

No. 658

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.

Credit Union
Act.

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

Section 1. Short Title.—This act shall be known and may be cited as the “Credit Union Act.”

Section 2. Definition and Purpose.—The term “credit union,” as used in this act, means a cooperative association incorporated under this act or under the act of May 26, 1933 (P. L. 1076), its amendments and supplements, for the purpose of promoting thrift among its members and creating a source of credit for such members, at reasonable rates of interest, for provident purposes.

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

B. Articles of incorporation shall be signed by each of the incorporators and acknowledged by at least seven of them before any officer authorized to take acknowledgments within this Commonwealth. The articles of incorporation shall set forth:

(1) The name of the proposed credit union, which shall contain the words “credit union.”

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

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

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

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

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

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

(8) The common bond of membership.

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

C. The articles of incorporation and two copies of the proposed bylaws for the general governance of the credit union shall be presented to the Department of Banking, together with such reasonable fees as shall be established, by the department, for such examination and such investigation as it may deem necessary to ascertain:

(1) Whether the character and general fitness of the incorporators, directors, and the treasurer named in the articles of incorporation is satisfactory.

(2) Whether the character and number of the group proposed to be served affords reasonable promise of sufficient support for the enterprise so as to make the establishment of the proposed credit union economically advisable.

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

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

(5) Whether the application is in proper form and within the purpose of this act.

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

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

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

Section 4. Amendment of Articles.—The articles of incorporation may be amended at any regular or special meeting of the credit union provided written notice of the meeting and of the proposed amendment or amendments is furnished each member at least ten days prior to the meeting at which such amendment or amendments

will be considered. Amendments to the articles of incorporation must be approved by two-thirds of the members present at any meeting at which the amendments are considered, and the proposed amendments shall be acted upon only in the event a quorum of the members, as provided in the bylaws, is present. Articles of amendment shall be filed with the Department of Banking. If the Department of Banking finds that the articles of amendment conform to law, it shall endorse its approval thereon and forward the articles of amendment to the Department of State. Upon receipt of the articles of amendment, the Department of State shall file the same and issue to the credit union a certificate of amendment.

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

- (1) The name and principal place of business of the credit union.
- (2) The amendment or amendments as adopted by the members.
- (3) The date of the meeting at which the amendment, or amendments, was adopted.
- (4) That notice of the meeting at which the amendment, or amendments, was considered, was given to each member as provided in this act.
- (5) That at the meeting at which the amendment, or amendments, was considered, a quorum of the members was present as provided in the bylaws.
- (6) That the amendment, or amendments, was approved by two-thirds of the members then present.

Section 5. Powers.—A. A credit union shall have the following general powers:

- (1) To continue as a corporation for the time specified in its articles of incorporation subject to the power of the General Assembly under the Constitution of this Commonwealth.
- (2) To maintain and defend judicial proceedings in its corporate name.
- (3) To adopt and use a corporate seal, and alter the same at pleasure.
- (4) To have and exercise all of the powers and means necessary to effect the purpose or purposes for which the credit union is organized.

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

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

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

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

(4) To make loans to members secured by mortgages which are first liens on improved real property situated within this Commonwealth, the improvement being an established dwelling house for not more than four families which is owned by the member of the credit union making the mortgage and occupied or to be occupied in whole or in part by such member. Such mortgages shall not exceed seventy-five per centum of the fair market value of the property: Provided, That shares of the credit union owned by the mortgagor may be assigned or pledged as additional collateral security for the mortgage loan and, in such event, the mortgage loan granted upon such property may be increased by the withdrawal value of the additional pledged shares to an amount not to exceed a maximum total mortgage loan of ninety per centum of the fair market value of such real property and the credit union may release this additional collateral whenever the mortgage loan meets all of the requirements of this act and could be made legally at the time of release without the requirement of additional collateral. Mortgage loans shall be amortized by approximately equal payments sufficient in amount to pay all interest and effect full repayment of principal within a period not in excess of twenty years. Mortgage loans on any one property shall not exceed twenty thousand dollars (\$20,000) or five per centum of the paid-in capital of the credit union, whichever is lesser. The aggregate total of mortgage loans shall not exceed twenty-five per centum of the paid-in capital of the credit union. The provisions of this clause shall not be construed to apply to any mortgage loan owed to the credit union upon the effective date of this act or to the readjustment or refinancing of any such mortgage loan, nor to a purchase money mortgage taken by the credit union upon real estate owned by it.

