

No. 343  
AN ACT

HB 1368

Amending the act of September 20, 1961 (P. L. 1548), 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 regulating loans and investments, the adoption, alteration, amendment and repeal of bylaws, the making of interest refunds, appointment of alternate credit committee members, the declaration and payment of dividends, and the merger and consolidation of credit unions, including Federal credit unions.

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

Section 1. Clauses (4) and (7) of subsection B of section 5, sections 10 and 11, clause (10) of subsection A of section 12, act of September 20, 1961 (P. L. 1548), known as the "Credit Union Act," are amended to read:

Section 5. Powers.—\* \* \*

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

\* \* \*

(4) To make loans to members secured by mortgages which are first liens on improved real property situated within this Commonwealth, or within one hundred miles of a boundary thereof, 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.

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(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, or those of any wholly owned United States Government corporation as so designated by section 101 of the Governmental Corporation Control Act of December 6, 1945 (c. 557, Title I, Sec. 101, 59 Stat. 597), its amendments and supplements;

(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."

(e) Capital stock, obligations or other securities of any service corporation organized under the laws of the Commonwealth of Pennsylvania, or under the laws of any other State and duly qualified to do business in the State of Pennsylvania, if the entire capital stock of such corporation is available for purchase only by credit unions, or-

ganized and existing under the laws of the Commonwealth of Pennsylvania and by Federal credit unions or association of credit unions. A complete description of the service corporation and its activities must be furnished to the Secretary of Banking and his approval obtained by the credit union before investing in such corporation. No credit union may make an investment in a service corporation if its then aggregate outstanding investments under this paragraph of this section would exceed one per centum of its assets.

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

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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 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 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] may be adopted, altered, amended or repealed either by the 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 or special meeting of the credit union, or of the board of directors, as the case may be, if notice thereof is given in accordance with the bylaws, at which a quorum [of the members] 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 shall be given to the shareholders not more than ten days after such action by the board of directors and such action by the board of directors shall be subject to the power of the shareholders, at their next annual or special meeting, held ten days or more after the mailing of a notice thereof, to change or repeal such bylaw or amendment.

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:

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(10) To determine whether [and], 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 June thirtieth and December thirty-first shall be paid in proportion to the interest paid by each borrower during [that year] the preceding six months, except that no interest refund may be authorized unless a share dividend at the rate of not less than three per centum has been declared from the earnings of the last preceding [year] dividend period.

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Section 2. Subsection A of section 12 of the act is amended by adding at the end thereof, a new clause to read:

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:

\* \* \*

(11) To appoint alternate credit committee members as needed to serve during incapacity or absence of the credit committee members.

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Section 3. Sections 23 and 27 of the act are 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 an annual, [or] semi-annual or quarterly dividend from net earnings, which dividend shall be paid on all shares outstanding at the end of the fiscal year, [or] semi-annual or quarterly period thereof, whichever the bylaws provide. Shares which have become fully paid-up during the [year] dividend period at the end of which the dividend is paid shall be entitled to a proportional part of such dividend calculated from the first day of the month following such payment of the shares 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] 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 27. Conversion, Merger and Consolidation.—

A. Conversion of Credit Union into Federal Credit Union.

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. Conversion of Federal Credit Union into Credit Union.

(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.

### C. Merger and Consolidation.

Any two or more credit unions, or one or more credit unions and one or more Federal credit unions, whose common bonds of association coincide may, in the manner hereinafter provided and pursuant to the laws of the United States, be merged into one of such credit unions or Federal credit unions, hereinafter designated as the surviving credit union or Federal credit union, or consolidated into a new

credit union to be formed under this act or a new Federal credit union to be formed under the laws of the United States.

(1) The board of directors of each of the credit unions or Federal credit unions which desire to merge or consolidate shall, by resolution adopted by at least a majority of all the members of each board, approve a joint plan of merger or consolidation setting forth the terms and conditions of the merger or consolidation and the mode of carrying the same into effect, the manner and basis of converting the shares of each credit union or Federal credit union into shares or other securities or obligations of the surviving or new credit union or Federal credit union, and such other details and provisions as are deemed necessary; and upon such approval shall, by resolution, direct that the plan be submitted to a vote of the members of such credit union or Federal credit union entitled to vote thereon at an annual or special meeting of the members to be held on not less than fifteen days' prior written notice thereof given to each member of record, which notice shall state the place, day, hour and purpose of the meeting and shall have, included therein or enclosed therewith, a copy or summary of the plan of merger or consolidation. The plan of merger or consolidation, to form a surviving or new credit union or Federal credit union, shall be ratified upon receiving the affirmative vote of at least a majority of the members voting thereon in each of the merging or consolidating credit unions and Federal credit unions.

(2) Upon the approval, pursuant to the provisions of this act, of the plan of merger or consolidation by the members of the credit unions and Federal credit unions desiring to merge or consolidate, articles of merger or consolidation shall be executed under the seal of each credit union and Federal credit union and verified by two duly authorized officers of each credit union and Federal credit union, and shall set forth:



(a) The name and exact location of the principal place of business of the surviving or new credit union or Federal credit union;

(b) The time and place of the meeting of the board of directors at which the plan of merger or consolidation was proposed, the time and place of the meeting of the members of each credit union and Federal credit union at which the plan of merger or consolidation was ratified, the kind and period of notice given to the members, and the total vote by which the plan was approved, ratified or adopted;

(c) In the case of a merger into a surviving credit union, any changes desired to be made in the articles of the surviving credit union, or, in the case of a consolidation into a new credit union, all of the statements required by this act to be set forth in the original articles in the case of the formation of a credit union;

(d) The number, names and addresses of the persons to be the first directors of the surviving or new credit union or Federal credit union;

(e) The plan of merger or consolidation.

(3) The articles of merger or consolidation shall be filed with the Department of Banking which, immediately upon receipt thereof, shall conduct such investigation as may be deemed necessary to ascertain from the best sources at its command:

(a) Whether, if the articles are articles of consolidation, the name of the proposed new credit union or Federal 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, if the merger or consolidation includes one or more Federal credit unions, all requirements of the laws of the United States pertaining thereto have been complied with;

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

(d) Whether the credit unions including the surviving or new credit union, have met all of the requirements of this act and have violated none of its prohibitions applicable to a credit union incorporated under this act.

(4) Within sixty days after receipt of the articles of merger or consolidation, 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 forthwith forward them to the Department of State for filing; and immediately upon receipt thereof, the Department of State shall file the articles and shall issue to the surviving or new credit union a certificate of merger or consolidation. The merger or consolidation shall become effective immediately upon such filing and the surviving or new credit union or Federal credit union shall be vested with all the assets and shall have all the rights, privileges, immunities and franchises and shall be responsible for all the obligations of the merging or consolidating credit unions and Federal credit unions; but otherwise, if such surviving or new credit union shall be a Federal credit union, upon such filing by the Department of State, the surviving or new Federal credit union shall no longer be subject to the provisions of this act. If the Department of Banking shall disapprove the articles, it shall return them to the credit union or Federal credit union from which they were received, stating the reasons for such disapproval.

APPROVED—The 14th day of December, A. D. 1967.

RAYMOND P. SHAFER