

No. 23

AN ACT

To amend the act, approved the fifth day of May, one thousand nine hundred and thirty-three (Pamphlet Laws, four hundred fifty-seven), entitled "An act relating to the business of building and loan associations; providing for the organization and voluntary dissolution of such associations; defining the rights, powers, duties, liabilities, and immunities of such associations, and of their officers, directors, shareholders, solicitors, and other employes; prohibiting the transaction of business in this Commonwealth by foreign building and loan associations; conferring powers and imposing duties upon the courts, recorders of deeds, and certain State departments, commissions, and officers; establishing limitations of actions; imposing penalties; and repealing certain acts and parts of acts," as amended, by further defining the rights, powers, duties, liabilities, and immunities of building and loan associations, and of their officers, directors, shareholders, solicitors, and other employes; and by further regulating the merger and consolidation of building and loan associations, and the creation of building and loan associations by merger, consolidation or conversion; and by providing for the reorganization of building and loan associations; and by providing for the conversion of building and loan associations into Federal savings and loan associations.

Section 1. Be it enacted, &c., That section six hundred five, section six hundred seven, section six hundred eleven, section six hundred twelve, section six hundred thirteen, section six hundred fifteen, section six hundred seventeen, section eight hundred two, section eight hundred three, section nine hundred three, section nine hundred seven, section nine hundred eight, section nine hundred eleven, section one thousand one, section one thousand four, section one thousand five, section one thousand six, section one thousand seven, section one thousand eight, section one thousand ten, and section one thousand two hundred three of the act, approved the fifth day of May, one thousand nine hundred and thirty-three (Pamphlet Laws, four hundred fifty-seven), entitled "An act relating to the business of building and loan associations; providing for the organization and voluntary dissolution of such associations; defining the rights, powers, duties, liabilities, and immunities of such associations, and of their officers, directors, shareholders, solicitors, and other employes; prohibiting the transaction of business in this Commonwealth by foreign building and loan associations; conferring powers and imposing duties upon the courts, recorders of deeds, and certain State departments, commissions, and officers; establishing limitations of actions; imposing penalties; and repealing certain acts and parts of acts," are hereby amended to read as follows, and that Article X of that act is hereby amended by adding at the end a new section to read as follows, and that section two, section four hundred two, section four hundred fifteen, section

Sections 605, 607, 611, 612, 613, 615, 617, 802, 803, 903, 907, 908, 911, 1001, 1004, 1005, 1006, 1007, 1008, 1010, and 1203, act of May 5, 1933 (P. L. 457), amended.

Article X amended by adding a new section, and sections 2, 402, 415, 616, 618, 801, 808, 910, 1002, 1003, 1009, and 1112, as amended by act of July 2, 1935 (P. L. 574), further amended.

six hundred sixteen, section six hundred eighteen, section eight hundred one, section eight hundred eight, section nine hundred ten, section one thousand two, section one thousand three, section one thousand nine, and section one thousand one hundred twelve of that act as last amended by the act, approved the second day of July, one thousand nine hundred and thirty-five (Pamphlet Laws, five hundred seventy-four), are hereby further amended to read as follows:

Section 2. Definitions.—A. The following terms shall be construed in this act to have the following meanings except in those instances where the context clearly indicates otherwise:

“Articles” includes the original articles of incorporation, any or all amendments thereto, articles of merger or consolidation, and also what have heretofore been designated by law as certificates of incorporation or charters.

“Assets” includes all the property and rights of every kind of the association.

“Association” includes any building and loan association organized under this act, or heretofore organized under or by virtue of any other law of this Commonwealth.

“Authorized Capital” means the sum of the par value of the shares authorized to be issued by an association.

“Corporation” means a corporation or a joint stock association, organized under the laws of this Commonwealth, of the United States, or of any other state, territory, foreign country, or dependency.

“Department” means the Department of Banking of this Commonwealth.

“Incorporator” means a signer of the original articles of incorporation.

“Mortgage Loans” means loans which are secured, pursuant to the provisions of this act, by the bond of the borrower, by a mortgage on real property, and by installment shares.

“Person” means an individual, or an unincorporated association, including a partnership, a limited partnership, or any other form of unincorporated enterprise owned by two or more individuals.

“Shares” means the units into which the shareholders’ rights to participate in the control of a building and loan association are divided.

“Share Certificate” means a written instrument signed by the proper corporate officers as required by this act, and evidencing the fact that the corporation or person therein named is the registered owner of the shares therein described; it also includes the term “certificate of stock” as used in existing laws.

“Share Loans” means loans which are secured, pursuant to the provisions of this act, by the note of the borrower and by prepaid, full-paid, *optional payment* or installment shares.

“Shareholder” means a registered owner of shares in a building and loan association.

“Subscriber” means one who subscribes for shares in a building and loan association whether before or after incorporation.

“Written” includes printed, typewritten, engraved, lithographed, telegraphed, cabled, radiogramed, photographed, photostated, telephotographed, or other form of recorded or transmitted message.

B. The singular shall be construed to include the plural. The masculine shall be construed to include the feminine and the neuter, and conversely the neuter shall be construed to include the masculine and the feminine.

Section 402. Term of Office and Qualification of Directors.—A. The business and affairs of every association shall be managed by a board of at least five directors. Except as otherwise provided by this act or by the articles or by-laws of the association, such board of directors shall exercise all the powers and fulfill all the duties granted to or imposed upon the association by this act.

B. Each director shall hold office for the term for which he is elected and until his successor shall have been duly elected and qualified. The names and terms of office of the first directors shall be stated in the articles. Except as otherwise provided in this act for the filling of vacancies, directors, other than those constituting the first board of directors, shall be elected by the shareholders.

C. Every director shall, during his term of office, be a citizen of the United States and at least two-thirds of the directors shall, during their terms of service, be bona fide residents in this Commonwealth.

Every director shall [be a shareholder of the association] *own, in his own name, shares of the association other than direct reduction loan shares.* Any director who, during his term of service, ceases to be a shareholder, shall forthwith cease to be a director of the association, and his office shall be declared vacant. Any vacancy thus occurring shall be filled in the regular manner for filling vacancies in the board.

Section 415. Purchases from and Sales *and Loans* to Directors, Officers, Solicitors, or Employes.—A. An association shall not contract for or purchase from any of its directors, officers, solicitors, or employes any securities or other property, or contract for or pay for services rendered in the repair, maintenance, or management of properties belonging to, or under the control of,

the association, unless such transaction is made in the regular course of business upon terms not less favorable to the association than those offered to any other corporation or person, unless such transaction could not be made with another reliable source at a more favorable price or upon more favorable terms, and unless such transaction is authorized by the vote of at least two-thirds of all the members of the board of directors of such association, who are not interested in such transaction except in their capacity as directors of the association.

B. An association shall not sell securities or other property, owned or held by it, to any of its directors, officers, solicitors, or employes, unless such sale is made in the regular course of business upon terms not less favorable to the association than those offered to any other corporation or person, unless such sale could not be made elsewhere at a more favorable price or upon more favorable terms, and unless such sale is authorized by the vote of at least two-thirds of all the members of the board of directors of such association, who are not interested in such transaction except in their capacities as directors of the association.

C. *An association shall not make a mortgage loan to any of its directors, officers, solicitors, or employes, unless the real property securing the loan shall be occupied by such director, officer, solicitor, or employe as his home.*

[C] D. For the purpose of this section, a purchase from or a sale *or a loan* to a corporation of which any director, officer, solicitor, or employe, described in this section, owns ten per centum or more of the outstanding shares, or a purchase from or a sale *or a loan* to an unincorporated association of which any such director, officer, solicitor, or employe is a member, shall be considered a purchase from or a sale *or a loan* to such director, officer, solicitor, or employe.

[D] E. Any director, officer, solicitor, or employe of an association, who knowingly violates the provisions of this section, shall be guilty of a misdemeanor, and shall, upon conviction thereof, be subject to an imprisonment not exceeding one year, or a fine not exceeding one thousand dollars, or both; he shall also be subject to a further fine equal to any profit which he shall have made upon the transaction.

Section 605. Payments for Installment, *Optional Payment, Direct Reduction Loan, Full-paid, and Pre-paid Shares*.—An association may issue shares under any or all of the following plans of payment:

(1) Shares, the par value of which is to be paid in part by periodical payments in cash at such times and in such amounts as shall be established by the articles or by-laws, and in part by accrual of earnings

on such shares. Such periodical payments shall be known as dues, and such shares shall be known as installment shares.

