

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. 1427 Session of
1980

INTRODUCED BY MESSINGER, LYNCH, LEWIS, FUMO AND ORLANDO,
MAY 27, 1980

REFERRED TO BUSINESS AND COMMERCE, MAY 27, 1980

AN ACT

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

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

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

14 Section 22. Reserves.--(a) At the end of each accounting
15 period the gross income shall be determined. From this amount,
16 there shall be set aside, as a regular reserve against losses on
17 loans and against such other losses as may be specified in
18 regulations prescribed under this act, sums in accordance with
19 the following schedule:

20 (1) A credit union in operation for more than four years and

1 having assets of five hundred thousand dollars (\$500,000) or
2 more shall set aside: (i) ten per centum of gross income until
3 the regular reserve shall equal four per centum of the total of
4 outstanding loans and risk assets, then (ii) five per centum of
5 gross income until the regular reserve shall equal six per
6 centum of the total of outstanding loans and risk assets.

7 (2) A credit union in operation less than four years or
8 having assets of less than five hundred thousand dollars
9 (\$500,000) shall set aside: (i) ten per centum of gross income
10 until the regular reserve shall equal seven and one-half per
11 centum of the total of the outstanding loans and risk assets,
12 then (ii) five per centum of gross income until the regular
13 reserve shall equal ten per centum of the total of outstanding
14 loans and risk assets.

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

19 (4) All entrance fees collected [and twenty per centum of
20 the net earnings at the close of each dividend period before the
21 declaration of any dividends,] shall be set aside [as a] in the
22 regular reserve fund. [When the regular reserve fund equals
23 seven per centum of the capital of the credit union or seven per
24 centum of the total amount outstanding in loans to members,
25 whichever is larger, the credit union may, with written approval
26 of the Department of Banking, discontinue the transfer of net
27 earnings to such regular reserve except that such amounts not in
28 excess of twenty per centum of net earnings as may be needed to
29 maintain this seven per centum ratio shall be continued to be
30 transferred.]

1 (5) The regular reserve fund thus established shall not be
2 loaned out to members and shall be deposited in a bank account
3 or invested in such investments as are authorized by section 5B
4 clause (7) of this act. The regular reserve fund shall belong to
5 the credit union and shall not be distributed except in case of
6 liquidation. The board of directors shall decide the loans which
7 are to be charged off against the regular reserve fund:

8 Provided, That the Department of Banking may at the time of
9 examination of a credit union recommend for charge-off such
10 loans which in its opinion are unsound, which loans shall be
11 charged against the regular reserve fund within sixty days of
12 the receipt of such recommendation from the Department of
13 Banking. Any amount received from the repayment of a loan after
14 it has been charged off against the regular reserve fund shall
15 be credited back to said fund.

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

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

27 (b) The Department of Banking may decrease the reserve
28 requirement set forth in subsection (a) when in its opinion such
29 a decrease is necessary or desirable. The department may also
30 require special reserves to protect the interests of members

- 1 either by regulation or for an individual credit union in any
- 2 special case.
- 3 Section 2. This act shall take effect immediately.