

No. 1980-203

AN ACT

SB 1427

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 reserves.

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

Section 1. Section 22, act of September 20, 1961 (P.L.1548, No.658), known as the "Credit Union Act," amended May 31, 1974 (P.L.312, No.100), is amended to read:

Section 22. Reserves.—(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, sums in accordance with the following schedule:*

(1) *A credit union in operation for more than four years and having assets of five hundred thousand dollars (\$500,000) or more shall set aside: (i) ten per centum of gross income until the regular reserve shall equal four per centum of the total of outstanding loans and risk assets, then (ii) five per centum of gross income until the regular reserve shall equal six per centum of the total of outstanding loans and risk assets.*

(2) *A credit union in operation less than four years or having assets of less than five hundred thousand dollars (\$500,000) shall set aside: (i) ten per centum of gross income until the regular reserve shall equal seven and one-half per centum of the total of the outstanding loans and risk assets, then (ii) five per centum of gross income until the regular reserve shall equal ten per centum of the total of outstanding loans and risk assets.*

(3) *Whenever the regular reserve falls below the stated per centum of the total of outstanding loans and risk assets, it shall be replenished by regular contributions in such amounts as may be needed to maintain the stated reserve goals.*

(4) *All entrance fees collected [and twenty per centum of the net earnings at the close of each dividend period before the declaration of any dividends,] shall be set aside [as a] in the regular reserve fund. [When the regular reserve fund equals seven per centum of the capital of the credit union or seven 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, discon-*

tinue the transfer of net earnings to such regular reserve except that such amounts not in excess of twenty per centum of net earnings as may be needed to maintain this seven per centum ratio shall be continued to be transferred.]

(5) The regular 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 regular 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 regular 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 regular 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 regular reserve fund shall be credited back to said fund.

[In addition to the regular reserve, special reserves to protect the interest of members shall be established when required (1) by regulation, or (2) in any special case, when found by the Department of Banking to be necessary for that purpose.]

(6) 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.

(b) The Department of Banking may decrease the reserve requirement set forth in subsection (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 2. This act shall take effect immediately.

APPROVED—The 9th day of December, A. D. 1980.

DICK THORNBURGH