
THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 2563 Session of
1994

INTRODUCED BY MARKOSEK, MARCH 7, 1994

REFERRED TO COMMITTEE ON BUSINESS AND ECONOMIC DEVELOPMENT,
MARCH 7, 1994

AN ACT

1 Amending Title 17 (Credit Unions) of the Pennsylvania
2 Consolidated Statutes, further providing for definitions, for
3 bylaws, for powers, for regulation by Department of Banking,
4 for loans, for reserves, for loan procedures and for
5 conversion into Federal credit union.

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

8 Section 1. Section 103 of Title 17 of the Pennsylvania
9 Consolidated Statutes is amended by adding definitions to read:

10 § 103. Definitions.

11 The following words and phrases when used in this title shall
12 have the meanings given to them in this section unless the
13 context clearly indicates otherwise:

14 * * *

15 "Retained earnings." Undivided profits.

16 * * *

17 "Shares." All savings including regular shares, share
18 drafts, share certificates and other savings.

19 "Total equity capital." Regular reserve and undivided

1 earnings.

2 "Total equity capital and reserves." Regular reserve,
3 undivided earnings and all reserve accounts including the
4 allowance for loans loss reserve.

5 "Unimpaired capital." Total shares.

6 * * *

7 Section 2. Section 305 and 501(b)(7) and (10) of Title 17
8 are amended to read:

9 § 305. Bylaws.

10 (a) General rule.--The original bylaws of a credit union
11 shall be adopted by the incorporators of the credit union and
12 copies [thereof] shall be transmitted to the Department of
13 Banking along with the articles of incorporation as provided in
14 this chapter.

15 (b) Amendments.--Thereafter, bylaws may be amended or
16 repealed either by two-thirds of the members present and voting
17 or a majority of the board of directors at any regular, annual
18 or special meeting of the credit union[, or of the board of
19 directors, as the case may be, if notice thereof is given and a
20 quorum is established in accordance with the bylaws.] Bylaws may
21 alternatively be amended or repealed by members through mail
22 ballot if the bylaws provide for such a procedure and if two-
23 thirds of the responding member ballots favor the proposed
24 amendment or repeal.

25 (c) Restrictions on board of directors.--The board of
26 directors shall not amend any bylaws fixing their
27 qualifications, classification, term of office or compensation.

28 (d) Review by members.--Whenever the board of directors
29 amends the bylaws, written notice thereof shall be given to the
30 members prior to the next meeting of the members or within 90

1 days after such action by the board of directors, whichever is
2 sooner. Any amendment to the bylaws adopted by the board of
3 directors may be repealed or amended by the members at [a
4 meeting] an annual or special meeting or by a mail ballot vote
5 held at least ten days after the mailing of the notice thereof.

6 (e) Appeal procedure.--In the event that a bylaw amendment
7 approved by the board of directors is rejected or amended by the
8 members at an annual or special meeting, the board of directors
9 may resubmit the original amendment to a vote of the entire
10 membership through mail ballot procedures. The board of
11 directors may take such action if the resubmittal motion is
12 approved by a vote of at least a majority of the board of
13 directors.

14 § 501. Powers.

15 * * *

16 (b) Special powers.--Except as set forth in subsection (c),
17 a credit union shall have the following special powers:

18 * * *

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

20 (i) Securities, obligations or other instruments of
21 or fully guaranteed as to principal and interest by the
22 United States or any agency thereof or in any trust
23 established for investing directly or collectively in the
24 same.

25 (ii) Bonds or other interest-bearing obligations of
26 the Commonwealth or any political subdivision thereof or
27 an authority which has been created as a body corporate
28 and politic under any law of this Commonwealth.

29 (iii) Shares of any savings and loan association or
30 credit union, organized under the laws of this

1 Commonwealth, or of any Federal savings and loan
2 association or Federal credit union, to the extent to
3 which the withdrawal or repurchase value of such shares
4 is insured by any agency of the United States or any
5 other insurer approved by the Department of Banking.

6 (iv) Bonds and notes of the Pennsylvania Housing
7 Agency created by the act of December 3, 1959 (P.L.1688,
8 No.621), known as the Housing Finance Agency Law.

9 (v) Capital stock, obligations or other securities
10 of any service corporation organized under the laws of
11 this Commonwealth or under the laws of any other state
12 and duly qualified to do business in this Commonwealth,
13 if the entire capital stock of such corporation is
14 available for purchase only by credit unions, organized
15 and existing under the laws of this Commonwealth and by
16 Federal credit unions or association of credit unions. A
17 complete description of the service corporation and its
18 activities must be furnished to the department and its
19 approval obtained by the credit union before investing in
20 such corporation. No credit union may make an investment
21 in a service corporation if its then aggregate
22 outstanding investments under this subparagraph would
23 exceed 1% of its assets.

