

A Bill for an Act Relating to State Chartered Credit Unions.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. The Hawaii Revised Statutes is amended by adding a new chapter to be appropriately designated and to read as follows:

**“CHAPTER
STATE CHARTERED CREDIT UNIONS**

Sec. -1 Short title. This chapter may be cited as the Hawaii Credit Union Act.

Sec. -2 Definitions. As used in this chapter:
“Commissioner” means the director of the department of regulatory agencies.

“Central credit union” means a credit union whose membership primarily consists of other credit unions organized under Hawaii or federal law; officials, committee members, and employees of any credit union organized under Hawaii or federal law.

“Credit union” means a cooperative, nonprofit corporation, incorporated under this chapter to encourage thrift among its members, create a source of credit at a fair and reasonable rate of interest and provide an opportunity for its members to improve their economic and social conditions.

“Deposit account” means an account limited to members and treated as a form of savings. These accounts are subject to conditions established by the board of directors. Deposit accounts differ from savings accounts in that a pre-declared dividend may be established, and that they have prior claim to savings accounts.

“Passbook” means any book, statement of account, or other record approved by the commissioner for use by credit unions.

“Regular reserves” means the reserve set aside to cover losses.

“Risk assets” means all assets except the following: cash on hand; deposits or shares in federally or state-insured banks, savings and loan associations, and credit unions; assets which are insured by, fully guaranteed as to principal and interest by, or due from the United States government, its agencies, the Federal National Mortgage Association, or the Government National Mortgage Association; loans to other credit unions; loans to students insured under the provision of Title IV, Part B of the Higher Education Act of 1965 (20 U.S.C. 1071 et seq.) or similar state insurance programs; loans insured under Title I of the National Housing Act (12 U.S.C. 1703) by the Federal Housing Administration; shares or deposits in central credit unions; common trust investments which deal in investments authorized by the Federal Credit Union Act; prepared expenses; accrued interest on nonrisk investments; furniture and equipment; and land and buildings owned by the credit union.

“Savings” means the same as share as defined in section -16.

Sec. -3 Credit union review board; powers and duties. (a) There shall be a credit union review board consisting of five members appointed pursuant to section 26-34 by the governor who shall also designate the chairman of the board. There shall be at least one member from each of the counties who shall serve for four years, except that the initial terms of the first members, other than the chairman, taking office shall expire as follows: one on December 31 after the year that this chapter becomes law and one at the end of each succeeding calendar year thereafter. The governor shall appoint persons of tested credit union experience and who are members of credit unions operating under this chapter. However, until such time that there are credit unions operating under this chapter, the governor may make temporary appointments to the board of persons with tested credit unions experience from any credit union operating in the State. The terms and number of these temporary appointees will terminate as the number of credit unions become operative under this chapter.

(b) The powers and duties of the board shall include, but not be limited to:

- (1) Advising the commissioner, supervisor of credit unions, and others in improving the condition and service of credit unions;
- (2) Reviewing the acts and decisions of the commissioner in relation to credit unions;
- (3) Serving as an appeal board for credit unions and performing other review functions in relation to credit unions as are provided by law;
- (4) Issuing subpoenas, taking testimony, and administering oaths to witnesses;
- (5) Making available the official actions of the commissioner for inspection of the board;

- (6) Making necessary recommendations as to procedural rules and regulations pursuant to chapter 91;
- (7) Adopting rules to safeguard the interest of depositors and shareholders; and
- (8) Keeping detailed minutes of each board meeting.

(c) Each member of the board and all employees of the board shall hold in confidence all information received in connection with his official duties and shall not release such information unless authorized by law. Any member or employee of the board violating this subsection shall be guilty of a misdemeanor.

(d) Three members of the board present shall constitute a quorum and a majority vote of those present shall prevail. No member of the board shall be qualified to act in any matter involving a credit union of which he is an officer, director, committeeman, member, employee, or to which he is indebted. The members of the board shall serve without compensation but shall be reimbursed for any expenses incurred in the performance of their duties.

Sec. -4 Commissioner of credit unions; powers and duties. (a) The director of the department of regulatory agencies shall be the commissioner.

(b) The powers and duties of the commissioner shall include, but not be limited to:

- (1) Enforcing the provisions of this chapter and other laws relating to credit unions;
- (2) Conferring with the credit union review board on matters affecting credit unions incorporated under this chapter;
- (3) Appointing a deputy pursuant to chapters 76 and 77 who shall receive a salary of not more than ninety per cent of the commissioner's salary, and shall possess all powers and perform all duties attached to the office of the commissioner of credit unions during a vacancy or during the absence or inability of the commissioner; and
- (4) Employing examiners and clerks pursuant to chapters 76 and 77 to assist him and his deputy in the discharge of the duties of the office.

The commissioner, his deputy, and the employees of the office shall be subject to the same requirements and penalties of the members of the board as provided in section -3(c).

Sec. -5 Acts, orders, or determinations of the commissioner; aggrieved persons. (a) Any interested persons aggrieved by any act, order, or determination of the commissioner may apply for review thereof by filing a petition with the secretary of the board within thirty days after the act, order, or determination to be reviewed. The petition shall state the nature of the petitioner's interest; facts showing that the petitioner is aggrieved and directly affected by the act, order, or determination to be reviewed and the ground upon which the petitioner claims that the act, order or determination should be modified or reversed. The issues raised by the petition for review shall be considered by the board upon giving at least ten days' written notice of the time and place when the matter will be heard to the commissioner and to the person applying for review or his attorney and to any other person who participated in the proceedings before the commissioner or his attorney. Notice

of hearing may be given by registered mail, return receipt requested, and the return receipt signed by the addressee or his agent shall be presumptive evidence that such notice was received by the addressee on the day stated on the receipt. Any other interested party shall have the right to appear in any proceeding before the board.

(b) The board shall base its determination upon the record made by the commissioner and may also receive additional evidence to supplement such record, if it finds it necessary. The board shall affirm, modify, or reverse the act, order, or determination under review. The burden of overcoming the act, order, or determination of the commissioner under review shall be on the person seeking the review. Any findings of fact made by the commissioner shall be sustained if supported by substantial evidence in the record made by him or in the record supplemented by evidence taken by the board. The board shall have the powers granted by this chapter and as provided by law. Any person causing a witness to be subpoenaed shall advance and pay the fees and mileage of such witness which shall be the same as in circuit court. The fees and mileage of witnesses which shall be the same called at the instance of the commissioner shall be paid by the State in the same manner that other expenses are audited and paid upon presentation of properly verified vouchers approved by at least one member of the board and charged to the appropriation of the office of the commissioner.

(c) Any final order or determination of the board shall be subject to review in the same manner provided in this chapter and the laws of this State.

Sec. -6 Credit union division; establishment. A separate division shall be established within the department of regulatory agencies to carry out the purposes of this chapter.

Sec. -7 Credit union organization. Any seven or more natural persons who desire to form a credit union under this chapter may subscribe to the commissioner before some officer competent to administer oaths an organization certificate in duplicate which shall specifically state:

- (1) The name and location of the proposed credit union;
- (2) The territory in which it will operate;
- (3) The names and addresses of the subscribers to the certificate and the number of shares subscribed by each;
- (4) The par value of each share which shall be \$5 each;
- (5) The proposed field of membership, specified in detail;
- (6) The term of the existence of the corporation which may be perpetual; and
- (7) The fact that the certificate is made to enable such persons to avail themselves to the advantages of this chapter.

The organization certificate may also contain any provisions approved by the commissioner for the management of the business of the credit union and for the conduct of its affairs and relative to the powers of its directors, officers, committeemen, or shareholders.

Sec. -8 Approval of organization certificate. The organization certificate shall be presented to the commissioner for approval. Before any organi-

zation certificate is approved, an investigation shall be made for the purpose of determining:

- (1) Whether the organization certificate conforms to the provisions of this chapter;
- (2) The general character and fitness of the subscribers thereto; and
- (3) The economic advisability of establishing the proposed credit union.

