority” shall mean any housing authority organized pursuant to any law of this Commonwealth.

“Municipality” shall include only cities, boroughs and townships.

“A limited dividend housing company,” referred to hereafter as a “company,” shall be a company incorporated under and governed by the provisions of the general corporation laws relating to business corporations of this Commonwealth to the extent that such provisions are not in conflict herewith. Three or more persons may incorporate a company for the public purpose of building and operating, or managing a housing project to be rented at rates not exceeding those prescribed by the board. No shareholder or debenture holder in such a company shall receive on his investment a greater dividend or interest return per annum than that provided herein.

Section 4. Formation of Limited Dividend Housing Companies.—Three or more persons may incorporate a company in the manner prescribed for the incorporation of business corporations conducted for profit, to the extent that the laws relating thereto be not inconsistent herewith, for the purpose of acquiring, constructing, maintaining and operating housing projects, when authorized by and subject to the supervision of the board. The term for which any such company is organized shall be not less than thirty years. Except as otherwise provided herein, such companies shall be subject to all laws relating to business corporations conducted for profit. The articles of incorporation to be filed with the Department of State by the incorporators shall set forth, in addition to any information required of incorporators of business corporations conducted for profit—

Formation of housing companies.

Articles of incorporation.

(a) A declaration that the company has been organized to perform the public purposes of a company, and that it shall remain at all times subject to the supervision and control of the board or of other appropriate\* State agency; that all real estate acquired by it and all structures erected by it shall be deemed to be acquired for the purpose of promoting the public health, safety, morals and general welfare; and that its shareholders shall be deemed, when they subscribe to and receive the shares thereof, to have agreed that they shall at no time receive or accept from the company, in repayment of their investment in its shares, any sums in excess of the par value of the shares together with cumulative dividends at the rate of six per centum per annum, and that any surplus earnings in excess of such

\* “appropriate” in the original.

amount, if such company shall be dissolved, shall revert to the Commonwealth.

(b) A stipulation that the real property of the company shall not be sold, transferred or assigned, except under and pursuant to the terms and provisions of this act.

(c) That all the shares of the company shall have a par value.

The articles of incorporation may provide that, in the event that income debenture certificates are issued by the company, the owners thereof may be given the same right to vote as they would have if possessed of share certificates of the amount and par value of the income debenture certificates held by them. If provision is made for the issuance of income debenture certificates, interest shall be paid by the company on income debenture certificates out of net earnings only of the company that would be applicable to payment of dividends if there were no income debentures.

The articles of incorporation may permit the retirement of income debenture certificates and shares of the company, if, as and when there shall be funds available in the treasury of the company from the receipt of amortization or sinking fund installments for that purpose, as provided by this act, but the amount so retired shall not exceed ninety per centum of the par value of all classes of shares issued and outstanding at the time of the final completion of the building or buildings embraced in the project, income debentures may be redeemed to one hundred per cent.

Section 5. Consent of Board to Incorporation of Limited Dividend Housing Companies.—Before any articles of incorporation are filed with the Department of State under this act, the incorporators shall apply to and receive from the board a certificate that it approves the project for which the proposed limited dividend housing company is to be formed, and that it consents to the formation of such company. The certificate from the board shall be presented to the Department of State, together with the articles of incorporation. The Department of State shall not issue a certificate of incorporation, evidencing the incorporation of any limited dividend housing company, unless and until a certificate from the board has been filed as aforesaid.

Section 6. Restrictions on Companies.—No limited dividend housing company shall—

(A) Pay interest returns—(1) on its mortgage indebtedness at a higher rate than \* deemed necessary by the board: Provided, however, That the rate established by the board shall not exceed six per centum per annum, or (2) upon its income debenture certificates at a rate higher than six per centum per annum.

Restrictions placed upon such companies enumerated.

Proviso.

\* "them" in the original. † "pen" in the original.

(B) Issue its shares, debentures and bonds covering any project undertaken by it in an amount greater in the aggregate than the total actual final cost of such project, including the lands, improvements, charges for financing and supervision approved by the board, and interest and other carrying charges during construction, and an allowance for working capital to be approved by the board, but not exceeding three per centum of the estimated cost or of the total actual final cost of the project, if that shall be greater than the estimated cost.

(C) Mortgage any real property without first having obtained the consent of the board.

(D) Issue any securities or evidences of indebtedness without first having obtained the approval of the board.