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

(5) To make loans to other credit unions or Federal credit unions located within this Commonwealth: Provided, That the term of such loans shall not exceed one year and the aggregate amount outstanding on all such

loans shall not exceed ten per centum of the paid-in capital of the lending credit union.

(6) To deposit its funds in State banks, bank and trust companies, savings banks, or national banking associations located in the Commonwealth of Pennsylvania.

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

(a) 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 are pledged;

(b) Bonds or other interest-bearing obligations of the Commonwealth of Pennsylvania or any county, city, borough, township, incorporated town or school district thereof or an authority which has been created as a body corporate and politic under any law of this Commonwealth;

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

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

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

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

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

(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 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.

(11) To purchase group insurance at reasonable rates on the lives of its members in an amount not to exceed the respective shares balances of such members.

Section 6. Membership.—Credit union organizations shall be limited to groups having a potential membership of one hundred or more adult persons and 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. 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 bylaws, as have been duly admitted members, have paid the entrance fee as provided in the bylaws, have subscribed for one or more shares, and have paid the initial installment thereon. Organizations composed principally of the same group as the credit union membership may be members. Employees of credit unions may be members of such credit unions. Persons who are members of the immediate family of a member of the credit union and who share the same domicile with a member may be elected to membership, but may not hold office.

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

Section 7. Reports and Examination.—Credit unions shall be under the supervision of the Department of Banking of the Commonwealth. The Department of Banking is hereby authorized and empowered to issue general rules and regulations and specific orders for the protection of members of credit unions for insuring the conduct of the business of credit unions on a safe and sound basis and for the effective enforcement of this act. Credit unions shall report to the Department of Banking as often as may be required by it and at least annually

on blanks supplied by the department for that purpose. Supplementary reports may be required by the department from time to time. Credit unions shall be examined as often as may be required by the department and at least annually, and the department may use such other methods of assuring itself of the condition of the credit unions as it shall deem advisable. The cost of all such examinations and inspections shall be paid by the credit union. A credit union shall also pay annually its proportionate share of the overhead expense of the Department of Banking determined by general rule or regulation of the department. For failure to file reports when due, unless excused for cause, a credit union shall pay to the Department of Banking five dollars (\$5) for each day of its delinquency.

If the department determines that a credit union (i) is violating any of the provisions of this act or any rule or regulation of the department issued under and within the authority of this act, (ii) is conducting its business in an unsafe manner, (iii) is in an unsafe and unsound condition to transact its business, or (iv) is insolvent, the department may serve written notice of its intention to take possession of the credit union. If the condition continues for a period of fifteen days after the giving of such notice, the department may, in its discretion, take possession of the business and property of the credit union and retain possession until such time as the condition predicated such action is remedied or until the affairs of the credit union are finally liquidated. The department may take similar action if any report is not filed within a period of fifteen days after it is due.

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

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

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

Section 10. Elections.—At the organization meeting and at all subsequent annual meetings, the credit union shall elect a board of directors of not less than five

members, a credit committee of not less than three members, and a supervisory committee of three 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 supervisory committee or of the credit 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 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 along with the articles of incorporation as provided heretofore in this act. Thereafter, bylaws shall be adopted, altered, amended or repealed by the majority of the shareholders at any annual or special meeting of the credit union, if notice thereof is given in accordance with the bylaws, at which a quorum of the members as provided in the bylaws, is present.