(2) Shares, the par value of which has been paid by a single cash payment at the time of their issuance. Such shares shall be known as full-paid shares.

(3) Shares, the par value of which has been paid in part by a single cash payment at the time of their issuance and in part by accrual of earnings on such shares. Such shares shall be known as prepaid shares.

(4) *Shares, the par value of which is to be paid in part by payments in cash at such times and in such amounts as the holder may, from time to time, elect and in part by accrual of earnings on such shares. Such shares shall be known as optional payment shares. Holders of optional payment shares shall not be subject to fines for failure to make payments on account of such shares.*

(5) *Shares to be known as direct reduction loan shares and to be issued only to borrowers contracting to repay mortgage loans by a direct reduction method. The dues or periodical installments on such shares shall fluctuate as required by the loan contract, and such shares shall not participate in the profits of the association, nor be subject to losses.*

Section 607. Share Certificates; Issuance and Preservation.—A. Every association shall furnish to each holder of record of an installment, *optional payment, or direct reduction loan* share a copy of the by-laws of the association and of all amendments thereto, and a receipt, by pass book or otherwise, for all dues, premiums, fines, or other payments made to the association by him, but an association shall not be required to issue a share certificate to any holder of an installment, *optional payment, or direct reduction loan* share.

B. Every association shall furnish to each holder of record of a prepaid or a full-paid share a copy of the by-laws of the association and of all amendments thereto, and a share certificate, upon which the name of the association shall be printed, and which shall state:

(1) That the association is incorporated under the laws of this Commonwealth.

(2) The name of the registered holder of the shares represented thereby.

(3) The date of issuance of the shares.

(4) The type of shares which the certificate represents, that is whether they are prepaid or full-paid.

(5) The number of shares which the certificate represents.

(6) The par value of each share represented, and, in the case of prepaid shares, the amount of the single cash payment made on each share by the shareholder.

C. Every share certificate shall be signed by the president or vice-president and the secretary or treasurer, or by such officers as the by-laws may provide, and sealed with the corporate seal. In case any officer who has signed any share certificate shall have ceased to be such officer, because of death, resignation, or otherwise, before the certificate is issued, it may be issued with the same effect as if the officer had not ceased to be such at the date of its issue.

D. Share certificates shall bear printed consecutive numbers and shall be issued from a bound share certificate book, containing a stub for each certificate. Each stub shall bear the same number as the share certificate which was attached to it, the name and address of the person in whose name the share certificate is issued, the number of shares represented by the certificate, and the date of the issuance of the certificate. The president or vice-president and the secretary or treasurer, or such officers as the by-laws provide, shall certify on each stub that the information contained thereon is correct and in accordance with the share certificate bearing the same number.

E. Upon the withdrawal of prepaid or full-paid shares and upon payment by the association, the certificate representing such shares shall be surrendered to the association and preserved by it indefinitely. Likewise any share certificate for which the association has issued a substitute certificate, or which for any other reason has been surrendered to the association, shall be preserved by it indefinitely.

Section 611. Transfer of Shares.—A. Installment, *optional payment*, or *direct reduction loan* shares for which share certificates have not been issued, shall be transferable in the manner provided by the by-laws of the association, provided such by-laws are not inconsistent with law.

B. Except as otherwise specifically provided in this act, the transfer of shares for which share certificates have been issued, and the share certificates representing them, may be regulated by the by-laws, provided such by-laws are not inconsistent with the provisions of the Uniform Stock Transfer Act, approved the fifth day of May, one thousand nine hundred eleven (Pamphlet Laws, one hundred twenty-six), its amendments and supplements.

Section 612. Voluntary Withdrawals.—A. Any shareholder may, upon giving written notice to the association, withdraw any shares, whether full-paid, prepaid, *optional payment*, or installment, which are not pledged to the association as security for a mortgage loan granted by it. The secretary or other officer designated by the by-laws of the association shall endorse, on

the written notice of an intention to withdraw required by this section, the date of its receipt by the association, and shall record such notice and the date of its receipt by the association in a book to be used solely for the recording of notices of withdrawals.

B. The association shall pay to a shareholder who has withdrawn his shares the amount paid to the association by him on such shares, less all fines or other indebtedness or charges due by him, plus such proportion of the earnings of the association or such rate of [interest] *dividends* as may be prescribed by the by-laws of the association, minus the losses properly apportionable to such shares, but the board of directors may, by general rule or regulation and with the prior written consent of the department, change such proportion of earnings or such rate of [interest] *dividends*. The amount payable to a shareholder who has withdrawn his shares shall be known as the withdrawal value of his shares. [Except as herein otherwise specifically provided, a withdrawal shall become effective thirty days after presentation by the shareholder of the written notice required by this section at a meeting of the association, or if not presented by him at a meeting, then thirty days after the first meeting of the association held after the receipt of such notice at the place of business of the association.]

C. *Any shareholder may, upon giving written notice to the association, withdraw amounts paid or credited on account of optional payment shares or non-serial installment shares without reducing the number of shares owned by him. The term withdrawn shares in any other section of this act, shall be construed to include such a withdrawal of amounts paid or credited on account of optional payment shares or non-serial installment shares.*

D. *Except as herein otherwise specifically provided, a withdrawal shall become effective thirty days after presentation by the shareholder of the written notice required by this section at a meeting of the association, or if not presented by him at a meeting, then thirty days after the first meeting of the association held after the receipt of such notice at the place of business of the association.*

Section 613. Involuntary Withdrawal of Prepaid, *Optional Payment* or Installment Shares.—A. An association may, at or before maturity, compel withdrawal of prepaid, *optional payment* or installment shares which are not pledged to the association as security for mortgage loans granted by it, but it shall not have the power to compel withdrawal of any prepaid, *any optional payment* or any installment share, as the case may be, unless it shall have on hand sufficient funds to pay such withdrawals immediately and until all prepaid, *all*

optional payment or all installment shares, respectively, issued prior to the date of issuance of such share have first been voluntarily or involuntarily withdrawn. In the case of installment shares issued in series, such compulsory withdrawal shall be pro rata among the shares of the same series.

B. The association shall pay on each prepaid share thus involuntarily withdrawn the full amount of the cash payment made thereon by the shareholder at the time of the issuance of such share, plus the full portion of the accumulated earnings of such association properly apportionable to such share.

C. The association shall pay on each installment *or optional payment* share thus involuntarily withdrawn the full amount of the dues paid thereon by the shareholder, plus the full portion of the accumulated earnings of such association properly apportionable to such share.

Section 615. Matured Shares.—A. An installment, *optional payment* or prepaid share shall be declared matured by the board of directors of an association, whenever in the case of a prepaid share, the cash payment made thereon by the shareholder at the time of the issuance of such share, or, in the case of an installment *or optional payment* share, the dues paid thereon by the shareholder, plus the full portion of the accumulated earnings of such association properly apportionable to such prepaid, *optional payment* or installment share, as the case may be, after deducting the reserve for contingent losses created pursuant to the provisions of this act, equal the par value of the share. Notice of such maturity shall forthwith be given to the holder of such share.

B. If the shares thus declared matured have not been pledged to the association as security for a loan, the association shall, before making payment, deduct an amount equal to any delinquent fines or other charges due it by such shareholder.

C. If the shares thus declared matured have been pledged to the association as security for a loan which is secured also by a mortgage upon real property, then the mortgage shall be forthwith satisfied upon the payment of any delinquent fines or other charges due the association and upon the payment of a fee, not in excess of three dollars, *and, in addition thereto, a fee of ten cents per mile, if the place of business of the association is not located in the county where the mortgage is to be satisfied.*

D. If the shares thus declared matured have been pledged to the association pursuant to a loan upon which the sole security is such shares, the note shall be forthwith cancelled and the amount of the loan, together with the amount of any delinquent fines or other charges due

the association, shall be deducted from the matured value of such shares. The balance shall be payable to such shareholder in the same manner as provided by this act in the case of shares which have been declared matured, which are not pledged to the association as security for a loan.

E. The holder of a share which has been declared matured pursuant to the provisions of this section shall be entitled to [interest] *cash dividends* upon any unpaid portion of the par value thereof at the rate of four per centum per annum from the date of the declaration of maturity, but the rate of such [interest] *dividends* shall not in any event exceed the rate of earnings apportioned during such period to installment, *optional payment* or prepaid shares which have not been declared matured.