(E) Use any building erected or acquired by it for other than housing purposes, except that, upon approval of the board, it may in the first story of a two-family or multiple dwelling, above the cellar or basement, and the space below such story, or in the case of a group of one-family or two-family houses, in a reasonable proportion of such buildings, provide for stores, professional offices, commercial, cooperative, necessary garage facilities or recreational purposes; and when permitted by law, the roof of multiple dwellings may be used for cooperative or community purposes.

(F) Charge or accept any rental for housing accommodations in any building constructed, acquired, operated or managed by it, in excess of the rates prescribed by the board. Any rental paid in excess of such rates may be recovered from the company.

(G) Make other than authorized payments which shall be limited to —(1) all fixed charges, and all operating and maintenance charges and expenses, including taxes, assessments, insurance, amortization charges in amounts approved by the board to amortize the mortgage indebtedness in whole or in part, depreciation charges, if, when, and to the extent deemed necessary by the board, reserves, sinking funds and corporate expenses essential to operation and management of the project in amounts approved by the board; (2) a dividend, not exceeding the maximum fixed by this act, upon the shares of the company allotted to the project by the board; (3) where feasible, in the discretion of the board, payments to a sinking fund in an amount to be fixed by the board for the gradual retirement of the shares and income debentures of the company. When tenants own shares or income debentures in a limited dividend housing company incorporated under this act, a sinking fund may, with the approval and subject to the regulations of the board, be set up and maintained out of the net profits applicable to surplus and used subject to the regulations of the board for the purchase, at not to exceed par and

accrued interest, of the shares and income debentures held by tenants ceasing to be occupants of the buildings. Shares so purchased may be resold by the company.

(H) Enter into contracts for the construction of housing projects or for the payment of salaries to officers or employes, except subject to the inspection and revision of the board and under such regulations as the board may from time to time prescribe.

(I) Voluntarily dissolve without first having obtained the consent of the board.

(J) Make any guaranty or contract to pay any debt which is a lien or is secured by any lien upon any property in which the company shall have any interest, regardless of whether such debt is a debt of the company, without the approval of the board.

Stock exempt  
from State  
taxes.

Section 7. Tax Exemptions.—The capital stock of limited dividend housing companies incorporated under the provisions of this act shall not be taxed for State purposes.

Section 8. Acceptance of Benefits of Act.—Any limited dividend housing company incorporated prior to the passage of this act may, with the approval of the board, accept the provisions of this act by amending its articles in conformity herewith and thereupon become subject to the terms and provisions of this act.

Section 9. Reorganization of Companies.—Reorganization of limited dividend housing companies shall be subject to the supervision and control of the board, and no reorganization shall be had without the authorization of the board. Upon all such reorganizations, the amount of capitalization, including all shares, income debentures, bonds and other evidence of indebtedness, shall be such as is authorized by the board, not exceeding the fair value of the property involved.

Shareholder not  
to receive any  
dividends in ex-  
cess of 6%.

Section 10. Limited Return on Shares and Debentures.—No shareholder in any company formed hereunder shall receive any dividend, in any one year, in excess of six per centum per annum, except that when in any year dividends in the amount prescribed in its articles shall not have been paid on the shares of such company, the shareholders may be paid the deficiency, without interest, out of any surplus earned in succeeding years. This provision shall likewise be applicable to income debenture certificates, and interest thereon at the rate specified in such certificates shall be cumulative.

Section 11. Time of Payment of Subscriptions.—Subscriptions to the shares or income debentures of a company formed hereunder shall be paid at such times and in such installments as the company may require, with the approval of the board. If any default shall be made in the payment of any installment as so required, the company may enforce the subscription by appropriate

action and upon its failure or refusal so to do, such subscription may be enforced by the board acting through the Department of Justice.

Section 12. Consideration for Issuance of Shares and Bonds.—No limited dividend housing company shall issue shares, bonds or income debentures except for money paid or services rendered in connection with the planning, construction or operation of any project, or part thereof, or property actually received for the use and lawful purposes of the company. No shares, bonds or income debentures shall be issued for property except upon a valuation approved by the board and such valuation shall be used in computing actual or estimated costs. The shares and income debentures issued by the company shall not be less than the total of one-third of the actual cost, as defined by law, of any approved housing project or projects undertaken by it, except as provided in section thirteen (13). The board may, however, permit shares or income debentures to be issued to an amount not exceeding three per centum of the estimated total cost, or three per centum of the actual cost, if the actual cost should exceed estimated cost of a project, for working capital to be used in connection with such project.

