

No. 1984-183

## AN ACT

SB 1085

Amending the act of September 20, 1961 (P.L.1548, No.658), entitled "An act to provide for the organization, incorporation, operation and supervision of cooperative savings and credit associations, to be termed credit unions; designating such credit unions as corporations and defining their powers and duties; conferring certain powers and duties on the Department of Banking; and providing penalties," further providing for credit unions.

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

Section 1. Clauses (2) and (10) of subsection B of section 5 of the act of September 20, 1961 (P.L.1548, No.568), known as the Credit Union Act, amended December 14, 1982 (P.L.1240, No.283), are amended and a clause is added to read:

Section 5. Powers.—\*\*\*

B. A credit union shall have the following special powers:

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(2) To make loans to members **[for provident or productive purposes]** *and to participate in loans to credit union members, including members of any Federal credit union or credit union chartered under the laws of any state, jointly with such other credit unions, credit union organizations or State or federally chartered and regulated depository institutions, provided that the institution which originates such a loan shall be legally required to retain an interest of at least ten per centum of the outstanding balance of the loan.*

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(10) To hold, purchase, mortgage, alter, improve and sell such real property, and furniture and fixtures to be used therein, as the purposes of the credit union require and which the credit union occupies or intends to occupy for the transaction of its business or partly so occupies and partly leases to others: Provided, That the cost, at the time of acquisition, of such real property and furniture and fixtures therein shall not exceed in the aggregate fifty per centum of the unimpaired surplus and undivided **[profits]** *earnings* of the credit union or five per centum of its unimpaired capital up to one million dollars (\$1,000,000), plus three per centum of its capital over one million dollars (\$1,000,000), whichever is greater, except with the prior written approval of the Department of Banking. Further, a credit union with the prior written approval of the department shall generally have the power to sell any of its assets and to purchase the assets of another credit union or Federal credit union.

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(15) *To receive payments on shares which may be issued at varying dividend rates, share certificates which may be issued at varying dividend rates*

*and maturities and share draft accounts from members or nonmember units of Federal, State or local governments, including any officer, employe or agent of the United States, any state of the United States or any county, municipality or political subdivision thereof, or any territory or possession of the United States having official custody of public funds and lawfully investing such funds in a credit union.*

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Section 2. Subsections A and B of section 6 of the act, amended December 14, 1982 (P.L.1240, No.283), are amended to read:

Section 6. Membership.—A. Credit union organizations shall be limited to groups having a potential membership of two hundred or more adult persons and having a common bond of association within a well defined community or rural district by reason of occupation or of membership in a religious congregation or fraternal or labor organization *or residence within a well defined community or rural district*. A credit union may also retain its original field of membership and, additionally, include in its field of membership other occupational groups, as well as like associational groups having a common bond with the original field of membership, with insufficient number of members to form or conduct the affairs of a separate credit union: Provided, That **[the group is located in the same municipality as]** the existing credit union **[and]** obtains prior permission from the Pennsylvania Department of Banking. The membership of a credit union shall be limited to and consist of the incorporators of the credit union and such other persons, having the common bond of association, set forth in the Articles of Incorporation, as have been duly admitted members, have paid the entrance fee as provided in the bylaws and own and retain one or more shares. Organizations composed principally of the same group as the credit union membership may be members. Employes of credit unions may be members of such credit unions.

B. Persons who are members of the immediate family of a member of the credit union **[and who share the same domicile with that member]** may be elected to membership.

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Section 3. Section 10 of the act, amended June 23, 1978 (P.L.525, No.88), is amended to read:

Section 10. Elections.—At the organization meeting and at all subsequent annual meetings, the credit union *members* shall elect *from the membership of the credit union* a board of directors of not less than five members, a credit committee of not less than three members, and a supervisory committee of not less than three nor more than five members, all to hold office for such terms respectively, as the bylaws provide and until successors are duly qualified. A member shall not serve on more than one of the committees. Not more than one member of the board, who shall not be the treasurer or an assistant treasurer, may serve as a member of the credit committee. A member of the board of directors, treasurer or an assistant treasurer may not serve on the supervisory committee. A statement in writing of the names and addresses of the members of the board and the committees and

the officers shall be filed with the Department of Banking within ten days after their election and qualification. For failure to file such statements when due, unless excused for cause, the credit union shall pay to the Department of Banking five dollars (\$5) for each day of its delinquency.