Upon approval of the organization certificate by the commissioner, it shall be the charter of the corporation, and one of the originals thereof shall be delivered to the corporation after the payment of the fee required therefor. Upon the approval the credit union shall be a body corporate and as such, subject to the limitations herein contained, shall be vested with all the powers and charged with all of the liabilities conferred and imposed by this chapter upon corporations organized hereunder.

Sec. -9 Fees other than examination fee. For the purpose of paying the costs incident to the ascertainment of whether an organization certificate should be approved, the subscribers to any such certificate shall pay, at the time of filing their organization certificate, the amount prescribed by the commissioner, which shall not exceed \$20 in any case; and on the approval of any organization certificate they shall also pay a fee of \$5. Not later than January 31 of each calendar year, each credit union shall pay to the credit union division of the department of regulatory agencies for the preceding calendar year, a supervision fee in accordance with a graduated scale prescribed by this section on the basis of assets as of December 31 of such preceding year, but the fee shall in no event be less than \$10, as follows:

Total Assets	Maximum Fee
\$500,000 or less	25 cents per \$1,000
Over \$500,000 and not over \$1,000,000 ...	\$125 plus 20 cents per \$1,000 in excess of \$500,000
Over \$1,000,000 and not over \$2,000,000 ..	\$225 plus 15 cents per \$1,000 in excess of \$1,000,000
Over \$2,000,000 and not over \$5,000,000 ..	\$275 plus 10 cents per \$1,000 in excess of \$2,000,000
Over \$5,000,000	\$675 plus 5 cents per \$1,000 in excess of \$5,000,000

No annual supervision fee shall be payable by the credit union with respect to the year in which its charter is issued except in cases of conversion from a credit union chartered under the provisions of the Federal Credit Union Act to a credit union chartered under this chapter, or in which final distribution is made in its liquidation or the charter is otherwise canceled.

Failure of any credit union to pay any amount as herein provided shall be grounds for the revocation of the charter of the credit union failing to make the payment.

Fees collected under this section shall be deposited to the credit of a general fund and be available for the purposes of administering this chapter.

Sec. -10 Use of name exclusive. No person, partnership, association, or corporation, except corporations formed under this chapter and the Federal

Credit Union Act, shall transact within this State the business authorized by this chapter, nor any business whatever under any name or title which includes the two words "credit" and "union," except that any organization whose membership is made up of credit unions may use the name, with the consent of the commissioner. Violation of this section may be enjoined at the instance of the commissioner or any credit union, and shall in addition be a misdemeanor.

Sec. -11 Bylaws. In order to simplify the organization of credit unions, the commissioner shall from time to time cause to be prepared a form organization certificate and a form of bylaws, consistent with this chapter, which shall be used by credit union incorporators and credit unions, and shall be supplied to them on request. At the time of presenting the organization certificate the incorporators shall also submit proposed bylaws to the commissioner for his approval.

The bylaws shall prescribe the following:

- (1) The conditions of residence or occupation which qualify persons for membership; provided, that:
 - (A) Credit unions shall be open to groups having common or related bonds of occupation or association, or to residents within a well-defined neighborhood, community, or rural district, or to employees of related or vicinal industries, or to members of bona fide fraternal, religious, cooperative, labor, rural, educational, or similar organization and employees of the credit union. Members of the immediate family of all qualified persons are eligible for membership. In this section "members of the immediate family" include the wife, husband, parents, and children of a member whether living together in the same household or not and any other relative of the member or spouse of a member living together in the same household as the member. Minimum requirements for the establishment of credit unions will be according to the rules and regulations promulgated by the commissioner.
 - (B) Organizations and associations composed of individuals, the majority of whom are eligible for membership, may be admitted to membership in the same manner and under the same conditions as individuals.
 - (C) An individual who ceases to qualify under subparagraph (A) may retain his full membership in the credit union at the discretion of the board of directors.
- (2) The par value of each share of capital stock which shall be \$5.
- (3) The conditions on which accounts may be paid in, transferred, and withdrawn.
- (4) The method of receipting for money paid on accounts.
- (5) The number of directors and the length of their terms, a credit committee or loan officer.
- (6) The duties of the several officers.
- (7) The time of the annual meeting of members, which shall be held within ninety days after the end of the calendar year.

- (8) The manner in which members and directors shall be notified of meetings.
- (9) The number of members which shall constitute a quorum at meetings.
- (10) Such other regulations as may seem necessary.

A credit union may have deposit accounts such as Christmas, vacation, education, deferred income, pension, and similar types. Credit unions may conduct elections by mail ballot which shall be signed by the member and valid only for the meeting designated.

Sec. -12 Members, fiscal year, meetings, powers. (a) The incorporators shall call the first meeting of the eligible membership with the primary purpose of electing a board of directors. No person may vote at a meeting unless he has been a member for at least three months, except during the first twelve months of the existence of the corporation. Members shall not have more than one vote. Fifteen members shall constitute a quorum.

(b) Special meetings may be held by order of the directors or the secretary shall call a special meeting upon written request of one-third of the members. Notice of the meeting shall state the purpose of the meeting.

(c) At any meeting the members may:

- (1) Decide, by a majority of members present, any question of interest to the corporation;
- (2) Reverse, by a two-thirds vote of the members present, if the notice of the meeting specified the questions to be considered and upon appeal of fifteen members, decisions of the credit committee, loan officers, or board of directors;
- (3) Remove, by a three-fourths vote of the members present, any officer or member of the credit committee, loan officer, or member of the board of directors, fill the vacancy caused by such removal and amend the bylaws if the notice of meeting specified the questions to be considered.

(d) The fiscal year of every credit union shall end at the close of business on December 31 and the credit union shall transfer funds to the regular reserve account at the end of each accounting period as required by section -23.

(e) Multiple accounts may be issued in joint tenancy with any person designated by the credit union member. The person first named or any person named in any such joint account shall be a member of the credit union. A nonmember named in the joint account shall not acquire the right to vote, obtain loans, or hold office because of his inclusion in the joint account.

(f) The credit union shall have succession in its corporate name and during its existence and shall have power to:

- (1) Make contracts;
- (2) Sue and be sued;
- (3) Adopt and use a common seal and alter the same at pleasure;
- (4) Purchase, hold, and dispose of property necessary or incidental to its operations;

- (5) Make unsecured and secured loans to its members according to section -15;
- (6) Receive from its members or other credit unions payments on shares, share certificates, or share deposits;
- (7) Invest its funds according to section -22;
- (8) Make deposits in national banks and in state banks, and mutual savings banks operating as provided by law;
- (9) Borrow, in accordance with such rules and regulations as may be prescribed by the commissioner, from any source, in an aggregate amount not exceeding fifty per cent of its paid-in and unimpaired capital and surplus; provided, that any credit union may discount with or sell to any credit union or other financial institutions obligations up to the amount of its paid-in and unimpaired capital. Borrowing of funds under this paragraph is limited to a period of twelve months, except that such period may be extended when approved by the commissioner;
- (10) Levy late charges, in accordance with the bylaws, for failure of members to meet promptly their obligations to the credit union;
- (11) Impress and enforce a lien upon the shares and dividends of any member, to the extent of any loan made to him or any dues or charges payable by him;
- (12) In accordance with rules and regulations prescribed by the commissioner, sell to members negotiable checks (including travelers checks) and money orders, and cash checks and money orders for members, for a fee which does not exceed the direct and indirect costs incident to providing such service;
- (13) In accordance with rules and regulations prescribed by the commissioner, purchase from any liquidating credit union notes made by individual members of the liquidating credit union at such prices as may be agreed upon by the board of directors of the liquidating credit union and the board of directors of the purchasing credit union, but no purchase may be made under authority of this paragraph if, upon the making of that purchase, the aggregate of the unpaid balances of notes purchased under authority of this paragraph would exceed five per cent of the unimpaired capital and surplus of the credit union;
- (14) Exercise such incidental powers as shall be necessary or requisite to enable it to carry out effectively the business for which it is incorporated.