24 (vi) Obligations issued by banks for cooperatives,
25 Federal land banks, Federal intermediate credit banks or
26 any corporation designated in 31 U.S.C. § 9101(2) and (3)
27 (relating to definitions) as a "wholly owned government
28 corporation."

29 (vii) Obligations, participations or other
30 instruments of or issued by, or fully guaranteed as to

1 principal and interest by, the Federal National Mortgage
2 Association or the Government National Mortgage
3 Association.

4 (viii) Mortgages, obligations or other securities
5 which are or ever have been sold by the Federal Home Loan
6 Mortgage Corporation pursuant to 12 U.S.C. § 1454
7 (relating to purchase and sale of mortgages; residential
8 mortgages; conventional mortgages; terms and conditions
9 of sale or other disposition; authority to enter into,
10 perform, and carry out transactions) or 1455 (relating to
11 obligations and securities of the corporation).

12 (ix) Obligations or other instruments or securities
13 of the Student Loan Marketing Association.

14 (x) Participation certificates evidencing beneficial
15 interests in obligations, or in the right to receive
16 interest and principal collections therefrom, which
17 obligations have been subjected by one or more government
18 agencies to a trust or trusts for which any executive
19 department, agency or instrumentality of the United
20 States (or the head thereof) has been named to act as
21 trustee.

22 (xi) Bankers' acceptances issued by State banks,
23 bank and trust companies and savings banks, and national
24 banking associations the accounts of which are Federally
25 insured.

26 Before making the investments described in subparagraphs (vi)
27 through (xi), a credit union shall [obtain the prior written
28 approval of the department] be in compliance with investment
29 standards established by the department.

30 * * *

1 (10) To hold, purchase, mortgage, alter, improve and
2 sell such real property, and furniture and fixtures to be
3 used therein, as the purposes of the credit union require and
4 which the credit union occupies or intends to occupy for the
5 transaction of its business or partly so occupies and partly
6 leases to others, except that, without the prior written
7 approval of the department, the cost, at the time of
8 acquisition, of such real property and furniture and fixtures
9 therein shall not exceed [in the aggregate 50% of the
10 unimpaired surplus and undivided earnings of the credit union
11 or 5% of its unimpaired capital up to \$1,000,000, plus 3% of
12 its capital over \$1,000,000, whichever is greater] 5% of
13 shares and retained earnings.

14 * * *

15 Section 3. Section 503(a) of Title 17 is amended and the
16 section is amended by adding a subsection to read:

17 § 503. Regulation by Department of Banking.

18 (a) General rule.--Credit unions shall be under the
19 supervision of the Department of Banking. The department is
20 hereby authorized and empowered to issue general rules and
21 regulations and specific orders for the protection of members of
22 credit unions, for insuring the conduct of the business of
23 credit unions on a safe and sound basis and for the effective
24 enforcement of this title. Credit unions shall report to the
25 department as often as may be required by it and at least
26 annually on blanks supplied by the department for that purpose.
27 Supplementary reports may be required by the department from
28 time to time. Credit unions shall be examined as often as may be
29 required by the department and at least annually, and the
30 department may use such other methods of assuring itself of the

1 condition of the credit unions as it shall deem advisable. The
2 cost of all such examinations and inspections shall be paid by
3 the credit union. A credit union shall also pay annually its
4 proportionate share of the overhead expense of the department
5 determined by regulation of the department. For failure to file
6 reports when due, unless excused for cause, a credit union shall
7 pay to the department [\$5] \$100 for each day of its delinquency.

8 * * *

9 (e) Report.--A credit union shall furnish to the department
10 copies of the report of financial condition, known as the "call
11 report," that the credit union is required to provide to the
12 National Credit Union Administration.

13 Section 4. Section 512 of Title 17 is amended to read:

14 § 512. Loans.

15 Except as otherwise provided in this title, a credit union
16 may make loans to its members only. Loans must be made subject
17 to the conditions contained in the bylaws. A borrower may repay
18 his loan, in whole or in part, any day the office of the credit
19 union is open for business. No director, officer or member of
20 any committee may obtain or guarantee a loan from the credit
21 union in which he holds office on terms, rates or conditions
22 more favorable than those granted to any other member or endorse
23 a loan granted by the credit union in which he holds office.

24 Section 5. Section 513(a) of Title 17 is amended and the
25 section is amended by adding subsections to read:

26 § 513. Reserves.

27 (a) General rule.--At the end of each accounting period, the
28 gross income shall be determined. From this amount, there shall
29 be set aside[, as a regular reserve against losses on loans and
30 against such other losses as may be specified by the Department

1 of Banking, sums in accordance with the following schedule] a
2 sum in accordance with the following schedule as a regular
3 reserve:

4 (1) A credit union in operation for more than four years
5 and having assets of \$500,000 or more shall set aside:

6 (i) 10% of gross income until the regular reserve
7 shall equal 4% of the total of outstanding loans and risk
8 assets; then

9 (ii) 5% of gross income until the regular reserve
10 shall equal 6% of the total of outstanding loans and risk
11 assets.