Section 4. Section 11 of the act, amended December 14, 1967 (P.L.735, No.343), is amended to read:

Section 11. Bylaws.—The original bylaws of a credit union shall be adopted by the incorporators of the credit union and copies thereof shall be transmitted to the ~~[department]~~ *Department of Banking* along with the articles of incorporation as provided heretofore in this act. Thereafter, bylaws may be ~~[adopted, altered,]~~ amended ~~[or repealed]~~ either by *two-thirds of the members present and voting or a majority of the [shareholders or by the] board of directors*, ~~except that the board of directors shall not make or alter any bylaws, fixing their qualifications, classification, term of office, or compensation,]~~ at any ~~[annual] regular~~ or special meeting of the credit union, or of the board of directors, as the case may be, ~~[if] provided that~~ notice thereof is given ~~and a quorum is established~~ in accordance with the bylaws~~], at which a quorum as provided in the bylaws, is present. Written notice of any bylaw adopted or repealed, or any amendment of any bylaw, by the board of directors]. The board of directors shall not amend any bylaws fixing their qualifications, classification, term of office or compensation. Whenever the board of directors amends the bylaws, written notice thereof shall be given to the [shareholders not more than ten] members prior to the next meeting of the members or within ninety days after such action by the board of directors, whichever is sooner, and such action by the board of directors shall be subject to the power of the [shareholders,] members at their next [annual or special] meeting[,]~~ held ~~at least~~ ten days ~~[or more]~~ after the mailing of ~~[a] the~~ notice thereof, to change or repeal such bylaw or amendment.

Section 5. Clauses (8) and (10) of subsection A of section 12 of the act, (10) amended May 31, 1974 (P.L.315, No.101), are amended to read:

Section 12. Directors and Officers.—A. At their organizational meeting and within thirty days following each annual meeting of the members, the directors shall elect from their own number a president, one or more vice presidents, a treasurer, a secretary and may elect a chairman of the board. The same individual may be both treasurer and secretary. The directors may appoint one or more assistant treasurers. The directors may appoint a membership officer from among the members of the credit union, other than the treasurer, an assistant treasurer, or a loan officer. The directors may employ an officer in charge of operations whose title shall be general manager or executive vice president. The officer in charge shall be under the direction and control of the board or of the treasurer, as determined by the board of directors. The membership officer or the officer in charge shall have the authority to approve applications for membership under such conditions as the directors may prescribe; except that such membership officer or officer in charge so authorized shall submit to the directors at each monthly meeting a list of approved or pending applications for membership received since the previous monthly meeting, together with such other related

information as the bylaws or the board may require. The directors shall have general management of the affairs of the credit union and are specifically required:

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(8) To have charge of investments, *first* mortgage loans and loans to other credit unions and Federal credit unions but not loans to members which are under the supervision of the credit committee as provided hereinafter: *Provided, however, That the board may delegate, to the credit committee, the authority to approve some or all first mortgage loans and, to an investment committee or qualified individual, the authority to make all or some investments: And provided further, That the board first establish guidelines and standards for the approval and making of such loans and investments in accordance with the policies of the board of directors;*

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(10) To determine whether, to what extent, and to what class or classes of borrowers, if any, an interest refund **[to members of record at the close of business on March thirty-first, June thirtieth, September thirtieth or December thirty-first]** *is to be made in any dividend period, provided that any such interest refund shall be paid in proportion to the interest paid by each borrower within any class during [the preceding months, except that no] that dividend period. No* interest refund may be authorized unless a share dividend at the rate of not less than **[three] five** per centum has been declared from the earnings of **[the last preceding]** *that dividend period.*

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Section 6. Section 13 of the act, amended December 14, 1982 (P.L.1240, No.283), is amended to read:

Section 13. Credit Committee.—The credit committee shall have the supervision of all loans to members other than *first* mortgage loans, *except to the extent approval of such mortgage loans has been delegated to the credit committee*, and loans to other credit unions and Federal credit unions. No credit committee member, loan officer or director of a credit union shall vote on the granting of any loan in which such official or a member of his or her immediate family has a beneficial interest. Applications for loans shall be in writing on a form prepared for that purpose by the credit committee, and all applications shall set forth the purpose for which the loan is desired, the security, if any, offered, and such other data as may be required. Within the meaning of this section, a pledge of shares in the credit union or the endorsement of a note may be deemed security. At least a majority of the members of the credit committee shall pass on all loans, and no loan shall be approved unless it is approved by a majority of the members of the credit committee present and voting: *Provided, That the credit committee may appoint one or more loan officers, and delegate to such person the power to approve loans, share withdrawals, releases and substitutions of security, within limits specified by the committee. Each loan officer shall furnish to the credit committee a record of each loan approved or not approved by such person within seven days of the date of the filing of the application therefor. All loans not approved by a loan officer shall be acted upon by the credit committee. No*

individual shall have authority to disburse funds of the credit union for any loan which has been approved by such individual in his or her capacity as loan officer. Not more than one member of the credit committee may be appointed as loan officer. The credit committee shall meet as often as may be necessary after due notice to each member.

Section 7. Section 19 of the act, amended July 6, 1984 (P.L.650, No.135)<sup>1</sup>, is amended to read:

Section 19. Rates and Fines.—*A.* Interest rates on loans made by a credit union to its members shall not exceed fifteen per centum per annum, when calculated on the unpaid principal balances.