Sec. -13 Directors, credit committee, audit committee and loan officers. (a) The members shall elect at the first meeting a board of directors consisting of an odd number of directors of not less than five and not more than fifteen directors. The board of directors shall appoint a credit committee of not less than three nor more than five and an audit committee of not less than three nor more than five and such other officers as it determines are necessary. Only one director may be appointed to the credit committee. Only one director may be appointed to the audit committee. The directors, officers, and com-

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mittee members of the credit union shall be sworn and shall hold their offices until others are elected or appointed, and qualified, in their stead. A record of every oath shall be filed and preserved with the records of the credit union. A majority of the board shall constitute a quorum.

(b) The board of directors shall meet at least once a month and shall have the general direction and control of the affairs of the corporation. Minutes of all meetings shall be kept.

(c) The board shall:

- (1) Act upon applications for membership;
- (2) Purchase a blanket fidelity bond, as prescribed by the commissioner for the credit union according to their asset categories, covering the officers, directors, committeemen, employees, attorneys-at-law, and other agents appointed by the board of directors, with protection against loss caused by dishonesty, burglary, robbery, larceny, theft, forgery, or alteration of instruments, misplacement or mysterious disappearance, and for faithful performance of duty. The commissioner shall prescribe in his rules and regulations the amount of minimum bond coverage required for all credit unions according to their asset categories;
- (3) Fill vacancies in the board until successors elected at the next annual meeting have qualified;
- (4) Have charge of investments other than loans to members;
- (5) Determine from time to time the maximum number of shares that may be held by an individual member;
- (6) Subject to the limitations of this chapter, determine the interest rates on loans and the maximum amount which may be loaned with or without security to any member;
- (7) Subject to such regulations as may be issued by the commissioner, authorize an interest refund to members of record at the close of business on the last day of any dividend period in proportion to the interest paid by them during the dividend period;
- (8) Provide for compensation of necessary clerical and auditing assistance requested by the audit committee, and of loan officers appointed by the credit committee;
- (9) Declare dividends as provided by section -24;
- (10) Authorize the employment and compensation of such person or persons as may be necessary to carry on the business of the credit union;
- (11) Designate a depository or depositories for the funds of the credit union;
- (12) Suspend from his official position any officer or director who fails to attend regular meetings for three consecutive meetings without cause, or who otherwise fails to perform any of the duties required of him as an official;
- (13) Appoint any committees deemed necessary;
- (14) Perform or authorize any action consistent with this chapter not specifically reserved by this chapter for the members, and perform such other duties as the members may from time to time require; and

- (15) Submit reports of financial condition to the commissioner annually as of December 31 and other reports as required by the commissioner. These reports shall be submitted to the commissioner by January 31 after the close of the preceding calendar year.

(d) The board of directors may appoint an executive committee of not less than three directors and delegate its authority to the committee to act for the board, within limitations established by the board.

(e) The credit committee shall hold such meetings as the business of the credit union may require and not less frequently than once a month to consider applications for loans. Reasonable notice of such meetings shall be given to all members of the committee. A majority of the members shall constitute a quorum. No loans shall be made unless it is approved by a majority of the committee members present at the meeting and unless a quorum of the committee was present at the meeting at which the application is considered; except that the credit committee may appoint one or more loan officers, and delegate to him or them the power to approve loans. Each loan officer shall furnish to the credit committee a record of each loan approved or not approved by him within seven days of the date of the filing of the application therefor. All loans not approved by a loan officer shall be acted upon by the credit committee no later than thirty days from the date the application is forwarded to the credit committee. No individual shall have authority to disburse funds for the credit union for any loan which has been approved by him in his capacity as a loan officer. Not more than one member of the credit committee may be appointed as a loan officer. Applications for loans shall be made on forms prepared by such committee, which shall set forth the purpose for which the loan is desired, the security, if any, and such other data as may be required. No loan which is not adequately secured may be made to any member, if, upon the making of that loan, the member would be indebted to the credit union upon loans made to him in an aggregate amount which would exceed the amount allowed in section -15.

For the purposes of this section any assignment of shares or the endorsement of a note shall be deemed security and, subject to such regulations as the commissioner may prescribe, except insurance obtained under Title I of the National Housing Act shall be deemed adequate security.

(f) The audit committee shall make or cause to be made a comprehensive annual audit and shall submit a report of that audit to the board of directors and a summary of the report to the members at the next annual meeting of the credit union. The committee shall make or cause to be made supplementary audits as it deems necessary or as may be ordered by the commissioner, and submit a report of the supplementary audits to the board of directors. The committee may by a unanimous vote suspend any officer of the credit union or any member of the credit committee or the board of directors, until the next membership meeting, which shall be held not less than seven nor more than fourteen days after any suspension, at which meeting any such suspension shall be acted upon by the members. The committee may call by a majority vote a special meeting of the members to consider any violation of this chapter, the charter, or the bylaws, or any practice of the credit union

deemed by the audit committee to be unsafe or unauthorized. Any member of the audit committee may be suspended by a majority vote of the board of directors. The members shall decide, at a meeting held not less than seven nor more than fourteen days after any such suspension, whether the suspended committee member shall be removed from or restored to the audit committee. The books and accounts of the members shall be verified with the records of the treasurer from time to time, and not less frequently than once every two years.

Sec. -14 Officers and their duties. (a) At their first meeting, within thirty days following the annual meeting of the members, the board of directors shall elect from their own number a chief executive officer who may be designated as chairman of the board, a vice-chairman, a treasurer and a secretary, of whom the last two may be the same individual. The board of directors may employ an officer in charge of operations whose title shall be either the president or general manager; or in lieu thereof, the board of directors may designate the treasurer or an assistant treasurer to be in active charge of the affairs of the credit union.

(b) Within ten days after election to any position, each person so elected or appointed shall execute an oath of office by which he agrees to accept and to diligently and faithfully carry out the duties and responsibilities of the position to which he has been elected and not to negligently or wilfully violate, or permit to be violated, any provisions of this chapter, rules and regulations issued by the commissioner, or the charter or bylaws of such credit union.

(c) The chairman of the board and secretary shall execute a certificate of election which shall set forth the names and addresses of the officers, directors, and committee members elected or appointed.

The oath of office and the certificate of election shall be executed on forms prepared by the commissioner, and one copy of each shall be filed with the commissioner within ten days after such election or appointment. The terms of the chairman of the board or president, vice-chairman or vice-president, treasurer, and secretary shall be for one year, or until their successors are chosen and have been fully qualified. No director of the credit union, or committee member, other than the treasurer, may be compensated, directly or indirectly, for his services as such. This shall not be construed to prevent reimbursement of directors and committee members for actual expenses they may incur in carrying out the duties of their office.

Sec. -15 Loans to members. (a) A credit union may loan to members for provident or productive purposes and upon such security approved by the board of directors, acceptable to the credit committee and not prohibited by this chapter. A credit union shall not grant unsecured loans with maturities exceeding five years, nor shall it grant secured loans, except as expressly herein otherwise provided, with maturities exceeding ten years; provided, that these limitations shall not apply to loans made under the National Higher Education Act and guaranteed in whole or in part by the United States government or any of its agencies, or any agency of the State. No loan shall bear an interest rate to exceed one per cent per month on the unpaid monthly balance. No credit union shall charge the borrower anything of value in connection or in associa-

tion with a loan other than repayment of the unpaid principal balance and interest; provided, that the credit union may require the borrower to pay fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction, fees, or premiums in connection with real estate loans, including fees or premiums for title examination, title insurance, or similar purposes, fees for preparation of deeds, settlement statements or other documents, escrows for future payments of taxes and insurance, fees for notarizing deeds and other instruments, appraisal fees, or credit reports. Each application for a loan shall be made upon a form, which the credit committee prescribes and the board of directors approves, which shall state the purpose for which the loan is desired and the security, if any, offered. Every loan shall be evidenced by a written instrument. Loans to any one member shall not exceed \$200 or ten per cent of the shares, deposits, and surplus, whichever shall be the larger.