Section 12. Directors and Officers.—A. At the first meeting, the directors shall elect from their own number a president, one or more vice presidents, a treasurer, and a secretary. 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, to approve applications for membership under such conditions as the directors may prescribe; except that such membership officer 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:

- (1) To act on applications for membership;
- (2) To determine interest rates on loans;
- (3) To fix the amount of the surety bond which shall be required of all officers and employes handling money which amount shall be not less than the minimum schedule established by the Department of Banking;

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

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

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

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

(8) To have charge of investments, 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;

(9) To fix the amount of compensation of directors, officers, committee members, the loan officer and employes; and

(10) To determine whether and to what extent an interest refund to members of record at the close of business on December thirty-first shall be paid in proportion to the interest paid by each borrower during that year, except that no interest refund may be authorized unless a share dividend of not less than three per centum has been declared from the earnings of the last preceding year.

B. Duties of the officers shall be as determined by the bylaws. A member of the board of directors and members of the credit committee and the supervisory committee may be compensated if the credit union paid a dividend of not less than three per centum from the earnings of the last preceding year: Provided, That the Department of Banking may prohibit or regulate the payment of compensation of directors, committee members, and officers, exclusive of the treasurer, if it deems such compensation excessive or if, in its opinion, the financial condition of the credit union is not such as to warrant the payment of such compensation.

Section 13. Credit Committee.—The credit committee shall have the supervision of all loans to members other than mortgage loans and loans to other credit unions and Federal credit unions. 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 unanimously by the members of the credit committee present: Provided, That the credit committee may, with the approval of the board of directors, authorize one of its members acting individually to approve on behalf of the committee only loans which are fully secured by the pledge of shares. The credit committee shall meet as often as may be necessary after due notice to each member.

Section 14. Supervisory Committee.—The duties of the supervisory committee shall be as follows:

(a) To make an examination of the affairs of the credit union at least quarterly, including an audit of its books, and, in the event, the committee feels such action to be necessary, it shall call the members of the credit union together thereafter and submit its report to them.

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

(c) By unanimous vote, if it deems such action to be necessary to the proper conduct of the affairs of the credit union, to suspend any officer, director, or member of any committee other than the supervisory committee. In such event, the committee shall call the members of the credit union together, within ten days of the suspension, to act on such suspension. The members at the meeting called for this purpose may sustain such suspension or remove such person from office, or may reinstate such person.

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

(e) Whenever the supervisory committee fails to make the examinations, reports and audits, as provided in clauses (a) and (b) of this section, the board of directors shall remove from office the members of the supervisory committee and appoint a new committee to make such examinations and audits, or the board may employ the services of a public accountant to make such examinations and audits. The charges for the services of such public accountants shall be paid by the credit union. If the board of directors under such circumstances fails or refuses to act, the Department of Banking may remove the members of the supervisory committee and issue an order on the board of directors requiring such examinations and audits to be made by a public accountant at the expense of the credit union.

Section 15. Capital.—The capital of a credit union shall consist of the payments that have been made to it

by the members thereof on shares. The credit union shall have an automatic lien on the shares of a member for any sum due it from such member or for any loan endorsed by him. Shares of a credit union shall be transferable only to other members of the credit union.

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

B. Whenever any share accounts of a credit union shall be issued in the names of two or more persons, and such share accounts shall have been subscribed for under an arrangement with the credit union whereby the dividends thereon, or the repurchase value thereof, may be paid upon receipt, acquittance, or other action, as the case may be, of either or any of such persons, the credit union may pay such dividends or repurchase value upon such receipt, acquittance, or other action, as the case may be, of either or any of such persons, pursuant to the arrangement provided for in this section, notwithstanding the fact that one or more of the other persons may be dead and the credit union has notice thereof.

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

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

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

C. Whenever shares of a credit union shall be issued to any person describing himself in subscribing for such

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

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

Section 19. Rates and Fines.—Interest rates on loans made by a credit union to its members shall not exceed the rate of six per centum per annum, when discounted on loans which are repayable in equal installments, or the rate of twelve per centum per annum, when calculated on the unpaid principal balances. On a discounted loan which is prepaid by cash, renewal or otherwise, at any time prior to maturity, the credit union shall refund to the borrower the amount of unearned interest or discount, calculated at the original contract rate, on the total amount of full installments to become due, for the term of all subsequent full installment periods, provided the credit union shall not be required to refund any such unearned interest or discount when the amount due, computed as herein provided, is less than one dollar (\$1). For failure to pay an installment or installments on a discounted loan when due, a fine may be charged which shall in no case exceed one-fourth of one per centum for each week of delinquency on the amount in arrears, except that a minimum fine of five cents may be charged. When interest is calculated on the unpaid principal balances, it 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 and reasonable fees of attorneys and outside collectors or outside

collection agencies, provided the aggregate of such fees does not exceed twenty per centum of the outstanding loan balance. 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 the greater interest 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.