Section 616. Order of Payment and Funds to Be Used to Pay Matured or Withdrawn Shares; Power to Sue.—A. Withdrawn or matured shares shall be paid in the order in which the withdrawals become effective or the maturities are declared, but withdrawals which become effective or maturities which are declared upon the same day shall be paid on a pro rata basis. However, the board of directors may at any time either authorize payment of withdrawn shares on a pro rata basis, or, with the consent of the department, fix a maximum amount to be paid periodically on such shares. The action of the board of directors in authorizing payment to be made on a pro rata basis, or in fixing a maximum amount to be paid periodically, shall also apply to unpaid withdrawals which became effective prior to the date on which such action was taken by the board of directors.

B. At least two-thirds of the funds in the treasury of an association shall be applied to the payment of matured or withdrawn shares, whenever such amount is necessary for this purpose, but the association shall first deduct such amount as shall be necessary to pay current expenses and interest or dividends on full-paid shares to protect or preserve the assets of the association, and to make proper provisions for meeting such obligations as it may reasonably be expected to be compelled to pay. Whenever two-thirds of the funds in the treasury, other than such amounts as are required by this section to be deducted, are insufficient to pay in full all matured or withdrawn shares, [one-third of such funds shall be applied to the payment of matured shares and one-third to the payment of withdrawn shares, but if less than one-third of such funds shall be sufficient to pay in full all matured shares, the balance of such one-third shall be applied to pay withdrawn shares, and conversely, if less than one-third of such funds shall be sufficient to

pay in full all withdrawn shares, the balance of such one-third shall be applied to pay matured shares] *such funds shall be applied to the payment of withdrawn and matured shares in proportion to the total amount of unpaid claims in each class.*

C. Whenever funds are not available, in the manner hereinbefore provided, to pay any matured or withdrawn share upon which payment has been due for a period in excess of six months, eighty per centum of the funds in the treasury, other than such amounts as are required by this section to be deducted, shall be applied to the payment of matured or withdrawn shares. Whenever eighty per centum of the funds in the treasury, other than such amounts as are required by this section to be deducted, are insufficient to pay in full matured or withdrawn shares, [forty per centum of such funds shall be applied to the payment of matured shares and forty per centum to the payment of withdrawn shares. If less than forty per centum of such funds shall be sufficient to pay in full all matured shares, the balance of such forty per centum shall be applied to pay withdrawn shares, and conversely, if less than forty per centum of such funds shall be sufficient to pay in full all withdrawn shares, the balance of such forty per centum shall be applied to pay matured shares] *such funds shall be applied to the payment of withdrawn and matured shares in proportion to the total amount of unpaid claims in each class.*

D. Whenever matured or withdrawn shares have not been paid by an association for a period of six months after the maturities have been declared, or the withdrawals have become effective, owing to the fact that the funds in the treasury, which under this act, are to be applied to the payment of such shares, are insufficient to pay them in full, so much of the bonds or other obligations of the United States, of the Commonwealth of Pennsylvania, of the *Federal Home Loan Bank Board*, or of a Federal Home Loan Bank, owned by the association, as shall be necessary to pay such matured or withdrawn shares shall be sold and the proceeds paid into the treasury of the association to be used to pay such shares, unless the department shall give written permission to the association to hold such bonds or other obligations for a longer period of time.

E. For the purposes of this section, the words "funds in the treasury" shall be construed to include all moneys received by the association from any source whatsoever, except money borrowed from the Federal Home Loan Bank.

F. The holders of matured or withdrawn shares shall not have the power to sue for the amount due them by virtue of such maturity or such withdrawal until

such time as, under the provisions of this section, such matured or such withdrawn shares should have been paid.

Section 617. Fines.—A. Any association may impose fines upon its shareholders for failure to pay dues on *installment shares*, interest, or premiums, but a fine shall not exceed one per centum per month of the amount of the dues, interest, or premiums which are in arrears, for the period during which they have been in such arrears. Such fines may be deducted from or charged against the earnings of the association properly apportionable to the shares in the association on account of which such defaults are made, but fines for a longer period than six months shall not under any circumstances be deducted from or charged against the dues paid by the shareholders upon such shares.

B. An association shall not impose fines upon the shares of a deceased shareholder, for the defaults incurred after his death, unless his legal representative makes a payment upon such shares, in which case fines may be levied against such shares for all defaults after the date of such payment.

C. Fines levied pursuant to the provisions of this act shall not be deemed usurious.

Section 618. Restriction on Dividends on Full-Paid Shares; Undivided Profits.—A. The rate of cash dividend [or periodical interest] paid on full-paid shares during any year shall not exceed the rate of earnings apportioned during such year to installment, *optional payment* or prepaid shares of the association.

B. An association may retain earnings in an undivided profit account to be used, at the discretion of the board of directors, for the purpose of paying additional dividends: Provided, That the total undivided profits on hand at any one time shall not exceed two per centum of the amount paid in by shareholders on account of shares.

Section 801. Powers of Associations.—In addition to the general corporate powers granted by this act, and in addition to any powers specifically granted to an association elsewhere in this act, an association shall have the following powers, subject to the limitations and restrictions imposed by this act:

(1) To issue full-paid, prepaid, *optional payment*, *direct reduction loan*, and installment shares.

(2) To borrow money, and in the case of the Federal Home Loan Bank, or any other agency or instrumentality of the United States Government, other than a national bank, to pledge collateral therefor.

(3) To grant loans to its shareholders.

(4) To make investments.

(5) To become a member of the Federal Home Loan

Bank, or of any other corporation or agency established under the authority of the United States Government, and to comply with any of the provisions required for membership in the Federal Home Loan Bank or in such other corporation or agency, provided the association is authorized to do so by resolution of its board of directors.

(6) To become a member of a league or leagues organized to protect and promote the interests of building and loan associations, and to pay dues to or a proportionate share of the expenses of such league or leagues.

(7) To purchase, improve, or lease real property for its accommodation.

(8) To make application for, and obtain insurance of, mortgages and of shares or accounts as provided by the National Housing Act of one thousand nine hundred and thirty-four, approved the twenty-seventh day of June, one thousand nine hundred and thirty-four, its amendments and supplements.

Section 802. Power to Borrow Money; Issuance of Notes; Pledging of Collateral.—A. An association may, by resolution of its board of directors, borrow money, at a rate of interest not exceeding six per centum per annum, to a total amount not exceeding [thirty-five] *fifty* per centum of the amount paid in by shareholders on account of shares *which have not been pledged to the association as security for loans, or which have not on the date of such borrowing been matured, or for which notice of withdrawal has not on such date been given.*

B. An association shall issue to any corporation or person from whom it borrows money, except the Federal Home Loan Bank, or any other agency or instrumentality of the United States Government, other than a national bank, a note for the amount borrowed. All such notes shall be issued in the following manner, and in the following form only:

(1) Each such note shall have the corporate title of the association printed thereon.

(2) A copy of the resolution of the board of directors of such association authorizing the loan, certified by the secretary of such association or by such other officer as shall be determined by the by-laws, shall be permanently attached to such note, and each such resolution shall state the borrowing capacity of the association and the amount then owing by the association for borrowed money.

(3) Each such note shall be signed on behalf of the association by the president or vice-president and by the secretary or treasurer thereof, or by any other two or more officers designated in the by-laws.

(4) Such notes shall bear printed, consecutive numbers, and shall be issued from a bound notebook, con-

taining for each note a stub bearing a number corresponding to the number on such note. The stub shall also bear the name and address of the payee of the note, the date on which the note was issued, the date of maturity, the amount of the note, and the rate of interest.

(5) The officers of such borrowing association who signed the note on behalf of the association shall certify, on the stub, that the information contained thereon is correct and is in accordance with the note bearing the same number.

An association shall issue to the Federal Home Loan Bank, or to any other agency or instrumentality of the United States Government from which it borrows money, other than a national bank, its bond, obligation, or note, in such form as is prescribed by the Federal Home Loan Bank or by such other agency or instrumentality of the United States Government.

Upon the repayment of such borrowed money, the note, or the bond, obligation, or note, as the case may be, shall be surrendered to the association, and shall be cancelled and preserved for a period of not less than seven years.

C. An association shall not have power to pledge or hypothecate any of its assets for money borrowed by it, except in the case of money borrowed from the Federal Home Loan Bank or any other agency or instrumentality of the United States Government, other than a national bank. An association may pledge or hypothecate to the Federal Home Loan Bank or to any other agency or instrumentality of the United States Government, other than a national bank, for money borrowed, its bonds and mortgages or other assets, including the shares pledged with the association as security, and it shall not be required to secure the consent of the owner of the mortgaged real property or of the shares in order to make such pledge.