(b) Loans may be made to members of the board of directors, credit committee, and audit committee under the same general terms and conditions as to other members of the credit union, but all such loans shall be reported to the commissioner at least annually, and such a loan may be made only if:

- (1) The loan complies with all lawful requirements under this chapter with respect to loans to other borrowers and is not on terms more favorable than those extended to other borrowers;
- (2) Upon application for the loan, if the aggregate amount of the official's outstanding loans and amount being applied for exceed \$5,000, the loan must be approved by the credit committee and board of directors after the submission to them of a detailed current financial statement by the loan applicant. However, loans that are fully secured by shares and deposits in the credit union need not be approved by the board of directors and the authority to approve these loans may be delegated to the loan officer by the credit committee;
- (3) The loan applicant takes no part in the consideration of his application and is not present during the taking of the vote by the credit committee or board of directors meeting while his application is under consideration; and
- (4) Upon the making of the loan, the aggregate amount of loans outstanding under authority of this section shall not exceed twenty per cent of the unimpaired capital and surplus of the credit union.

(c) Loans may be granted to members of the credit union, secured by a first mortgage on residential real estate. The term "residential real estate" shall mean land on which is situated a dwelling of not more than four family units, the primary use of which is occupancy as a home. Such loan shall not exceed ninety per cent of the appraised value of the real estate plus the unencumbered share or deposit balances of the borrowing member that are pledged to the loan, and such loans may provide additionally regular deposits for the payment of insurance premiums and taxes assessed against the security. No loan shall be made by a credit union on residential real estate for a maturity of more than thirty years.

(d) Loans may be granted to members of the credit union secured by a first mortgage on real estate other than residential real estate; provided, that the loan does not exceed eighty per cent of the appraised value of such real estate and such loan provides for the regular reduction of principal; and provided, that such loan does not exceed a maturity of thirty years. The loan shall also provide additionally regular deposits for the payment of insurance and taxes assessed against the property unless an amount equivalent to at least the annual insurance payment and annual taxes is maintained in the share account.

(e) The total outstanding balance of all first mortgage loans on real estate shall not exceed thirty per cent of the outstanding shares and deposits of the credit union.

(f) (1) The board of directors shall determine the policy regarding collateral acceptable for secured loans. Loans to individuals which in the aggregate exceed the amount shown in the schedule below shall be secured by such collateral having a value which, in the opinion of the credit committee or loan officer, is at least equal to any amount exceeding the following:

(A) \$250, in credit unions with assets of less than \$5,000.

(B) \$500, in credit unions with assets of \$5,000 and less than \$25,000.

(C) \$1,000, in credit unions with assets of \$25,000 and less than \$100,000.

(D) \$2,500, in credit unions with assets of \$100,000 and less than \$500,000.

(E) \$3,500, in credit unions with assets of \$500,000 and less than \$1,000,000.

(F) \$5,000, in credit unions with assets of \$1,000,000 or more.

(2) This subsection does not preclude the credit committee or loan officer from requiring security on any loan. Where such loans are secured by one or more co-makers, such co-makers shall furnish the credit union with written evidence of financial responsibility.

(g) The commissioner may reduce the loan limits specified in subsection (f) of this section on an individual basis.

(h) A credit union may loan to members under the provisions of Title I of the National Housing Act and such insurance on these loans shall be deemed adequate security. The terms of such loans shall be as defined by the credit committee under the provisions of Title I of the National Housing Act.

(i) In addition to generally accepted types of security, the endorsement of a note by a guarantor, co-maker or assignment of shares, in a manner consistent with state law, shall be deemed security within the meaning of this chapter and the adequacy of all securities shall be within the determination of the credit committee or loan officer subject to the provisions of this chapter and the bylaws. A member may receive a loan in installments or in one sum, and may pay the whole or any part of his loan on any day in which the credit union office is open for business without penalty.

(j) The credit committee or, when authorized, a loan officer may approve in advance upon its or his own motion or upon application by a member,

an extension of credit, and loans may be granted to such members within the limits of such extension of credit. Where an extension of credit has been approved, applications for loans need no further consideration as long as the aggregate obligation does not exceed the limits of such extension of credit. The credit committee shall, at least once a year, review, or cause to be reviewed, all such extensions of credit, and any such extension of credit shall expire if the member is more than ninety days delinquent in his obligations to the credit union.

(k) Loans to members secured by first mortgages on real estate may be made subject to the rules prescribed by the commissioner.

Sec. -16 Shares. A share is defined as a term applied to each \$5 standing to the share or deposit account of a member. The shares of stock of a credit union shall all be common shares of one class and shall have a par value of \$5 per share. No certificate shall be issued to denote ownership of a share in a credit union. Shares may be subscribed, paid for, and transferred in such manner as the bylaws may prescribe.

The credit union shall have and may exercise a lien on the shares or deposits of any member for any sum due the credit union from the member or for any loan endorsed by him.

Sec. -17 Thrift clubs. Christmas clubs, vacation clubs, and other thrift clubs, if provided for the use of members, shall be operated in accordance with such rules and regulations as the board of directors may prescribe.

Sec. -18 Deposits. Deposit accounts shall be operated in accordance with such rules and regulations as the board of directors may prescribe and as approved in writing by the commissioner. Interest rates on deposits shall not exceed six per cent a year unless a rate in excess of six per cent a year shall have first been approved by the commissioner.

Sec. -19 Joint accounts. (a) A member may, subject to approval of the board of directors, designate any person or persons to hold shares, deposits, and thrift club accounts with him in joint tenancy with the right of survivorship, but no joint tenant, unless a member in his own right, shall be permitted to vote, obtain loans, or hold office. Payment of part or all of such accounts to any of the joint tenants shall, to the extent of such payment, discharge the liability to all.

(b) No credit union organized under this chapter shall be required to recognize the claim of any third party to any deposits, or withhold payment of any deposit to the depositor or to his order, unless and until the credit union is served with a pleading filed in or order issued by a circuit court in connection with a suit instituted by such third party for the purpose of recovering or establishing an interest in such deposit.

(c) Share or share accounts issued by, or deposits made with, any credit union organized under this chapter, in the name of two or more persons or to two or more persons or the survivor of either, may be withdrawn on the signature of either party to whom such shares or share accounts are issued or deposits are made. Either party shall have power to act in all matters relating to such shares or person named in such shares or share accounts or deposits

whether the other person or persons is living or dead. The repurchase or withdrawal value of shares or share accounts or deposits issued in joint names and dividends thereon, or other rights relating thereto, may be paid or delivered, in whole or in part, to any of such persons who shall make requests therefor, whether the other person or persons is living or dead. The payment or delivery to any such persons, on a receipt or acquittance signed by any such person, to whom any such payment or any such delivery of right is made, shall be a valid and sufficient release and discharge of any credit union for the payment or delivery so made.

Sec. -20 Minor's accounts. Shares or deposits may be issued in the name of a minor, and such shares or deposits may be withdrawn by such minor, and payments made on such withdrawals shall be valid. No minor under sixteen years of age shall be entitled to vote in the meeting of the members either personally or through his parent or guardian, nor may he become a director or committee member until he shall have reached the age of majority.

Sec. -21 Trust accounts. Shares or deposits may be issued in the name of a member in trust for a beneficiary, including a minor, but no beneficiary, unless a member in his own right, shall be permitted to vote, obtain loans, hold office or be required to pay an entrance fee. Payment of part or all of such shares or deposits to the member shall, to the extent of such payments, discharge the liability of the credit union to the member and beneficiary, and the credit union shall be under no obligation to see the application of such payment. In the event of the death of the member, and if shares or deposits are so issued or held and the credit union has been given no other written evidence of the existence or terms of any trust, the shares or deposits and any dividends or interest thereon shall be paid to the beneficiary or to his legal representative.