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 for the purpose of meeting the demand for loans to members or for the purpose of meeting demands for share withdrawals: Provided, That a credit union shall not borrow for the purpose of making investments authorized by section 5B clause (7) of this act.

Section 21. Loans.—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 director, officer, or member of any committee may only borrow from the credit union in which he holds office, an amount not exceeding his total shareholdings plus the total shares of any other member, free and unpledged, which are pledged to secure the loans of such director, officer or committee member. No director, officer, or member of any committee may endorse a loan granted by the credit union in which he holds office.

Section 22. Reserves.—All entrance fees collected and twenty per centum of the annual net earnings shall be set aside as a reserve fund. When the reserve fund equals ten per centum of the capital of the credit union or ten per centum of the total amount outstanding in loans to members, whichever is larger, the credit union may, with written approval of the Department of Banking, reduce the amount annually set aside from net earnings to ten per centum. When the reserve fund equals twenty per centum of the capital or twenty per centum of the amount outstanding in loans to members, whichever is larger, the credit union may, with written approval of the Department of Banking, discontinue increasing the reserve fund. The reserve fund thus established shall not be loaned out to members and shall be

deposited in a bank account or invested in such investments as are authorized by section 5B clause (7) of this act. The reserve fund shall belong to the credit union and shall not be distributed except in case of liquidation. The board of directors shall decide the loans which are to be charged off against the reserve fund: Provided, That the Department of Banking may at the time of examination of a credit union recommend for charge-off such loans which in its opinion are unsound, which loans shall be charged against the reserve fund within sixty days of the receipt of such recommendation from the Department of Banking. Any amount received from the repayment of a loan after it has been charged off against the reserve fund shall be credited back to said fund.

The directors are authorized, after the required reserve has been provided for, to make additional transfers from undivided profits 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 account.

Section 23. Dividends.—The directors of a credit union or the members on recommendation of the directors, whichever the bylaws provide, may declare an annual or semi-annual dividend from net earnings, which dividend shall be paid on all shares outstanding at the end of the fiscal year or semi-annual period thereof, whichever the bylaws provide. Shares which become fully paid-up during the year shall be entitled to a proportional part of such dividend calculated from the first day of the month following such payment in full. The equivalent of the par value of one share of stock shall be considered as a full paid share in the calculation of dividends. Within the discretion of the board of directors, payments on all shares which are made within the first five 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 24. Expulsion and Withdrawal.—A member may be expelled by a vote of two-thirds of the members present at a regular or a special meeting called to consider the matter, at which a quorum, as provided in the bylaws, is present, but only after a hearing after due notice to the member of the time and place of the meeting and of the reason or reasons for such proposed expulsion. Any member may withdraw from the credit union at any time, but notice of withdrawal may be required.

All amounts paid on shares of an expelled or withdrawing member, with any dividends accrued thereto to the date thereof, shall, as funds become available and after deducting all amounts due from the member to the credit union, be paid to him. The credit union may require sixty days' notice of intention to withdraw shares. Withdrawing or expelled members shall have no further rights in the credit union, but they shall not by such withdrawal or expulsion be released from any remaining liability to the credit union.

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

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

Section 27. Conversion.—A. A credit union may be converted into a Federal credit union under the laws of the United States by complying with the following requirements:

(1) The proposition for such conversion shall first be approved by a majority vote of the directors of the credit union who shall also set a date for the vote thereon by the members. The vote of the members shall be conducted at a meeting held on such date or by written ballot to be filed on or before such date. Written notice of the proposition and of the date set for the vote shall be given each member not more than thirty nor less than ten days prior to such date. Approval of the proposition shall be by the affirmative vote of a majority of the members, in person or in writing.