Section 13. Minimum Amount of Shares and Debentures.—The entire amount to be paid in cash or property by the shareholders and income debenture holders of a limited dividend housing company shall be equivalent to at least one-third of the total cost of the project or projects which it operates: Provided, however, When the bonds of such company are insured by any agency of the Federal Government, the entire amount so paid in need not exceed the difference between the total par value of the insured bonds and the total cost of the project or projects which such company operates, any other provision of this act notwithstanding. Proviso.

Section 14. Surplus.—A surplus of an amount approved by the board shall be permitted limited dividend housing companies, but the amount of the net earnings transferable to surplus in any year shall be subject to the approval of the board. On dissolution of any limited dividend housing company the shareholders shall in no event receive more than the par value of their shares plus accumulated, accrued or unpaid dividends, and any remaining surplus shall be paid to the Commonwealth and shall become part of the fund appropriated to the State Board of Housing.

Section 15. Income Debentures.—With the approval of the board, the articles of a limited dividend housing company may authorize the issuance of income debenture certificates bearing no greater interest than six per centum per annum. After the incorporation of a limited

dividend housing company, the directors thereof may, with the consent of two-thirds of the holders of the shares issued and outstanding, offer to the shareholders of the company the privilege of exchanging their shares, in such quantities and at such times as may be approved by the board, for such income debenture certificates. In no event other than as provided in section thirteen (13) shall the stated capital of the company be less than ten per centum of the total amount of stated capital and income debentures.

Mortgages made  
legal invest-  
ments.

Section 16. Mortgages and Mortgage Bonds Legal Investments.—Any company formed under this act may, subject to the approval of the board, borrow funds and secure the repayment thereof by bond and mortgage, or by an issue of bonds under trust indentures. Each mortgage or issue of bonds by a company formed hereunder shall relate only to a single specified project and no other, and such bonds shall be secured by first mortgage upon all of the real property of which such project consists. First lien bonds of such company when secured by a mortgage which has been insured by the Federal Government, or any agency thereof, or by a mortgage not so insured which does not exceed two-thirds of the estimated cost prior to the completion of the project, or two-thirds of the appraised value or actual cost, whichever shall be less after such completion, as certified by the board, are hereby declared securities in which all public officers and bodies of the municipal subdivisions of the Commonwealth, all insurance companies and associations, all banks, bank and trust companies, and savings banks and savings institutions, including savings and loan associations in the Commonwealth, may legally invest funds within their control. There shall be no second mortgage of junior interest bonds. Such bonds and mortgages may contain such other clauses and provisions as shall be approved by the board, including the right to assignment of rents and entry into a possession in case of default, but the operation of the housing project, in the event of such entry by mortgagee or receiver, shall be subject to the regulations of the board under this act. Provisions for the amortization of the bonded indebtedness of companies formed under this act shall be subject to the approval of the board.

Company em-  
powered to pur-  
chase and lease  
lands.

Section 17. Acquisition of Land; Construction of Buildings.—(a) When a limited dividend housing company shall have received from the board an approval of a project for the construction or acquisition of housing accommodations, such company may undertake the acquisition of the property needed for such project. Such property may be acquired by purchase, gift, bequest, exchange or, subject to the approval of the board, by lease for a term of years not less than thirty years

nor less than the time required to amortize the cost of the housing project.

(b) A limited dividend housing company may petition the board to institute condemnation proceedings to acquire property described in the petition which the limited dividend company certifies to be necessary for a housing project. Prior to the institution of any such proceeding by the board said company shall deposit with the board a sum equal to the value of the property as appraised by the board and shall also deliver to the board a bond (with sureties approved by the board) fully indemnifying the board with respect to all sums that it may expend and all costs, expenses and obligations which it may incur in acquiring said property. With respect to any real property (together with improvements thereon) so acquired by the board and conveyed to a limited dividend housing company, said company shall not sell, transfer or assign such property, except—(1) to another limited dividend housing company or to a housing authority; and (2) after first having obtained the consent of the board; and (3) for a price in excess of the cost of such property less any amounts paid in amortization of the first lien and the retirement or redemption of shares, plus so much of the limited dividends on the shares of the company from the date of issue as shall have been unpaid, and accrued interest on the mortgage indebtedness and income debenture certificates.

Section 18. Contract Provisions; Purchase of Property of Other Companies.—Before any limited dividend housing company shall purchase the property of any other limited dividend housing company, it shall file an application with the board in the manner hereinbefore provided as for a new project, and shall obtain the consent of the board as to the purchase, and agree to be bound by the provisions of this act: Provided, however, That the board shall not give its consent unless it is shown to the satisfaction of the board that project is one that can be successfully operated according to law.