Sec. -22 Investments. Funds not used in loans to members may be invested:

- (1) In capital shares, obligations, or preferred stock issues of any agency or association organized either as a stock company, mutual association, or membership corporation; provided, the membership or stockholdings, as the case may be, of such agency or association are confined or restricted to credit unions, or organization of credit unions, and provided the purposes for which such agency or association is organized are designed to service or otherwise assist credit union operations;
- (2) In obligations of the State or any political subdivision thereof;
- (3) In securities, obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the United States government or any agency thereof; or any trust or trusts established for investing directly or collectively in the same;
- (4) In loans to other credit unions in an amount not to exceed twenty-five per cent of the shares, deposits, and surplus of the lending credit union, or any trust or trusts established for lending directly or collectively to credit unions;
- (5) In an aggregate amount not exceeding two and one-half per cent of the credit union's total assets or the amount of its reserve fund,

whichever is less, in any agency or association of the type described in paragraph (1), provided the purposes of any such agency or association are designed to assist in establishing and maintaining liquidity, solvency, and security in credit union operations;

- (6) In certificates of passbook type accounts, insured by the Federal Savings and Loan Insurance Corporation, which are issued by a savings and loan association domiciled in the United States of America; and
- (7) In certificates of deposit issued by a state or national bank domiciled in the State; provided, no credit union may purchase, or own at any one time, certificates of deposit totaling in excess of twenty-five per cent of the paid-in capital and surplus of an issuing bank.

Sec. -23 Reserves. (a) Immediately before the payment of each dividend, the gross earnings of the credit union shall be determined. From this amount, there shall be set aside, an amount as a regular reserve against losses on loans and against such other losses as may be specified in regulations prescribed under this chapter. The amount and conditions of the transfer to the regular reserve and other reserves will be in accordance with the following schedule:

- (1) The regular reserve of a credit union shall be based on risk assets. The formula for transfer to the reserve is at the rate of ten per cent of gross income until such time as the reserve fund reaches five per cent of the risk assets; then the formula is decreased to seven per cent of gross income until such time as the reserve fund reaches six per cent of risk assets; and then the formula is decreased to five per cent of gross income until the reserve fund attains a maximum of seven per cent of risk assets. Subsequent transfers are required only to maintain the seven per cent requirement.
- (2) Special reserves may be required by the commissioner on an individual credit union basis for purchased accounts or when serious threat of impairment threatens the adequacy of the regular reserve.
- (3) Additional reserves for central credit unions may be required by the commissioner when adjustments of corporate investments are not offset by current transfer from gross income to the regular reserves.

Sec. -24 Dividends. (a) The board of directors shall establish the dividend period. Such dividends may be considered as a normal operating expense of the credit union. Rates of such dividends and terms of payment may be established and guaranteed in advance by action of the board of directors. The board of directors may classify its accounts and declare dividends which may be at variable rates. Savings deposited during the dividend period shall be entitled to an apportionate part of the dividend provided the savings are on deposit at the close of the dividend period.

(b) The commissioner may establish the maximum dividend that a credit union and a central credit union may pay in each classification of its savings. The commissioner may authorize a credit union to declare daily dividends provided minimum requirements established by the commissioner for the regular reserve, undivided earnings, expense to gross income, and operational efficiency are met by the credit union.

Sec. -25 Examinations. The department annually shall examine, or cause to be examined, each credit union chartered under this chapter. Each credit union and all of its officers and agents shall be required to give the department full access to all books, papers, securities, records, and other sources of information under their control. For the purpose of such examination, the department shall have power to subpoena witnesses, administer oaths, compel the giving of testimony, and require the submission of documents.

A report of the examination shall be forwarded to the chairman of the board of each credit union. The report shall contain comments relative to the management of the affairs of the credit union and also as to the general condition of its assets. Within thirty days after the receipt of the report a general meeting of the directors and committeemen shall be called to consider matter contained in the report. A reply to the department shall be forwarded by the board of directors if comments are required by the department.

For the purpose of the examinations each credit union shall pay an examination fee based upon the cost of performing the examination and which bear a proportionate share of the expenses of the department, in accordance with schedules adopted by the commissioner after approval has been secured from the credit union review board.

Sec. -26 Credit union officers bonded. (a) As a condition precedent to qualification or entry on the discharge of his duties, every person appointed or elected to any position requiring the receipt, payment, or custody of money or other personal property owned by a credit union or in its custody or control as collateral or otherwise, shall give a bond in some responsible corporate surety company, licensed to do business in this State, in such adequate sum as the directors shall require and approve. In lieu of individual bonds the commissioner may accept a schedule or blanket bond which covers all of the officers and employees of any credit union whose duties include the receipt, payment, or custody of money or other personal property for or on behalf of the credit union. All bonds shall be in the form prescribed by the commissioner.

No officer or employee who is required to give bond shall be deemed qualified nor permitted to enter upon the discharge of his duties until his bond shall have been approved by a majority of the board of directors. Such bonds shall be filed with the commissioner within ten days after approval by the board of directors. The minute books of each credit union shall contain a record of each bond executed and approved. Each bond shall be sufficient in amount to protect the credit union from loss by reason of acts of fraud or dishonesty including forgery, theft, embezzlement, wrongful abstraction, or misapplication on the part of the person, directly, or through connivance with others. At any time the commissioner may require additional bonds or security, when, in his opinion, the bonds then executed and approved are insufficient.

(b) Every bond shall also include the following provisions:

(1) No cancellation or other termination of the bond shall be effective unless the surety gives in advance at least ten days written notice by registered mail to the commissioner. If the bond is canceled or terminated at the request of the insured, this provision nevertheless shall apply, it being the duty of the surety to give the required written no-

tice to the commissioner, such notice to be given promptly and in any event within ten days after the receipt of such request.

- (2) The surety agrees to furnish the commissioner a copy of all riders and endorsements executed subsequently to the effective date of this bond.

(c) For reasons which he deems valid and sufficient the commissioner may waive as to the cancellation or termination of any bond the ten-day written notice in advance required by subsection (b)(1) and may give his written consent to the termination or cancellation being made effective as of a date agreed upon and requested by the surety and credit union.

(d) The provisions required by subsection (b) to be in every such bond shall not in any way modify, impair or otherwise affect or render invalid a provision therein to the effect that the bond shall terminate as to any person covered thereby upon the discovery by the credit union of any dishonest act on the part of such person.

Sec. -27 Expelled member, rights and liabilities. The amounts paid in on shares by members who have withdrawn or have been expelled shall be paid to them, but in the order of withdrawal or expulsion and only as funds therefor become available and after deducting any amounts due by the members to the credit union; provided such expulsion or withdrawal shall not operate to relieve a member from any remaining liability to the credit union.

Sec. -28 Dissolution; voluntary liquidation. Upon the unanimous recommendation of the board of directors, the members may vote to dissolve the credit union provided that a majority of the members vote by ballot in person or by letter or other written communication in favor of dissolution, and provided that not more than fifteen members or ten per cent of the total membership, whichever is greater, by written notice, object thereto. A committee of three shall thereupon be elected to liquidate the assets of the credit union. Members may be paid a liquidating dividend in proportion to their savings after the debts of the credit union have been paid. The committee in charge of liquidation shall have the power and authority to sell or dispose of the assets in whole or in part at a public or private sale subject to confirmation by the board of directors and the commissioner.

Sec. -29 Credit unions promoted. It shall be the duty of the commissioner to promote the extension of credit at the lowest possible rates and cooperate with every group of people who may be or may become interested in the formation and development of a credit union in this State for that purpose, and he may do all things reasonably necessary for the discharge of this duty, including but not limited to:

- (1) Advertising of whatever character is most suitable and effective to acquaint the people of this State with the agencies and organizations dealing in consumer credit, and of the rates of interest, the condition of loans, the benefits and safeguards and the savings features of each such type, agency, and organization;
- (2) Offering without charge to any group, either joined in a credit union or considering such an organization, whatever advice and direction

on accounting practice and managerial problems that may be needful; and

- (3) Providing application blanks, model bylaws, and whatever other material may be needful or helpful in the organization, efficient functioning, and expansion of credit unions.