D. An association shall not grant any mortgage loan if the amount of borrowed money owed by it to any corporation or person, except the Federal Home Loan Bank or any other agency or instrumentality of the United States Government, other than national banks, exceeds ten per centum of the amount paid in by shareholders on account of shares *which have not been pledged to the association as security for loans or which have not been matured or for which notice of withdrawal has not been given*; but this provision shall not be construed to affect the right of an association to readjust or otherwise refinance any mortgage loan which it has granted.

Section 803. Authorized Investments.—A. Except as otherwise specifically provided in this act, an association shall not make any investments except as follows:

(1) Bonds or other interest-bearing obligations of

the United States, or those for the payment of the principal and interest on which the faith and credit of the United States is pledged.

(2) Bonds or debentures issued by a Federal Home Loan Bank or consolidated debentures issued by the Federal Home Loan Bank Board under the provisions of the Federal Home Loan Bank Act, approved the twenty-second day of July, one thousand nine hundred thirty-two, its amendments and supplements.

(3) Bonds or other interest-bearing obligations of the Commonwealth of Pennsylvania, or those for the payment of principal and interest on which the faith and credit of this Commonwealth is pledged.

B. An association shall not at any one time, without the written approval of the department, have more than twenty-five per centum of the amount paid in by its shareholders on account of shares invested in the bonds, debentures, or other interest-bearing obligations authorized by this section as investments for associations.

Section 808. Segregation of Dues Upon Order of Department.—A. Whenever it shall appear to the department that the affairs of an association are in such condition that the action hereinafter provided in this section is justified, the department may, by written order issued in the manner provided by law, direct that all payments [of dues] made *thereafter* on account of [installment] shares which have not been transferred and pledged to the association as security for loans shall be segregated from the other assets of the association, and that the association shall not grant any further loans, make any payments on account of withdrawn or matured shares, or allow any credit for the value of any shares on account of the principal of any loan, until such order is revoked in writing by the department. Such order of the department shall be known as an order of segregation. Such segregated moneys shall either be kept on deposit in a depository selected in the manner provided by this act, or invested in the bonds designated by this act as authorized investments for associations. The money so segregated, and the bonds in which such moneys are invested, shall be known as the segregated fund.

If an association at any time after an order of segregation has become effective has no liability except to its shareholders arising from the ownership of shares, it may, with the written consent of the department, transfer to the segregated fund a portion or all of any cash which it may have on hand and bonds, if any, designated by this act as authorized investments. Cash and bonds so transferred shall become a part of the segregated fund the same as though paid into the segregated fund by the shareholders whose shares are not pledged

to the association as security for loans in proportion to the amounts paid in on account of their shares on the date that the order of segregation was issued. Such segregated fund shall not be subject to any attachment issued on a judgment obtained by any creditor or shareholder of the association.

During the period of segregation, the segregated fund shall be available exclusively for the benefit of the shareholders who made such payments or for whose benefit the transfer of cash and bonds was made, and may be withdrawn during such period of segregation upon thirty days' written notice.

B. All dues paid in during the period of segregation by shareholders whose shares are pledged to the association as security for loans shall be known as segregated credits, and shall be applied as credits against the principal of any loans so secured which are repaid during the period of segregation.

When any transfer of cash and bonds is made to the segregated fund, the shareholders whose shares are pledged to the association as security for loans shall be entitled to segregated credits, which shall bear the same relation to the amounts paid in by them on account of their shares, prior to the effective date of the order of segregation, as the amount of cash and bonds so transferred bears to the total amount paid in on account of shares, prior to the effective date of the order of segregation, by shareholders whose shares are not pledged as security for loans.

If at any time during the period of segregation the segregated credits on shares pledged for a loan exceed the amount of the loan for which such shares are pledged, all payments made by the borrower thereafter shall be segregated in the same manner as payments made by shareholders whose shares have not been pledged to the association as security for loans.

C. If the Secretary of Banking shall in the manner provided by law take possession of the business and property of an association while an order of segregation is in force, or if a liquidating trustee or liquidating trustees shall, pursuant to a plan of voluntary dissolution, take possession of the business and property of such association while such order is in force, the amount in the segregated fund shall be paid only to the shareholders whose payments were segregated or for whose benefit the transfer of cash and bonds was made, and only to the extent that they can be paid from the segregated fund or from the proceeds of the sale of the bonds in which such segregated fund has been invested, and the shareholders whose shares have been transferred and pledged as security for loans shall receive credit

on account of the principal of their loans for the full amount of their segregated credits.

D. If an association, while an order of segregation is in force, shall enter into an agreement of merger or consolidation with another association or with other associations, the shareholders whose shares have not been pledged to the association as security for loans shall receive credit in full for their interest in the segregated fund on account of the shares of the surviving or new association into which their shares are converted, and the shareholders whose shares have been pledged to the association as security for loans shall receive credit in full for their segregated credits on account of the shares of the surviving or new association into which their shares are converted.

E. If, while an order of segregation is in force, the liability of an association to its shareholders shall be reduced by order of the court of common pleas, pursuant to the provisions of this act, the interest of the shareholders in the segregated fund and the segregated credits of shareholders shall not be reduced by the order of court, but such shareholders shall receive credit in full on account of their shares for such interest in the segregated fund or for such segregated credits.

F. The department may revoke an order of segregation whenever it shall appear that the condition of an association justifies such action. In such event the association may exercise all the powers it could have exercised prior to the issuance of such order. It shall treat all payments on account of shares, or otherwise, made by shareholders during the period of segregation, and all segregated credits, in the same manner as all other payments on account of shares whenever made.

G. The department in its order of segregation may impose all or any part of the directions authorized by this section, or may limit, modify, or qualify them, and may also, from time to time, after an order of segregation has been issued, by an amended order or orders, limit, modify, or qualify directions already given, but this subsection shall not be construed to authorize the department to omit from the original order of segregation, or to limit, modify, or qualify the requirement that all payments [of dues] made on account of [installment] shares, which have not been transferred and pledged to the association as security for loans, shall be segregated from the other assets of the association. In the event that a limited, modified or qualified order of segregation is issued by the department, the association shall have the right to conduct its business in accordance with such order or amended order of segregation as limited, modified, or qualified.

Section 903. Security for Mortgage Loans.—A. An association shall grant mortgage loans to its shareholders, or to any person intending to become a shareholder, upon the following security only:

(1) The bond of the borrower, secured by the transfer and pledge to the association of installment shares in such association, which belong to the borrower and which have a par value at least equal to the amount of the loan, and further secured by a mortgage upon real property which belongs to the borrower, such mortgage being for at least the full amount of the loan. A loan secured in this manner shall be known as a share-mortgage loan, and the mortgage securing such loan as a share mortgage.

(2) *The bond of the borrower, secured by the transfer and pledge to the association of direct reduction loan shares in such association, which belong to the borrower and which have a par value at least equal to the amount of the loan, and further secured by a mortgage upon real property which belongs to the borrower, such mortgage being for at least the full amount of the loan. A loan secured in this manner shall be known as a direct reduction mortgage loan, and the mortgage securing such loan as a direct reduction mortgage.*

[2] (3) The bond of the borrower, secured by a mortgage upon real property which belongs to the borrower, such mortgage being for an amount not to exceed one-half of the amount of the loan, such portion of the loan to be known as the straight-mortgage portion of the loan; and a bond for the remainder of the loan, secured by the transfer and pledge to the association of installment shares in such association, which belong to the borrower and which have a par value at least equal to the amount of such remainder of the loan, and further secured by a mortgage upon such real property, for an amount equal to such remainder of such loan, such remainder of such loan to be known as the share-mortgage portion of the loan. A loan secured by both a straight mortgage and a share mortgage in this manner shall be known as a split-mortgage loan. A split-mortgage loan may also be in the form of a single bond and mortgage which meets all the requirements of this section.

The straight-mortgage portion of a split-mortgage loan shall not be secured by shares, and an association shall not charge fines upon such portion of the loan.

An association shall not demand payment of the straight-mortgage portion of a split-mortgage loan, except in case of a default by the borrower in the terms of the loan, until the share-mortgage portion of such loan has been repaid in full by the maturing of the shares assigned or pledged as security therefor or by any other method. Upon such payment of the share-mort-

gage portion of a split-mortgage loan, an association shall either demand and enforce payment of the straight-mortgage portion of the loan, or convert such loan to a share-mortgage loan or to a *direct reduction mortgage loan* upon the transfer and pledge to the association of installment shares or *direct reduction loan shares* in such association which belong to the borrower and which have a par value at least equal to the amount of such loan.