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

(3) Promptly after the vote is taken and in no event later than ninety days thereafter, if the proposition for conversion was approved, the credit union shall take such action as may be necessary under the applicable laws of the United States to make it a Federal credit union, and within ten days after receipt of the Federal credit union charter, it shall file a copy of the charter thus issued with the Department of State which shall furnish a copy thereof to the Department of Banking. Upon such filing with the Department of State, the credit union shall no longer be subject to any of the provisions

of this act. The successor Federal credit union shall be vested with all of the assets and shall continue responsible for all of the obligations of the credit union thus converted to the same extent as though the conversion had not taken place.

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

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

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

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

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

(ii) The exact location of the principal place of business of the credit union into which the Federal credit union plans to become converted;

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

(iv) All other statements required by this act to be set forth in original articles of incorporation in the case of the formation of a credit union in so far as such information is applicable to a Federal credit union proposing to become converted into a credit union.

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

(a) Whether the name of the proposed credit union conforms with the requirements of law for the name of a credit union, and 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;

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

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

(d) Whether the proposed credit union meets all of the requirements of this act and violates none of its prohibitions applicable to a credit union incorporated under this act;

(e) Whether the Federal credit union has complied with the requirements of the laws of the United States

as they relate to the conversion of a Federal credit union into a credit union.

(3) Within sixty days after receipt of the articles of conversion, the Department of Banking shall, upon the basis of the facts disclosed by its investigation, either approve or disapprove such articles. If the department approves the articles, it shall register its approval thereon and shall forward them to the Department of State for filing. Immediately upon receipt of the approved articles of conversion, the Department of State shall file the articles and shall issue to the credit union a certificate of conversion. The conversion shall become effective immediately upon such filing and the converted credit union shall have all the rights, privileges, immunities, and franchises of the Federal credit union, except that it shall not thereafter acquire authority to engage in any business or exercise any right which is forbidden to a credit union when originally incorporated under this act.

If the Department of Banking disapproves the articles of conversion, it shall return them to the Federal credit union desiring to become converted into a credit union stating in detail its reasons for so doing.

Section 28. Voluntary Dissolution.—A. Any credit union may elect to dissolve voluntarily and wind up its affairs in the manner hereinafter provided in this section. However, if it shall appear to the Department of Banking, upon an examination of the business, assets and affairs of the credit union, that its assets will probably be insufficient to pay in full its members and creditors, it shall take possession of the business and property of the credit union and retain possession until its affairs are finally liquidated.

B. The procedure for voluntary dissolution shall be as follows:

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

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

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

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

(a) The name of the credit union;

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

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

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

(e) The total number of members and the number of members voting for, and the number voting against, the proposed plan of voluntary dissolution;

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

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

(h) The signed statement, under oath or affirmation, of each of the proposed liquidating trustees that he is willing to serve as liquidating trustee, subject to the provisions of this act and to the terms of the proposed plan of voluntary dissolution, that he will, so far as the duty devolves upon him, diligently and honestly liquidate the affairs of the association, and will not knowingly violate or permit to be violated any of the provisions of this act or of the proposed plan of voluntary liquidation.

(i) The proposed plan of voluntary dissolution.

(5) Upon receipt of the certificate of election to dissolve, the Department of Banking shall conduct an examination or an investigation, or take such other action as it deems necessary, to determine whether to approve the plan of voluntary dissolution. If the department determines that the plan of voluntary dissolution does not prejudice the interests of members or creditors, it shall endorse its approval on the certificate of election to dissolve and send it to the Department of State for filing. If the Department of Banking disapproves the

plan, it shall return the certificate to the credit union stating in detail its reasons for doing so.

(6) Upon the filing by the Department of State of the certificate of election to dissolve, the Department of State shall furnish a copy thereof to the Department of Banking and the credit union. Upon such filing, the credit union shall cease to transact its business and the liquidating trustee or trustees shall commence the liquidation of the association. The liquidating trustee or trustees shall thereafter be authorized to carry out, in his own name or in their own names as liquidating trustee or trustees of the association, the powers granted to him or them by the plan of voluntary dissolution and may sue and be sued for the purpose of determining and enforcing the debts due the credit union and its obligations.