*B.* Before any credit union shall charge any higher rate authorized hereunder, it shall obtain approval for such higher rate from at least two-thirds of the credit union's board of directors and such higher approved rate shall then apply only to loans made by the credit union thereafter. Members shall be notified in writing of the board of directors' action not later than the next regular mailing of the member's account statement, which is at least twenty days subsequent to the board's action.

*C.* Interest shall be computed for the actual number of days which have elapsed at the time of payment. No other charges or fines shall be collected other than fees to public officials, *actual fees necessary to secure collateral, fees required to be charged by government agencies* and reasonable fees of attorneys and outside collectors or outside collection agencies, provided the aggregate of such *collection* fees does not exceed twenty per centum of the outstanding loan balance. However, on loans secured by *first* mortgages on real estate, a credit union may also collect late payment charges not in excess of four per centum of the principal and interest due on any installment payment that is more than fifteen days delinquent.

*D.* The taking, receiving, reserving, or charging interest greater than allowed by this section shall be deemed a forfeiture of the entire interest on the loan, except when such overcharge is the result of a clerical error in computation. In case an interest greater than that which is allowed by this section has been paid, the borrower may within six months after payment recover from the credit union the entire amount of interest paid, except when such overcharge is the result of a clerical error in computation in which case only the excess interest paid may be recovered.

**[B.] E.** A credit union insured by a share insurance fund other than the National Credit Union Share Insurance Fund may make any loan authorized by this act, at such interest, finance charge, rate and terms as a credit union insured by the National Credit Union Share Insurance Fund, except that the authority permitted under this subsection shall not apply to the extension of credit for the purchase of goods and services through the issuance and use of credit cards.<sup>2</sup>

Section 8. Section 20 of the act is amended to read:

Section 20. Power to Borrow.—A credit union may borrow from any source a sum not exceeding fifty per centum of its capital, surplus and undivided **[profits] earnings** for the purpose of meeting the demand for loans to members or for the purpose of meeting demands for share withdrawals: Pro-

<sup>1</sup> "amended July 6, 1984 (P.L.650, No.135)" omitted in enrolled bill.

<sup>2</sup> Subsection B (now E) omitted in enrolled bill.

vided, That a credit union shall not borrow for the purpose of making investments authorized by section 5B clause (7) of this act.

Section 9. Section 21 of the act, amended December 14, 1982 (P.L.1240, No.283), is amended to read:

Section 21. Loans.—Except as otherwise provided herein, a credit union may make loans to its members only. Loans must be **[for a purpose deemed by the credit committee to be provident or for productive purposes, and must be]** made subject to the conditions contained in the bylaws. A borrower may repay his loan, in whole or in part, any day the office of the credit union is open for business. **[A] No** director, officer, or member of any committee may obtain **[an unsecured] a** loan from the credit union in which he holds office **[in an amount not exceeding the unsecured loan limit or five thousand dollars (\$5,000), whichever is less. He/she shall have the same secured borrowing privileges and mortgage borrowing privilege as any other member of the credit union in which he/she holds office. No director, officer, or member of any committee may] on terms, rates or conditions more favorable than those granted to any other member or** endorse a loan granted by the credit union in which he holds office.

Section 10. The introductory paragraph of subsection (a), clause (6) of subsection (a) and subsection (b) of section 22 of the act, amended December 9, 1980 (P.L.1140, No.203), are amended to read:

Section 22. Reserves.—**[(a)] A.** At the end of each accounting period the gross income shall be determined. From this amount, there shall be set aside, as a regular reserve against losses on loans and against such other losses as may be specified **[in regulations prescribed under this act] by the Pennsylvania Department of Banking,** sums in accordance with the following schedule:

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(6) The directors are authorized, after the required reserve has been provided for, to make additional transfers from undivided **[profits] earnings** to a contingent reserve for other anticipated losses and expenses: Provided, That the members at the annual meeting may retransfer any part or all of such contingent reserve to the undivided **[profit] earnings** account.

**[(b)] B.** The Department of Banking may decrease the reserve requirement set forth in subsection **[(a)] A** when in its opinion such a decrease is necessary or desirable. The department may also require special reserves to protect the interests of members either by regulation or for an individual credit union in any special case.

Section 11. Section 23 of the act, amended December 14, 1982 (P.L.1240, No.283), is amended to read:

Section 23. Dividends.—The board of directors of a credit union or the members on recommendation of the board of directors, whichever the bylaws provide, may declare dividends to be paid on all shares and share certificates from the net earnings and undivided **[profits] earnings** at such intervals and for such periods as the board of directors may authorize and after provision for the required reserves. Within the discretion of the board of directors, payments on all shares which are made within the first ten days of

a month may be entitled to dividends for the full month in which such payment is made. Dividends may be added to the credit of the members' share accounts, paid in cash, or partially credited to share accounts and partially paid in cash, at the option of the board of directors.

Section 12. This act shall take effect in 60 days.

APPROVED—The 12th day of October, A. D. 1984.

DICK THORNBURGH