B. An association shall not grant any mortgage loan unless the mortgage securing such loan (1) is a first lien upon unencumbered, improved real property, *the improvement being a dwelling for not more than four families, which is used or to be used in whole or in part for residential purposes*, or upon real property upon which *such* a building is in the process of construction, situated anywhere within the Commonwealth, or where it is not a first lien upon such property, every equal or prior lien is owned by the association; and (2) does not, together with any other lien held by such association upon such property, exceed eighty per centum of the fair market value of such real property, plus the amount paid to the association, prior to or upon the day of the granting of such loan, upon shares to be assigned or pledged to the association as security for such loan. An association shall not take any lien upon real property as security for a mortgage loan if such lien is equal to any lien owned by any other corporation or person.

The provisions of this subsection shall not be construed to apply to a purchase money mortgage taken by an association upon real property owned by it, nor to the readjustment or refinancing in any other manner of a mortgage loan owed to the association upon the effective date of this act.

Notwithstanding the provisions of this subsection, an association may, prior to the first day of June, one thousand nine hundred thirty-five, grant a loan upon improved real property encumbered by a mortgage not owned by the association, provided that the prior encumbrance not owned by the association does not exceed forty per centum of the fair market value of such real property, and that it will not, together with the mortgage securing such loan, exceed sixty per centum of the fair market value of such real property.

C. An association shall not, directly or indirectly, grant to any one corporation or person mortgage loans to a total amount exceeding five per centum of the amount paid in by its shareholders on account of shares, but any association may grant to any one corporation or person mortgage loans to a total amount of ten thousand dollars.

In computing the total mortgage loans made by an association to an individual, there shall be included all

mortgage loans made by the association to a partnership or other unincorporated association of which he is a member, all mortgage loans made either for his benefit or for the benefit of such partnership or other unincorporated association, and all mortgage loans to or for the benefit of a corporation of which he owns twenty-five per centum or more of the capital stock.

In computing the total mortgage loans made by an association to a partnership or other unincorporated association, there shall be included all mortgage loans to its individual members, all mortgage loans made for the benefit of such partnership or other unincorporated association, or of any member thereof, and all mortgage loans to or for the benefit of any corporation of which the partnership or unincorporated association, or any member thereof, owns twenty-five per centum or more of the capital stock.

In computing the total mortgage loans made by an association to a corporation, there shall be included all mortgage loans made for the benefit of the corporation, and all mortgage loans to or for the benefit of any individual who owns twenty-five per centum or more of the capital stock of such corporation.

A mortgage loan shall be deemed to be made for the benefit of a corporation or person to the extent that the proceeds of such loans are credited or transferred to such corporation or person.

D. An association shall not, upon the security of any one piece of real property, grant mortgage loans totaling

[(1) More] *more* than [twenty-five] *twenty* thousand dollars, [if the amount paid in by its shareholders on account of shares exceeds five hundred thousand dollars but does not exceed one million dollars.

(2) More than thirty-five thousand dollars, if the amount paid in by its shareholders on account of shares exceeds one million dollars but does not exceed five million dollars.

(3) More than fifty thousand dollars, if the amount paid in by its shareholders on account of shares exceeds five million dollars.]

Section 907. Interest Reduction Loans *and Direct Reduction Loans*.—A. A borrower, with the consent of the association, may have the periodical installments of dues on his shares credited on account of the principal of the mortgage loan at such times as shall be provided in the mortgage and also in its accompanying bond or other obligation, if any; and the interest, and the premium if any, thereon shall be computed on the balance of the principal of the loan in each case when the dues have been so credited. The borrower in such case may agree that the subsequent dues on his shares shall be-

come automatically increased by the amount of the reduction of interest, and of premium if any, in each case when the dues have been so credited, so that the total of each monthly installment of dues and interest, and premium if any, shall remain the same until the loan has been paid in full, but the right to have the dues on the shares credited on account of the principal of the loan, as well as the agreement, if any, that the dues on the shares shall become automatically increased as herein provided, shall be set forth in the mortgage and also in its accompanying bond or other obligation, if any.

The borrower shall have the right, with the consent of the association, when the dues so credited on account of the principal of the loan shall equal the par value of one or more shares, to have the number of shares reduced to such number that their aggregate par value shall not be less than the reduced amount or balance of the principal of the loan still remaining unpaid. The periodical installments of dues on the shares thus reduced, as well as the interest on the reduced principal of the loan, and premium thereon if any, shall be payable after the date of such reduction the same as if the shares had been originally issued in such reduced number as of such date and such loan made for such reduced amount.

When the dues on the shares are credited on account of the principal of the loan as herein provided, such shares shall not participate in the profits of the association nor be subject to losses. When the loan has been paid in full by the crediting of the dues thereon as herein provided, the borrower shall be entitled to have his mortgage satisfied upon the payment of a fee not exceeding three dollars, [for the satisfaction of the mortgage] *and in addition thereto, a fee of ten cents per mile, if the place of business of the association is not located in the county where the mortgage is to be satisfied.*

B. Direct reduction mortgage loans, secured by the transfer and pledge of direct reduction loan shares, shall be repaid by the monthly application and credit of the dues paid on such shares on account of the principal of the mortgage loan. Such loans shall be known as direct reduction mortgage loans. The interest, or interest and premium shall be computed monthly on the unpaid balance of the principal of the loan, and such interest, or interest and premium if not paid, may be added to the unpaid principal, together with any and all payments or advances made by the association for taxes, water rents, assessments, insurance premiums, or other charges or advances permitted by law. Payments made by the borrower shall be applied first to the interest, or interest and premium due the association, and the remainder of

the monthly payment shall be credited on account of dues on the direct reduction loan shares. The subsequent periodical dues on the direct reduction loan shares shall become automatically increased by the amount of the reduction of interest, or interest and premium, when the dues have been so credited to the principal of the loan, so that the total of each monthly installment of dues and interest, or dues, interest and premium shall remain the same until the loan has been paid in full. When the loan has been repaid in full by the crediting of the dues thereon as herein provided, the borrower shall be entitled to have his mortgage satisfied upon the payment of a fee not exceeding three dollars, and in addition thereto, a fee of ten cents per mile, if the place of business of the association is not located in the county where the mortgage is to be satisfied.

C. The borrower shall have the right, with the consent of the association, to have the number of direct reduction loan shares reduced to such number that their aggregate par value shall not be less than the reduced amount or balance of the principal of the loan still remaining unpaid. The periodical installments of dues on the shares thus reduced, as well as the interest, or interest and premium on the reduced principal of the loan, shall be payable after the date of such reduction the same as if the shares had been originally issued in such reduced number as of such date and such loan made for such reduced amount.

D. A borrower may, with the consent of the association, convert a share-mortgage loan into a direct reduction mortgage loan, or convert a direct reduction mortgage loan into a share-mortgage loan.

Section 908. Foreclosure on Mortgage for Non-Payment of Dues, Interest, Premiums, or Fines.—In the case of a default in the payment of dues, interest, premiums, or fines due on a mortgage loan, an association, if there be no other default, shall not have the power to enforce payment of the principal of such loan by legal proceedings unless [in the case of a mortgage which is a first lien upon real property, dues or interest owing for six months has not been paid, or, in the case of a mortgage which is not a first lien upon real property, dues or interest owing for three months has not been paid] *the total arrearages are equivalent to at least four contracted monthly payments.*

Section 910. Security for Share Loans.—An association may grant share loans to any of its shareholders upon the following security only: The note of the borrower, secured by the transfer and pledge to the association of installment, *optional payment*, full-paid, or prepaid shares, which have not previously been transferred or pledged to anyone other than the association;

the amount paid in on account of such shares prior to or at the time of the granting of any loan upon the security of such shares shall be at least equal to the total amount of all loans granted thereon.

Section 911. Repayment of Loans before Maturity.—

A. A borrower shall have the right to repay a loan to an association at any time before the maturity of the shares securing such loan, unless the by-laws of an association provide that such repayment can be made only at a regular meeting of the board of directors of such association.