C. The liquidating trustee or trustees shall proceed in the manner provided by regulation of the Department of Banking to gather the assets, determine the liabilities, and distribute the assets of the credit union until its affairs are fully adjusted and wound up. The liquidating trustee or trustees shall notify all creditors and members appearing on the records of the association, by notice sent to or given at the address appearing for such creditor or member on the records or, if no address appears there, at the last known address of the creditor or member, of the amount which the records show to be due such member or creditor. The liquidating trustee or trustees shall also advertise, once a week for three consecutive weeks in a newspaper of general circulation and in a legal newspaper, if any, in the county in which the credit union is located, that the credit union is liquidating pursuant to a plan of voluntary liquidation. The advertisement shall set forth a date not less than ninety days after the date of the first published advertisement before which all creditors or members must present their claims, under oath or affirmation, to the trustee or trustees or be bound by the amount shown on the records of the credit union to be due them. Thereafter all claims shall be permanently barred. Any claim which is rejected or disallowed by the trustee or trustees shall be barred unless suit is instituted thereon within ninety days after mailing of the notice of rejection or disallowance.

D. The Department of Banking shall continue to supervise the credit union, in the hands of the liquidating trustee or trustees, until the liquidation is complete and the affairs of the credit union are fully settled.

Section 29. Adverse Claims.—Notice to a credit union of an adverse claim against shares standing in the name

of any member shall not be effectual to cause the credit union to recognize such adverse claim, unless the adverse claimant shall procure either an attachment or proper restraining order against the credit union from a court of competent jurisdiction in a cause of action therein instituted by him, wherein the member or his legal representative is made a party in the manner provided by law, or unless he shall execute to the credit union in form, and with sureties acceptable to it a bond indemnifying the credit union from any liability, loss, damages, costs and expenses arising from the recognition of such adverse claim.

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

Section 30. Restrictions.—It shall be unlawful hereafter for any person, association, copartnership, or corporation, except corporations organized in accordance with the provisions of this act, to assume and use the words "credit union" in their name or title, or to operate in the manner of a credit union. Any person, copartnership, or corporation violating the provisions of this section shall be guilty of a misdemeanor, and shall be punishable by a fine which shall not be less than ten dollars (\$10) nor more than one thousand dollars (\$1000), or by imprisonment for a period which shall not be less than three months nor more than two years, or both, in the discretion of the court. The officers of a corporation shall be liable to such punishment if the offense is committed by a corporation.

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

Section 32. Repeals.—The act of May 26, 1933 (P. L. 1076), 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," is repealed.

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

Section 33. Effective Date.—This act shall take effect immediately.

APPROVED—The 20th day of September, A. D. 1961.

DAVID L. LAWRENCE

No. 659

AN ACT

Creating and establishing a continuing career system for professional personnel in or assigned to the Department of Highways; establishing and vesting certain powers in the *Highway Professional Personnel Board, and making an appropriation.

Highway Professional Personnel Board.

Department of Highways' Career System Act.

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

Section 1. Short Title.—This act shall be known and cited as the "Department of Highways' Career System Act."

Section 2. Legislative Intent.—Greater efficiency and economy in the administration of the Department of Highways is the primary purpose of this act. The establishment of a continuing career system for professional personnel in, or assigned to, the Department of Highways, which will attract and retain qualified persons of character and ability, and their appointment and promotion on the basis of qualifications, merit and fitness are means to this end.

Section 3. Definitions.—In this act, unless the context otherwise clearly requires:

(1) "Board" means the Highway Professional Personnel Board.

(2) "Professional Personnel" means all persons holding positions now existing and hereafter established in the Department of Highways, which require specialized knowledge based on formalized training or equivalent experience conforming to recognized standards. "Professional Personnel" shall include only persons who have obtained a degree from an accredited college or university, or who have had experience equivalent thereto, who now or hereafter hold the following positions:

- (i) engineers,
- (ii) geologists,
- (iii) chemists,

* "Highday" in original.