Companies must secure approval of board when contracting.

Proviso.

Section 19. Transfer of Buildings and Structures.—No limited dividend housing company shall convey, encumber or lease all or any part of its real property to any other person, copartnership, association or corporation without the written consent of the board: Provided, however, That leases conforming to the regulations and rules of the board and for actual occupancy by the lessees may be made without the consent of the board. Any conveyance, encumbrance, lease or sublease made in violation of the provisions of this section and any transfer or assignment thereof shall be void as against all persons, including any person or persons, natural or cor-

Board shall approve transfers.

Proviso.



porate, acquiring said property from the vendee, transferee or assignee of such company.

Companies may borrow money from Federal agencies.

Section 20. Authority to Borrow Money from Agencies of the United States Government.—Any company formed under or accepting the provisions of this act may borrow money from the Federal Emergency Administration of Public Works, or any other agency of the United States Government, on such terms and conditions as the Federal Emergency Administration of Public Works or other agency of the United States Government may prescribe. Any such company may pledge as security for money so borrowed any personal or real property, or both, of such company, including its shares, income debenture certificates or bonds. Every approved project financed wholly or in part by funds borrowed from the Federal Emergency Administration of Public Works or other agency of the United States Government shall be subject to such rules and regulations pertaining to the security of any money borrowed hereunder to finance such project as may be prescribed by the Federal Emergency Administration of Public Works or other agency of the United States Government. It shall be the duty of the board to facilitate the procurement of such loans by such companies by acting promptly upon any matter requiring its approval and to approve and to cooperate with the Federal Emergency Administration of Public Works or any other agency of the United States Government in the procurement and repayment of such money. If a limited dividend housing company receives financial assistance from any such agency of the Federal Government, that agency and the board may agree that the latter will relinquish its supervision and control to the said Federal Government agency, and that supervision and control shall be reassumed by the board when the interest of the Federal Government terminates.

Companies may, with consent of board, manage properties.

Section 21. Power to Lease and Operate or to Manage Projects of Housing Authority.—Any limited dividend company operating within the boundaries of a housing authority may, with the written consent of the State Board of Housing, enter into an agreement to lease and operate, or to manage as agent any housing project of such authority.

Constitutional provision.

Section 22. Constitutional Construction.—The provisions of this act shall be severable, and if any of its provisions shall be held to be unconstitutional, the decision so holding shall not be construed to affect the validity of any of the remaining provisions of this act. It is hereby declared as the legislative intent that this act would have been adopted had such unconstitutional provision not been included therein.

Inconsistent acts repealed.

Section 23. Repeal.—All acts or parts of acts inconsistent herewith are hereby repealed.

Section 24. Effective Date.—This act shall become effective immediately upon its passage and approval by the Governor. When effective.

APPROVED—The 18th day of May, A. D. 1937.

GEORGE H. EARLE

No. 182

AN ACT

To amend sections two, four, five, eight, thirteen, fifteen, sixteen, seventeen, and twenty-three of the act, approved the twenty-sixth day of May, one thousand nine hundred and thirty-three (Pamphlet Laws, one thousand seventy-six), entitled "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," changing certain requirements for incorporation; providing for the scope of membership; permitting compensation to directors and committee members; clarifying the basis for the collection of interest and fines; providing for refunds of interest on obligations paid before maturity; and permitting officers, directors and committee members a limited right of borrowing; further regulating the maintenance of reserve funds, and the determination and payment of dividends; and providing for further tax exemptions.

Section 1. Be it enacted, &c., That sections two, four, five, eight, thirteen, fifteen, sixteen, seventeen, and twenty-three of the act, approved the twenty-sixth day of May, one thousand nine hundred and thirty-three (Pamphlet Laws, one thousand seventy-six), entitled "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," are hereby amended to read as follows:

Sections 2, 4, 5,  
8, 13, 15, 16, 17  
and 23, act of  
May 26, 1933  
(P. L. 1076),  
amended.

Section 2. Method of Incorporation.—A credit union may be incorporated in the following manner, to wit:

A. The articles of association of an intended credit union must be subscribed to by seven citizens of this Commonwealth, and shall set forth—

I. The name of the proposed credit union, which shall contain the words "credit union."

II. The class of services to be performed by the credit union, which services shall be within the scope of activities of such associations as set forth in this act.

III. The principal place where its business is to be transacted, which shall be within this Commonwealth.

IV. The term for which it is to exist.