B. When a borrower repays a loan to an association before the maturity of the shares securing such loan he may—

(1) Pay the amount of the principal of the loan in cash and have the shares securing such loan retransferred to him by the association; or

(2) In the case of a mortgage loan, apply the withdrawal value of the shares securing such loan against the principal of such loan, and pay the balance in cash; or

(3) In the case of a share loan, take credit for the withdrawal value of the shares securing such loan up to the amount of the principal of the loan, and, as to any balance remaining, acquire the rights of a withdrawing shareholder.

C. Upon paying a loan to an association in the manner provided in this section, a borrower shall be entitled, in the case of a mortgage loan, to the satisfaction of his mortgage upon the payment of a fee, not exceeding three dollars, *and in addition thereto, a fee of ten cents per mile, if the place of business of the association is not located in the county where the mortgage is to be satisfied*, [for the satisfaction of the mortgage] and in the case of a share loan, to the return of his note.

D. If a borrower shall repay a loan upon which the association has deducted the premium in advance, such proportion of the premium, as the by-laws shall determine, shall be refunded to such borrower, unless the same amounts to two per centum or less of the amount of such loan, in which case no such refund need be made, but if the premium exceeds two per centum of the amount of such loan, the association shall not retain more than one one-hundredths of such premium for each calendar month that has expired since the date of the meeting upon which the loan was granted.

ARTICLE X

MERGER, [AND] CONSOLIDATION, CONVERSION, AND REORGANIZATION

Section 1001. Merger, [and] Consolidation, *and Conversion* Authorized.

A. Any two or more associations may, in the manner hereinafter provided in this act, be merged into one of such associations, hereinafter designated as the surviving association, or consolidated into a new association to be formed under this act.

B. *One or more associations and one or more Federal savings and loan associations, operating under the laws of the United States, may, in the manner hereinafter provided in this act and pursuant to the laws of the United States, be merged into an association hereinafter designated as the surviving association, or into a Federal savings and loan association, or consolidated into a new association to be formed under this act, or into a new Federal savings and loan association, and an association may, in the manner hereinafter provided in this act and pursuant to the laws of the United States, be converted into a Federal savings and loan association, and any Federal savings and loan association may, in the manner hereinafter provided in this act and pursuant to the laws of the United States, be converted into an association hereinafter designated as the converted association. No merger, consolidation or conversion, authorized by this subsection, shall become effective, until the Federal Home Loan Bank Board shall have given its written approval.*

Section 1002. Approval of Joint Plan of Merger or Consolidation, or Plan of Conversion.—A. The board of directors of each of the associations or *Federal savings and loan associations* which desire to merge, [or] consolidate or convert shall, by resolution adopted by at least a majority of all the members of each board, approve a joint plan of merger or consolidation or a plan of conversion, as the case may be, setting forth the terms and conditions of the merger, [or] consolidation or conversion and the mode of carrying the same into effect, the manner and basis of converting the shares of each association or *Federal savings and loan association* into shares or other securities or obligations of the surviving, [or] new or converted association or *Federal savings and loan association*, as the case may be, and such other details and provisions as are deemed necessary.

B. The board of directors of each association or *Federal savings and loan association*, upon approving such plan of merger, [or plan of] consolidation or conversion in accordance with the provisions of this act, shall, by resolution, direct that the plan be submitted to a vote of the shareholders of such association or *Federal savings and loan association* entitled to vote thereon, at an annual or special meeting of the shareholders. Written notice shall, not less than fifteen days before such annual or special meeting, be given respectively to each shareholder of record, unless the plan of merger or consolida-

tion contemplates an increase in the authorized capital of the constituent associations, in which event sixty days' notice of such meeting shall be given to each shareholder. The notice shall state the place, day, hour, and purpose of the meeting, and a copy or a summary of the plan of merger, [or plan of] consolidation *or conversion*, as the case may be, shall be included in or enclosed with such notice: Provided, however, That in the case of the surviving association in a merger, if the articles or by-laws specifically so provide, the plan of merger shall not be required to be submitted to the shareholders for approval, but in such case written notice of such contemplated merger shall be given to all shareholders of the surviving association, prior to the day upon which the articles of merger are filed with the Department of State: And provided further, That in such event, upon request in writing to the secretary of the association, any shareholder of the surviving association shall be entitled to receive forthwith a copy of the proposed plan of merger.

C. The plan of merger, [or] consolidation *or conversion*, to form a surviving new or converted association, shall be ratified upon receiving the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote thereon of each of the merging or consolidating associations *or Federal savings and loan associations*, except in the case of a surviving association, the articles or by-laws of which, pursuant to this act, provide that action by the shareholders shall not be required, in which case no ratification shall be necessary.

D. *The plan of conversion of an association into a Federal savings and loan association, or the plan of merger or consolidation of one or more associations with one or more Federal savings and loan associations to form a Federal savings and loan association, shall be ratified upon receiving the affirmative vote of the holders of at least two-thirds of the outstanding shares entitled to vote thereon of the association converting, or of each of the merging or consolidating associations.*

Section 1003. Articles of Merger, [or] Consolidation *or Conversion*.—Upon the approval, pursuant to the provisions of this act, of the plan of merger, [or the plan of] consolidation *or conversion* by the shareholders of the associations *or Federal savings and loan associations* desiring to merge, [or] consolidate *or convert*, or in the case of a surviving association, the articles or by-laws of which, pursuant to this act, provide that action by the shareholders shall not be required upon the giving of written notice to the shareholders of the intention of the board of directors to file articles of merger with the Department of State, articles of merger, [or articles of] consolidation *or conversion*, as the case

may be, shall be executed under the seal of each association *or Federal savings and loan association* and verified by two duly authorized officers of each association *or Federal savings and loan association*, and shall set forth:

(1) The name of the surviving, [or] new *or converted* association *or Federal savings and loan association*.

(2) The time and place of the meeting of the directors at which the plan of merger, [or] consolidation *or conversion* was proposed, and except where, pursuant to the provisions of this act, the plan of merger is not submitted to a vote of the shareholders of the surviving association, the time and place of the meeting of the shareholders of each association *or Federal savings and loan association* at which the plan of merger, [or] consolidation *or conversion*, as the case may be, was ratified, the kind and period of notice given to the shareholders, and the total vote by which the plan was adopted.

(3) In the case of a merger *into a surviving association*, any changes desired to be made in the articles of the surviving association, or, in the case of a consolidation *into a new association or the conversion of a Federal savings and loan association into an association*, all of the statements required by this act to be set forth in the original articles in the case of the formation of an association.

(4) The number, names, and addresses of the persons to be the first directors of the surviving, [or] new *or converted* association *or Federal savings and loan association*.

(5) The plan of merger, [or] consolidation *or conversion*.

Section 1004. Advertisement.—The association *or Federal savings and loan association* shall advertise its intention to file articles of merger, [or articles of] consolidation *or conversion*, as the case may be, with the Department of State, in a manner similar to that heretofore prescribed in this act in the case of the formation of an association. Advertisements shall appear at least three days prior to the day on which the articles of merger, [or articles of] consolidation *or conversion* are to be presented to the Department of State, and shall set forth briefly:

(1) The name and the location of the principal place of business of each of the associations *or Federal savings and loan associations* intending to merge, [or] consolidate *or convert*.

(2) The name and the location of the principal place of business of the surviving, [or] new *or converted* association *or Federal savings and loan association*.

(3) A statement that the articles of merger, [or] consolidation *or conversion* are to be filed under the provisions of this act.

(4) The purpose or purposes of the surviving, [or] new *or converted* association.

(5) The time when the articles of merger, [or] consolidation *or conversion* will be delivered to the Department of State.

Section 1005. Filing of Articles of Merger, [or] Consolidation *or Conversion*; Payment of Fees; Approval by Department of State.—A. The articles of merger, [or articles of] consolidation *or conversion*, as the case may be, and the proof of publication of the advertisement required by this act, shall be delivered to the Department of State.

B. The Department of State shall examine such articles of merger, [or articles of] consolidation *or conversion* and such proof of publication to determine whether they contain all the information and are in the form required by this act, and also whether the name of the surviving, [or] new *or converted* association, as the case may be, conforms with the requirements of law for the name of such an association, or, if the name is not the same as either or any of the merging or consolidating associations, whether it is the same as one already adopted or reserved by another corporation or person or is so similar thereto that it is likely to mislead the public.

After all the fees, taxes, and other charges have been paid as required by law, except for the costs of an examination made by the Department of Banking, pursuant to the provisions of this act, to determine whether to approve the merger, [or] consolidation *or conversion*, or any other charges made by the Department of Banking, the Department of State, if the articles of merger, [or articles of] consolidation *or conversion* and the proof of publication contain the information and are in the form required by this act, shall forthwith, but not prior to the day specified in the advertisement of the intention to file the articles, endorse its approval thereon, and shall forthwith transmit them to the Department of Banking.