12 (2) A credit union in operation less than four years or
13 having assets of less than \$500,000 shall set aside:

14 (i) 10% of gross income until the regular reserve
15 shall equal 7.5% of the total of the outstanding loans
16 and risk assets; then

17 (ii) 5% of gross income until the regular reserve
18 shall equal 10% of the total of outstanding loans and
19 risk assets.

20 (3) Whenever the regular reserve falls below the stated
21 percentage of the total of outstanding loans and risk assets,
22 it shall be replenished by regular contributions in such
23 amounts as may be needed to maintain the stated reserve
24 goals.

25 (4) All entrance fees collected shall be set aside in
26 the regular reserve fund.

27 (5) The regular reserve fund thus established shall not
28 be loaned out to members and shall be deposited as authorized
29 in section 501(b)(6) (relating to powers) or invested in such
30 investments as are authorized by section 501(b)(7). The

1 regular reserve fund shall belong to the credit union and
2 shall not be distributed except in case of liquidation. [The
3 board of directors shall decide the loans which are to be
4 charged off against the regular reserve fund, except that the
5 Department of Banking may, at the time of examination of a
6 credit union, recommend for charge-off such loans which in
7 its opinion are unsound, which loans shall be charged against
8 the regular reserve fund within 60 days of the receipt of
9 such recommendation from the department. Any amount received
10 from the repayment of a loan after it has been charged off
11 against the regular reserve fund shall be credited back to
12 the fund.]

13 (6) The directors are authorized, after the required
14 reserve has been provided for, to make additional transfers
15 from undivided earnings to a contingent reserve for other
16 anticipated losses and expenses, but the members at the
17 annual meeting may retransfer any part or all of such
18 contingent reserve to the undivided earnings account.

19 * * *

20 (c) Allowance for loan loss.--Each credit union, in addition
21 to maintaining a regular reserve, shall establish an allowance
22 for loan loss. The allowance for loan loss reserve shall be
23 funded in the manner and used for the purposes as designated
24 from time to time by the Department of Banking. The board of
25 directors shall decide the loans which are to be charged off
26 against the allowance for loan losses, except that the
27 Department of Banking may at the time of examination of a credit
28 union recommend for charge-off such loans which in its opinion
29 are unsound, which loans shall be charged against the allowance
30 for loan loss account within 60 days of the receipt of such

1 recommendation from the department. Any amount received from the
2 repayment of a loan after it has been charged off against the
3 allowance for loan loss account shall be credited back to the
4 account.

5 (d) Allowance for investment loans.--Each credit union, in
6 addition, to maintaining a regular reserve, shall establish an
7 Allowance for Investment Loss in compliance with Federal or
8 State laws or regulations as well as generally accepted
9 accounting principles. The allowance for investment loss reserve
10 shall be funded in conformity with such laws, regulations or
11 generally accepted accounting principles.

12 Section 6. Sections 713(b) and (h) and 1101(a)(1) of Title
13 17 are amended to read:

14 § 713. Loan procedures.

15 * * *

16 (b) Conflict of interest.--No credit committee member, loan
17 officer or director of a credit union shall vote on the granting
18 of any loan in which such official [or] has guaranteed the
19 repayment of the loan or where a member of his or her immediate
20 family has a beneficial interest.

21 * * *

22 (h) Restrictions.--No individual shall have authority to
23 disburse funds of the credit union for any loan which has been
24 approved by such individual in his or her capacity as loan
25 officer. [Not more than one member of the credit committee may
26 be appointed as loan officer.]

27 § 1101. Conversion into Federal credit union.

28 (a) General rule.--A credit union may be converted into a
29 Federal credit union by complying with the following
30 requirements:

1 (1) The proposition for such conversion shall first be
2 approved by a majority vote of the directors of the credit
3 union who shall also set a date for the vote thereon by the
4 members. The vote of the members shall be conducted at a
5 meeting held on such date or by written ballot to be filed on
6 or before such date. Written notice of the proposition and of
7 the date set for the vote shall be given each member not more
8 than 30 nor less than ten days prior to such date. Approval
9 of the proposition shall be by the affirmative vote of a
10 majority of the members voting, in person or in writing,
11 either at a meeting of the credit union or through a mail
12 ballot vote. In order for a vote to be considered valid,
13 there must be a quorum established. In the case of a meeting
14 of the credit union, a quorum shall be established by the
15 presence of at least 10% of the credit union's membership. In
16 the case of a mail ballot vote, a quorum shall be established
17 by the written response of at least 10% of the credit union's
18 membership.

19 * * *

20 Section 7. This act shall take effect in 60 days.