Sec. -30 Taxation. All credit unions, now or hereafter chartered under this chapter shall have the same immunity from state and local taxation that federally chartered credit unions have from time to time under the laws of the United States government.

Sec. -31 Conversion of federal credit union. Upon recommendation of its board of directors, any federal credit union may convert itself into a credit union under the provisions of this chapter by an affirmative majority vote of the members of such federal credit union. The officers and directors of the federal credit union shall be the officers and directors of the credit union after conversion takes effect, to hold office until their successors are elected and qualified.

The commissioner may conduct a joint audit of the federal credit union with federal examiners. Upon completion of the audit, he shall issue a certificate to the National Credit Union Administration showing the results of the audit. The commissioner may also certify that the transfer of the assets and liabilities from the federal credit union to a credit union subject to the laws of this State has been effected in compliance with this chapter. The costs of the audit shall constitute a charge against the credit union.

Copies of the minutes of the proceedings of the meeting of the members in which they voted to convert into a state credit union, verified by the affidavit of the board of directors of the credit union, shall be filed within ten days after the meeting in the office of the commissioner, and, in duplicate, with the National Credit Union Administration. The verified copies of the minutes of the meeting, when filed, are presumptive evidence of the holding of and action taken at such meeting.

After a meeting, the federal credit union shall take or cause to be taken such action in the manner prescribed and authorized by this chapter as shall make it a credit union of the State. The directors shall file the documents and take such proceedings as are required by this chapter in the case of the original incorporation of a credit union. The directors may insert in the articles of incorporation the following statement: "This credit union is incorporated by conversion from a federal credit union."

Within ten days after the filing of the articles of incorporation with the department of regulatory agencies, there shall be filed, with the National Credit Union Administration, two copies of the articles of incorporation, certified by the department. Upon the filing of the articles of incorporation with the department, the credit union ceases to be a federal credit union and is a credit union under this chapter. All of the property of such credit union, including all of its right, title, and interest in and to all property of every kind and character immediately, by operation of law and without any conveyance or transfer, and without any further act or deed, is vested in the credit union under its new name and style as a credit union and under its new jurisdiction.

The converted credit union shall have, hold, and enjoy the property in its own right as fully and to the same extent as the property was possessed, held, and enjoyed by it as a federal credit union and the converted credit union continues responsible for all of the obligations of the federal credit union to the same extent as though conversion had not taken place. The converted credit union is merely a continuation of the federal credit union under a new name and new jurisdiction and such revision of its corporate structure as is considered necessary for its proper operation under the new jurisdiction.

Sec. -32 Conversion into federal credit union. A credit union may convert itself into a federal credit union by the following procedures:

- (1) Upon recommendation of the board of directors the members of any credit union may by an affirmative majority vote of its members resolve to convert such credit union into a federal credit union;
- (2) Within ten days after the meeting at which the members determine to convert into a federal credit union, the credit union shall file in the office of the commissioner a certificate verified by the affidavit of the board of directors of such credit union. The certificate shall contain a copy of the minutes of the meeting and a statement that the members have approved the determination to convert such credit union into a federal credit union. A like certificate shall be filed with the department of regulatory agencies;
- (3) A certified copy of the certificate filed with the department is presumptive evidence of the holding of the meeting and the action taken thereat;
- (4) After the meeting of the members, the credit union shall take such action as is necessary to make it a federal credit union, and within ten days after receipt of the federal charter, the credit union shall file in the office of the commissioner and with the department, a copy of the charter issued to such credit union by the National Credit Union Administration or a certificate showing the organization of such credit union as a federal credit union certified by or on behalf of the National Credit Union Administration. Upon the filing of such instrument with the department, the credit union ceases to be a state credit union and is a federal credit union;
- (5) At the time the conversion into a federal credit union becomes effective, the credit union ceases to be supervised by this State and all of the property of the credit union including all of its right, title, and interest in and to all property of every kind, and character immediately, by operation of law and without any conveyance, or transfer and without any further act or deed, is vested in the credit union under its new name and style as a federal credit union and under its new jurisdiction; and
- (6) The converted federal credit union shall have, hold, and enjoy the property in its own right as fully and to the same extent as the property was possessed, held, and enjoyed by it as a state credit union and the federal credit union shall continue responsible for all of the obligations of the state credit union to the same extent as though the

conversion had not taken place. The federal credit union shall be merely a continuation of the state credit union under a new name and new jurisdiction and such revision of its corporate structure as is considered necessary for its proper operation under the new jurisdiction.

Sec. -33 Merger and consolidation of credit unions. (a) Any two or more credit unions, having a membership with similar associational, community, or occupational interest or with a similar common bond, as elsewhere defined in this chapter, may merge or consolidate into a single credit union. Such merger or consolidation may be with a credit union organized under this chapter or of the United States government and shall be subject to the approval of the commissioner. It shall be made on such terms as shall have been agreed upon by a vote of a majority of the board of directors of each credit union, and approved by a majority of the members of each credit union either in person or by proxy, at meetings of the members of each credit union affected called for that purpose. Notice of the meetings stating the purpose thereof shall be sent by the secretary of each credit union to each member thereof by United States mail at least seven days before the date of the meeting.

(b) One of the merging credit unions may continue after the consolidation either as a surviving credit union retaining its identity or as a new credit union as has been agreed upon under the terms of the merger. If a new credit union is to be organized under the terms of the merger, thereupon, at least fifteen members of the new proposed credit union shall apply to the credit union division for permission to organize the new credit union. The same procedure shall be followed and the same rules govern as elsewhere provided for the organization of a new credit union.

(c) A merger of two or more credit unions may be permitted with one of the merging credit unions continuing as the surviving credit union and the geographical limitations and similar associational or occupational interest as required by section -11 may be disregarded by the commissioner where the credit union seeking such a merger is forced to liquidate through loss of parent associational or occupational sponsorship; provided, the commissioner finds that such merger would benefit the members and be consistent with the purpose of this chapter. The merger or consolidation shall be made on such terms as shall have been agreed upon by a vote of the majority of the board of directors of each credit union, and approved by a majority of the members of each credit union, either in person or by proxy, at meetings of the members of each credit union affected, called for that purpose. Notice of the meetings, stating the purpose thereof, shall be sent by the secretary of each credit union to each member thereof by United States mail at least seven days before the date of the meeting.

Each merging credit union, by its president and secretary, shall submit to the credit union division a petition to merge, which shall contain the terms of the agreement and the members' approval thereof on forms prescribed by the commissioner. The commissioner shall thereupon act on the petition and if his decision is favorable he shall issue to each merging credit union a certificate approving the merger. The merging credit union shall return to the commis-

sioner its charter and bylaws. The surviving credit union shall continue its operation under its original charter and bylaws. Any rights to membership or any obligation or liability of any member in any such credit union, which is party to the consolidation or merger, shall be continued in the new credit union. A pending action or other judicial proceeding to which any of the consolidating or merging credit union is a party shall not abate by reason of the consolidation or merger.

Sec. -34 Name and change of place of business. Not more than one credit union shall bear the same name or be identified by the same title or description. Change of name or place of business of any credit union may be made only upon the written authorization of the commissioner upon proper application therefor.

Sec. -35 Possession by the commissioner. The commissioner may forthwith take possession and control of the business and property of any credit union to which this chapter is applicable whenever he finds a credit union violating this chapter or that the credit union:

- (1) Is conducting its business contrary to law;
- (2) Has violated its charter, or any law;
- (3) Is conducting its business in an unauthorized or unsafe manner;
- (4) Is in an unsound or unsafe condition to transact its business;
- (5) Has an impairment of its capital;
- (6) Cannot with safety and expediency continue business;
- (7) Has suspended payment of its obligations;
- (8) Has neglected or refused to comply with the terms of a duly issued order of the commissioner;
- (9) Has refused to submit its books, papers, records, or affairs for inspection to any examiner or person appointed by the commissioner;
- (10) Has refused to be examined upon oath regarding its affairs; and
- (11) The commissioner may suspend for a period up to one hundred twenty days the business or any officer, director, committee member, or employee of any credit union for the aforementioned conduct.