C. If the Department of State shall disapprove the articles of merger, [or the articles of] consolidation *or conversion* pursuant to this act, it shall forthwith give notice thereof to the association *or Federal savings and loan association*, stating in detail its reasons for doing so, and stating how such association *or Federal savings and loan association* can remedy the non-conformance with the provisions of this act. Upon remedying the defect, such association *or Federal savings and loan association* may in the same manner file the same or amended articles, whichever the particular case may require.

Section 1006. Approval of Articles of Merger, [or Consolidation or Conversion] by Department of Banking.—A. The Department of Banking shall, immediately upon the receipt from the Department of State of the articles of merger, [or articles of] consolidation or conversion, conduct such examination as it may deem necessary to ascertain from the best sources of information at its command:

(1) Whether the name of the surviving, [or] new or converted association, or *Federal savings and loan association* is likely to mislead the public. [as to its character or purpose]

(2) Whether the consolidation, [or] merger or conversion is made for legitimate purposes.

(3) Whether the interests of the shareholders or creditors are adequately protected.

(4) Whether the surviving, [or] new or converted association meets all the requirements of this act and violates none of its prohibitions.

The cost of such examination and any other charges of the Department of Banking, bearing upon the filing of the articles of merger, [or articles of] consolidation or conversion, shall be assessed upon the associations in the manner provided by law for assessments by the Department of Banking of costs of examinations or other charges.

Each Federal savings and loan association desiring to merge, consolidate or convert shall pay to the Department of State, at the time the articles of merger, consolidation or conversion are filed, such reasonable fees, as shall be established by rule and regulation by the Department of Banking, for the investigation made by the Department of Banking, pursuant to the provisions of this act, to determine whether the articles should be approved. Such fees shall be paid by the Department of State, through the Department of Revenue, into the Banking Department Fund.

B. Within thirty days after the receipt of the articles of merger, [or articles of] consolidation or conversion from the Department of State, the Department of Banking shall, upon the basis of the facts disclosed by the investigation provided for by this section, either approve or disapprove such articles. It shall immediately notify the Department of State in writing of its action. If it shall approve the articles of merger, [or articles of] consolidation or conversion, it shall endorse its approval thereon, and shall return them to the Department of State.

C. If the Department of Banking disapproves the articles of merger, [or the articles of] consolidation or conversion, it shall return them to the Department of State, stating in detail its reasons for doing so. The

Department of State shall immediately give notice to the associations *or Federal savings and loan associations* desiring to merge, [or] consolidate *or convert*, or to the *Federal savings and loan association desiring to convert* of the action of the Department of Banking, and of the reasons therefor as stated to it by that department. Such [corporations] *associations or Federal savings and loan association* may, within thirty days after the Department of State sends them notice of the disapproval of their articles of merger, [or articles of] consolidation *or conversion*, appeal from such disapproval to the Governor, who shall hear such appeal promptly, and shall, within thirty days thereafter, decide the matter and certify his decision to the Department of Banking. The decision of the Governor shall be conclusive and not subject to review. The Department of Banking shall act in accordance therewith.

Section 1007. Issuance of Certificate of Merger, [or Certificate of] Consolidation *or Conversion*.—Immediately upon receipt of the approved articles of merger, [or articles of] consolidation *or conversion* [of an association] from the Department of Banking, and upon receipt by the Department of State of the written approval of the Federal Home Loan Bank Board, if such approval is required by this act, the Department of State shall file the articles, and shall issue to the surviving, new or converted association *or Federal savings and loan association*, or its representative, a certificate of merger, [or a certificate of] consolidation *or conversion*. A copy of the approved articles of merger, [or articles of] consolidation *or conversion* shall be sent by the Department of State to the Department of Banking.

Section 1008. Effect of Merger, [or] Consolidation *or Conversion*.—Upon the merger or consolidation becoming effective, the several associations, *or Federal savings and loan associations*, parties to the plan of merger or consolidation, shall be a single association *or Federal savings and loan association*, which, in the case of a merger, shall be that association *or Federal savings and loan association* designated in the plan of merger as the surviving association *or Federal savings and loan association*, and, in the case of a consolidation, shall be the new association *or Federal savings and loan association* provided for in the plan of consolidation. The separate existence of all associations, parties to the plan of merger or consolidation, shall cease, except, in the case of a merger, that of the surviving association *or Federal savings and loan association*. The surviving, [or] new or converted association, as the case may be, shall not thereby acquire authority to engage in any business or exercise any right which cannot be acquired by, or which is forbidden to, any association which is incorporated

under this act. All the property, real, personal, and mixed, of each of the associations or *Federal savings and loan associations*, parties to the plan of merger, [or] consolidation or *conversion*, and all debts or obligations due to any of them, including subscriptions to shares, and other choses in action belonging to either or any of them, shall be taken and deemed to be transferred to and vested in the surviving, [or] new or *converted* association or *Federal savings and loan association*, as the case may be, without further act or deed. The surviving, [or] new or *converted* association or *Federal savings and loan association* shall thenceforth be responsible for all the liabilities and obligations of each of the associations or *Federal savings and loan associations* so merged, [or] consolidated or *converted*; but the liabilities of the merging, [or] consolidating or *converting* associations or *Federal savings and loan associations*, or of their shareholders, directors, or officers, shall not be affected, nor shall the rights of the creditors thereof or of any persons dealing with such associations or *Federal savings and loan associations*, or any liens upon the property of such [corporations] *associations or Federal savings and loan associations*, be impaired by such merger, [or] consolidation or *conversion*, and any claim existing or action or proceeding pending by or against any of such associations or *Federal savings and loan associations* may be prosecuted to judgment as if such merger, [or] consolidation or *conversion* had not taken place, or the surviving, [or] new or *converted* association or *Federal savings and loan association* may be proceeded against or substituted in its place. In the case of a merger, the articles of incorporation of the surviving association shall be deemed to be amended to the extent, if any, that changes in its articles are stated in the articles of merger; and in the case of a consolidation or *conversion into a converted association*, the statements set forth in the articles of consolidation or *conversion*, and which are required or permitted to be set forth in the articles of incorporation of associations formed under this act, shall be deemed to be the articles of incorporation of the new or *converted* association.

Section 1009. Rights of Dissenting Shareholders.—A. If any shareholder of an association or *Federal savings and loan association* which becomes a party to a plan of merger, [or] consolidation or *conversion* shall file with such association or *Federal savings and loan association*, prior to or at the meeting of shareholders at which the plan of merger, [or] consolidation or *conversion* is submitted to a vote, or in the case of a shareholder of a surviving association which, pursuant to the provisions of this act, becomes a party to a plan of merger without action by its shareholders, shall file, within twenty days

after the written notice of such merger has been given as required by this act, a written objection to such plan of merger, [or] consolidation *or conversion*, and shall not vote in favor thereof, and such shareholder, within twenty days after the merger, [or] consolidation *or conversion* was effected, shall make written demand on the surviving, [or] new *or converted* association *or Federal savings and loan association* for the payment of the fair value of his shares as of the day prior to the date on which the vote was taken approving the merger, [or] consolidation *or conversion*, or in the case of a surviving association which, pursuant to this act, became a party to the merger without action of its shareholders the day prior to the date on which the articles of merger were filed with the Department of State, without regard to any depreciation or appreciation thereof in consequence of the merger, [or] consolidation *or conversion*, the surviving, [or] new *or converted* association *or Federal savings and loan association* shall pay to such shareholder the fair value of his shares upon surrender of the share certificate or other evidence of his shares. The demand of the shareholder shall state the number and kind of the shares owned by him. Any shareholder who fails to file such written objection, or any shareholder who files such written objection and fails to make demand within the twenty-day period, shall be conclusively presumed to have consented to the merger, [or] consolidation *or conversion*, and shall be bound by the terms thereof. If within thirty days after the date on which such merger, [or] consolidation *or conversion* was effected the value of such shares shall be agreed upon by the dissenting shareholder and the surviving, [or] new *or converted* association *or Federal savings and loan association*, payment thereof shall be made in cash, within ninety days after the date on which such merger, [or] consolidation *or conversion* was effected, upon the surrender of the share certificate or other evidence of his shares. Upon payment of the agreed value, the dissenting shareholder shall cease to have any interest in such shares or in the association *or Federal savings and loan association*.