(b) Upon taking possession of the business and property of the credit union the commissioner shall forthwith:

- (1) Serve a notice in writing upon the president and secretary of the credit union setting forth that he has taken possession and control of the business and property of the credit union. The notice shall be executed in duplicate, and immediately after the same has been served, one of the notices shall be filed with the clerk of the circuit court in the county where the credit union is located together with proof of service.
- (2) Give notice to all individuals, partnerships, corporations, and associations known to the commissioner to be holding or in possession of any assets of the credit union.

The commissioner may appoint one or more liquidating agents to assist in the duty of liquidation and distribution of the assets of one or more credit unions of whose business and property the commissioner shall have taken possession pursuant to this chapter. A certificate of such appointment shall be

filed in the office of the commissioner and a certified copy in the office of the clerk of the circuit court for the county in which the credit union is located. The commissioner may employ such counsel and procure such expert assistance and advice as may be necessary in the liquidation and distribution of the assets of the credit union, and may retain such of the officers or employees of the credit union as he deems necessary. The liquidating agent and assistants shall furnish such security for the faithful discharge of their duties as the commissioner deems proper. The liquidating agent may execute, acknowledge, and deliver any and all deeds, assignments, releases, or other instruments necessary and proper to effect any sale and transfer or incumbrance of real estate or personal property and may borrow for use in the liquidation after the same has been approved by the commissioner and an order obtained from the circuit court of the county in which the credit union is located as hereinafter provided.

Upon taking possession of the property and business of the credit union, the liquidating agent may collect all moneys due to such credit union, and do such other acts as are necessary to conserve its assets and business, and shall proceed to liquidate the affairs thereof as hereinafter provided. He shall collect all debts due and claims belonging to it, and upon a petition approved by the commissioner and upon order of the circuit court of the county in which such credit union is located, may sell or compound all bad or doubtful debts, or do any act or execute any other necessary instruments and upon like petition and order may sell all the real and personal property of such credit union on such terms as the court shall approve.

(c) The liquidating agent shall cause a notice, as required by the laws of the State, to be published, calling on all persons who may have claims against such credit union, to present the same to the liquidating agent and make legal proof thereof at a place and within a time, not earlier than the last date of publication, to be therein specified. He shall mail a similar notice to all persons at their last known address, whose names appear as creditors upon the books of the credit union. Proof of service of such notice shall be filed with the clerk of the court. The liquidating agent may reject any claim. Any party interested may also file written objections to any claim with the liquidating agent and after notice by registered mail of the rejection, the claimant shall be barred unless he commences an action thereon within three months. Claims presented after the expiration of the time fixed in the notice to creditors shall be entitled to share in the distribution only to the extent of the assets then in the hands of the liquidating agent equitably applicable thereto.

(d) Upon taking possession of the property and assets of the credit union, the liquidating agent shall make an inventory of the assets of the credit union, in duplicate, one to be filed in the office of the commissioner and one in the office of the clerk of the circuit court for the county in which the credit union is located. Upon the expiration of the time fixed for the presentation of claims the liquidating agent shall make in duplicate a full and complete list of the claims presented, including and specifying such claims as have been rejected by him, one to be filed in the office of the commissioner, and one in the office of the clerk of the circuit court for the county in which the credit union is located. The inventory and list of claims shall be open at all reasonable times to inspection.

(e) The value of shares pledged upon a loan to such credit union shall be applied and credited to the loan and the borrower shall be liable only for the balance. The rate of interest charged upon such balance shall be the legal rate. The value shall be determined in such manner as the commissioner may prescribe. Upon the approval of the value by the commissioner and the circuit court of the county in which such credit union is located, the book value of each member will be determined. At least five days written notice of the determination of value shall be given to all shareholders of the time and place the value shall be submitted to the circuit court for approval. Should any shareholder of the credit union feel aggrieved by the determination of value, he may at any time within fifteen days after the mailing of notice by the commissioner, addressed to the last known address of the party, giving notice of the determination and value of the shares, appeal to the supreme court of the State.

(f) The compensation of the liquidating agent, counsel, and other employees and assistants, and all expenses of supervision and liquidation shall be fixed by the commissioner, subject to the approval of the circuit court for the county in which the credit union is located, and shall upon the certificate of the commissioner be paid out of the funds of the credit union. Expenses of supervision and liquidation shall include the cost of the service rendered by the credit union division to the credit union being liquidated and shall be determined from time to time by the commissioner and shall be paid to the office of the commissioner from the assets of the credit union as other expenses of liquidation are paid. The moneys collected by the liquidating agent shall be from time to time deposited in one or more banks domiciled in the State.

(g) At any time after the expiration of the date fixed for the presentation of claims, the special deputy commissioner in charge of the liquidation of the credit union may, upon a petition approved by the commissioner and an order of the circuit court of the county in which the credit union is located, out of the funds remaining, after the payment of expenses and debts, declare one or more dividends, and may declare a final dividend to be paid to the persons, and in such amounts as may be directed by the circuit court.

(h) Immediately upon filing the notice as provided for in subsection (b) the possession of all assets and property of such credit union of every kind and nature, wheresoever situated shall be deemed to be transferred from such credit union to, and assumed by the commissioner and filing of the notice mentioned herein, shall of itself, and without the execution or delivery of any instruments of conveyance, assignment, transfer, or endorsement, vest the title to all the assets and property in the commissioner. The filing shall also operate as a bar to any attachment, garnishment, execution, or other legal proceedings against such credit union, or its assets and property, or its liabilities.

(i) No credit union shall have a lien, or charge for any payment, advance, or clearance made, or liability thereafter incurred, against any of the assets of the credit union of whose property and business the commissioner shall have taken possession.

(j) Whenever any credit union, whose property and business the commissioner has taken possession of deems itself aggrieved thereby, it may, at any time within ten days after such taking, appeal to the credit union review

board for relief from the possession by the commissioner. In the event the credit union review board sustains the commissioner, the credit union may then at any time within ten days after the decision of the credit union review board, apply to the circuit court of the county in which the credit union is located to enjoin further proceedings; and the court, after requesting the commissioner to show cause why further proceedings should not be enjoined and hearing all allegations and proofs of the parties and determining the facts, may, upon the merits dismiss the application or enjoin the commissioner from further proceedings, and direct him to surrender the business and property to the credit union.

(k) Whenever the commissioner shall have taken over the possession and control of the business and property of any credit union, the same may resume business when and if:

- (1) The owners of at least two-thirds of the credit union dollar value of outstanding shares, execute a petition to such effect, the form of which shall be prescribed by the commissioner;
- (2) There is submitted to the commissioner by the shareholders or a committee duly selected by them, a plan for the reorganization and reinstatement of the credit union;
- (3) The commissioner recommends that control of the business and property of the credit union be returned to the shareholders; and
- (4) The court in which the liquidation is pending, upon application of the commissioner, makes an order approving the commissioner's recommendations, which order shall contain a finding that the credit union will be in a safe and sound condition when control is resumed by the shareholders.

(l) The credit union may also resume business upon a restricted basis, and upon such limitations and conditions as may be prescribed the commissioner when approved by the circuit court in and for the county in which such credit union is located, upon application of the commissioner. The restrictions and conditions may include, among others, a prohibition against the selling of shares, reasonable restrictions upon withdrawals, and the payment of other liabilities. The credit union shall thereupon be relieved from the control and supervision of the commissioner as provided in this section, but nothing herein shall, in any manner, prohibit the commissioner from again proceeding against the credit union as provided herein.

(m) Disposition of liquidating dividends and unclaimed funds:

- (1) Unclaimed liquidating dividends and unclaimed funds remaining unpaid in the hands of the liquidating agent for six months after the order for final distribution shall be deposited by him in one or more banks domiciled in the State, to the credit of the commissioner, in trust for the several shareholders and creditors.