B. If within such period of thirty days the shareholder and the surviving, [or] new *or converted* association *or Federal savings and loan association* do not so agree, then the dissenting shareholder may, within sixty days after the expiration of the thirty-day period, apply, by petition to the court of common pleas, in equity, within the county in which the place of business of the surviving, [or] new *or converted* association *or Federal savings and loan association* is situated for the appointment by the court of three disinterested persons to appraise the fair market value of his shares without regard to any depreciation or appreciation thereof in

consequence of the merger, [or] consolidation or conversion. The award of the appraisers, or of a majority of them, when confirmed by the court, shall be final and conclusive. The costs of such appraisal, including a reasonable fee to the appraisers, shall be fixed by the court, and shall be assessed either upon the new, [or] surviving or converted association or *Federal savings and loan association*, or upon the dissenting shareholder, or upon both, in the discretion of the court. The award shall be payable only upon, and simultaneously with, the surrender to the surviving, [or] new or converted association or *Federal savings and loan association* of the share certificate or certificates representing the shares of the dissenting shareholder. If the award shall not be paid by the surviving, [or] new or converted association or *Federal savings and loan association* within thirty days after the award was made by the appraisers, the amount of the award shall be a judgment against the surviving, [or] new or converted association or *Federal savings and loan association*, as the case may be, and may be collected as other judgments in such court are by law collectible. Upon the payment of the award or judgment, the dissenting shareholder shall cease to have any interest in such shares or in the surviving, [or] new or converted association or *Federal savings and loan association*. Unless the dissenting shareholder shall file a petition within the time herein limited, such shareholder, and all persons claiming under him, shall be conclusively presumed to have approved and ratified the merger, [or] consolidation or conversion and shall be bound by the terms thereof. The right of the dissenting shareholder to be paid the fair value of his shares, as herein provided, shall cease if and when the association shall abandon the merger, [or] consolidation or conversion.

Section 1010. *Effective Date of Merger, [or] Consolidation or Conversion.*—Upon the issuance of the certificate of merger, [or the certificate of] consolidation or conversion by the Department of State, the merger, [or] consolidation or conversion shall be effective. The certificate of merger, [or the certificate of] consolidation or conversion shall be conclusive evidence of the performance of all conditions precedent to such consolidation, [or] merger or conversion and the creation or existence of a new, [or] surviving or converted association, except as against the Commonwealth.

Section 1011. *Reorganization of Associations.*—Any association may adopt any plan of reorganization which the department shall deem equitable and to the best interests of the creditors and shareholders. The plan of reorganization shall be valid only if approved, after such notice as the department shall sanction, by the holders of at least eighty per centum of the outstanding shares

of the association, and by creditors to whom is due at least ninety per centum of the total amount of all liability of the association to creditors. However, claims of creditors, which will be satisfied in full under the provisions of the plan of reorganization, shall not be included among the creditor liability of the association in computing the ninety per centum thereof required by this section. Any plan of reorganization, which shall have been adopted and approved in the manner provided by this section, shall be binding upon all shareholders and creditors of the association, whether or not they have consented to such plan of reorganization.

Without limiting the power of an association to adopt any plan of reorganization approved by the department, any association may—

(1) Transfer title to any of its assets to another association organized under this act solely for the purpose of liquidating such assets. Such liquidating association shall immediately file a certificate of election to dissolve with the department, and shall dissolve in accordance with the provisions of this act, subject to the right of the department to take possession whenever it shall appear to the department that the best interests of the shareholders will be served by such action. The liquidating association shall pay the reorganizing association for the assets acquired in shares of the liquidating association, which shares shall be distributed pro rata to the shareholders of the reorganizing association. The shares of the reorganizing association shall be reduced in value as provided in the plan of reorganization. Title to the assets, so transferred pursuant to this section, shall vest in the liquidating association by operation of law with the same legal effect as provided by this act in the case of a merger or consolidation.

(2) Set up a "Participating Reserve" by transferring thereto the aggregate book value of any assets of the association. The value of the shares of the association shall be reduced as provided in the plan of reorganization. The association shall issue pro rata to the shareholders non-withdrawable participating certificates for the amounts by which the value of their shares is reduced. The assets represented by participating certificates shall be identified on the books of the association, and shall remain a separate fund from the other assets of the association for the sole benefit of the holders of the participating certificates. As and when such assets are liquidated, all net proceeds therefrom shall be paid pro rata, from time to time, to the holders of participating certificates in cash, or, with the written consent of any certificate holder, by credit upon his shares in the association. If the net proceeds of the final liquidation of such assets do not equal the face value of the par-

ticipating certificates, the loss shall be absorbed pro rata by the holders of such certificates, and the association shall have no further liability in relation thereto or arising therefrom.

Section 1112. Order of Preference in Distribution.—

A. The following shall be the order followed by the liquidating trustee or trustees, as the case may be, in the distribution, pursuant to the provisions of this act, of the assets of any association which is being liquidated in pursuance of a plan of voluntary dissolution:

First. Any reasonable expense incurred by the liquidating trustee or trustees, as the case may be, in the management, liquidation, or distribution of the assets and affairs of the association; any fee or other debt owing to the department for examinations, or other services rendered, or penalties incurred; any other claim of the Commonwealth of Pennsylvania; and any other claim which is given a preference by law.

Second. Any claim of a creditor of the association, other than the claim of a shareholder arising from his ownership of shares.

Third. Any claim of a shareholder, whether or not reduced to a judgment, arising from his ownership of shares, whether such shares be installment, *optional payment*, full-paid, prepaid, matured, or any other type, and whether or not notice of withdrawal of such shares has been given to the association. The amount of the claim arising from each share shall be the amount actually paid in on account of such share, less any amount lawfully deductible therefrom by the association, except in the case of a lawfully and properly matured share, in which case the amount of the claim shall be the actual par value of the share less any payment received on account thereof from the association and less any other amount lawfully deductible therefrom by the association.

B. Every claim enumerated above shall have the same rank and priority as every other claim in the same numbered paragraph, regardless of the order in which such claims are enumerated.

C. All claims provided for in this section shall be construed to refer only to claims presented to the liquidating trustee or trustees in the manner provided in this act and approved by him or them in accordance with the plan of dissolution.

Section 1203. Relationship of Association with Employes of Department.—A. An association shall not grant or give any sum of money or other property, whether as a gift, credit, loan, or otherwise, either directly or indirectly, to the Secretary of Banking, or to any deputy, examiner, clerk, or other employe of the department, or to a deputy receiver, or other employe of the Secretary of Banking as receiver. However, any

association may grant a loan to the Secretary of Banking, or any deputy, examiner, clerk, or other employe of the department, *or to a deputy receiver, or other employe of the Secretary of Banking as receiver*, if such loan is secured by a mortgage upon his own home which meets all the terms and conditions provided by this act for mortgage loans, and which, in addition, meets any additional conditions imposed and followed by such association in granting such loan.

B. Any officer, director, or employe of an association, who knowingly violates the provisions of this section, or who, on his own behalf, grants or gives any sum of money or other property, whether as a gift, credit, loan, or otherwise, either directly or indirectly, to the Secretary of Banking, or to any deputy, examiner, clerk, or other employe of the department, **or to a deputy receiver or other employe of the Secretary of Banking as receiver*, shall be guilty of a misdemeanor, and shall, upon conviction thereof, be subject to imprisonment for a period not exceeding one year, or a fine not exceeding one thousand dollars, or both; he shall also be subject to a further fine of a sum equal to the amount of the gift, credit, loan, or other sum of money, or the value of any other property given in violation of this section.

Section 2. Effective Date.—This act shall become effective immediately upon final enactment.

* "of" in the original.

APPROVED—The 15th day of March, A. D. 1937.

GEORGE H. EARLE

No. 24

AN ACT

Increasing the number of courts of common pleas in the County of Philadelphia; establishing therein a distinct and separate court of common pleas designated court of common pleas number six; and providing for the election and appointment of judges for said court.

Section 1. Be it enacted, &c., That there shall be and hereby is established in the County of Philadelphia a distinct and separate court of common pleas to be designated court of common pleas number six of Philadelphia County, composed of three judges learned in the law, who shall hold office for the same term and with like powers, duties, authority and compensation, and with like and equal constitution and coordinate jurisdiction with courts of common pleas numbers one, two, three, four, and five of said county and the judges thereof, respectively.

Common pleas
court No. 6
created in
Philadelphia
County.