The commissioner shall include in his annual report to the governor, the names of credit unions so taken possession of and liquidated, and the sums of unclaimed and unpaid liquidating dividends and unclaimed funds with respect to each of them respectively, including a statement of interest earned upon the funds.

- (2) The commissioner may pay over the moneys held by him to the per-

sons respectively entitled thereto, upon being furnished satisfactory evidence of their right to the same. In case of doubt or conflicting claims, he may require an order of the circuit court authorizing and directing the payment thereof. He may apply the interest earned by the moneys held by him towards defraying the expenses in the payment and distribution of the unclaimed liquidating dividends and funds to the stockholders and creditors entitled to receive the same.

- (3) After one year from the time of the order for final distribution, all unclaimed funds shall be turned over to the department of budget and finance by the commissioner and shall be kept in a separate fund. All claims subsequently arising shall be presented to the commissioner. If the commissioner determines that any claim so presented is a proper claim against the fund he shall certify to the department of budget and finance the name and address of the person entitled to payment and the amount thereof and shall attach the claim to the certificate. The department shall thereupon make payment of the amount stated in the certificate to the person named thereon.

Sec. -36 Charter cancellation. Upon completion of a voluntary liquidation as provided in section -28, or upon completion of the liquidation in cases under section -34, or after the assets and liabilities of a credit union for the purpose of consolidation is provided in section -33, the commissioner shall forthwith cancel the charter of the credit union or credit unions liquidated or absorbed in consolidation without any other or further notice to the credit union or to any person. A certified copy of the order or certificate of the commissioner shall be recorded with the department of regulatory agencies. The department of regulatory agencies shall note on the margin of the record of the articles of incorporation of the credit union the volume and page where the order or certificate canceling its charter is recorded and shall be entitled to a fee of \$2 therefor. In case of voluntary liquidation under section -28 or consolidation under section -33, the credit union shall record the order or certificate of the commissioner and pay the fee therefor. In case of liquidation under section -35, the commissioner or liquidating agent as therein provided shall record the order or certificate of the commissioner and pay the fee therefor out of the assets of the credit union as an expense of liquidation.

Sec. -37 Central credit unions. Central credit unions may be organized and operated under the conditions and provisions of this chapter and subject to all of the provisions of this chapter not inconsistent herewith. It shall be lawful for other credit unions located in this State to become members of central credit unions. A credit union having membership in a central credit union may be represented at annual or special meetings of the central credit union by one member duly authorized by the board of directors of the member credit union and shall be entitled to one vote, and the representative shall be eligible for office in the central credit union the same as though he were a member of the central credit union. The representative must be a member of the credit union he is representing while he is a representative.

A central credit union may pay to the accounts of member credit unions

dividends on a basis other than that required by this section for other members of a central credit union. The dividends may be considered as a legitimate expense of the central credit union's operation and the rate of the dividends and terms of payment may be established and guaranteed in advance by action of the central credit union's board of directors. Any resident in the State who is not eligible for membership in any credit union in the State, may be eligible for membership.

Sec. -38 Rules and regulations. The commissioner shall issue orders prescribing reasonable rules and regulations, pursuant to chapter 91, in conducting the business of credit unions or corporations operating as provided in this chapter and it may in like manner issue orders amending, modifying, repealing, or supplementing rules or orders. The violation of any rule may be cause for the removal of any officer, director, or employee of any credit union or corporation operating under this chapter.

Sec. -39 Credit union services. A credit union may:

- (1) If the need and necessity exists, establish subsidiary offices within the State with the approval of the commissioner;
- (2) Share office space with one or more credit unions and contract with a corporation to provide facilities or personnel;
- (3) Provide nonprofit financial counseling;
- (4) Charge for perfection of security interest and investigations of borrowers;
- (5) Issue third-party checks upon request of the member;
- (6) Provide pension savings programs and deferred income accounts;
- (7) Purchase or acquire conditional sales contracts or similar instruments executed by credit union members; and
- (8) Exercise all powers necessary and proper to carry out the purposes of the credit union.

Sec. -40 Immunity of the commissioner. The commissioner of credit unions shall not be subject to any civil liability or penalty, nor to any criminal prosecution, for any error in judgment or discretion made in good faith and upon reasonable grounds in any action taken or omitted by him in his official capacity under this chapter.

Sec. -41 Bookkeeping. Books and records shall be maintained in a proper accounting manner acceptable to the commissioner. Any credit union that refuses or neglects to maintain books and records in a proper and acceptable manner shall be upon written notification of the commissioner, subject to a penalty not to exceed \$10 for each day it fails to keep such books and accounts as required.

Sec. -42 Compensation of officers. No member of the board of directors, credit committee, or the audit committee, except the treasurer, may receive any compensation for his services in that particular capacity.

Sec. -43 Expulsion. The board of directors may expel a member from the credit union who neglects or refuses to comply with this chapter or the by-laws, or for any other just case; but no member may be expelled until he has

been informed in writing of the charges against him, and given an opportunity to refute the charges against him at a combined meeting of the board of directors and the audit committee. After the hearing at the combined meeting, the board of directors has the authority to, by majority vote, reinstate or expel the member.

Sec. -44 Procedures in the removal of officials of a credit union. (a) Whenever the commissioner is of the opinion that the loaning, investing, other policies and practices of any officer, director, or committeeman of any credit union have been prejudicial to the best interest of the credit union or its members, or that such policies or practices, if put into operation or continued, will endanger the safety of solvency of the credit union or impair the interest of its members, the commissioner may request the removal of the officer, director, or committeeman. This request shall be served on the credit union and on the officer, director, or committeeman in the manner provided by law for serving a summons in a court of record, or shall be transmitted to the credit union and the officer, director, or committeeman by registered mail, with return receipt requested. The request shall specify the reasons for the removal of the officer, director, or committeeman, and also shall advise the officer, director, or committeeman relative to his rights to a hearing before the credit union review board as provided in this section. A copy of the request for removal shall be transmitted to each member of the credit union review board at the same time such request is being served upon the credit union and officer, director, or committeeman involved. If the request for removal is not complied with within a reasonable time fixed by the commissioner, he may by order, with like approval of the credit union review board, remove the officer, director, or committeeman, but no order for removal shall be entered until after an opportunity for a hearing before the credit union review board is given such officer, director, or committeeman upon not less than thirty days notice. An order for removal shall take effect as of the date issued.

(b) Any removal under this section shall be effective in all respects the same as if made by the board of directors or shareholders of the credit union. Any officer, director, or committeeman removed from such office under this section shall not be re-elected as an officer, director, or committeeman of any credit union without the approval of the commissioner and the credit union review board.

Sec. -45 Application for and share insurance coverage. (a) All credit unions chartered under this chapter, or credit unions in operation at the time of issuance of a charter under this chapter must apply for share insurance coverage, within one hundred twenty days of the date of the charter, from the administrator of the National Credit Union Administration, other governmental agency, or a commercial corporation especially organized to provide share insurance coverage. Whenever a credit union attempts to secure share insurance coverage from a governmental agency or a commercial corporation other than from the administrator of the National Credit Union Administration, the board of directors of the credit union must first obtain approval from the commissioner that the governmental agency or commercial corporation is acceptable

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as an organization capable of providing share insurance for credit unions chartered under this chapter.

(b) A credit union which does not obtain share insurance coverage within one hundred eighty days after the date of its charter must meet the share insurance requirements and obtain the insurance coverage within a two-year period from the date of notice that it did not meet the requirements. Credit unions that do not obtain share insurance coverage as specified in this section shall be liquidated by the commissioner in accordance with section -35."

SECTION 2. There is appropriated out of the general revenues of the State of Hawaii the sum of \$25,000, or so much thereof as may be necessary, to carry out the purposes of this Act, including the hiring of necessary staff. The sum appropriated shall be expended by the department of regulatory agencies for the purposes of this Act; provided that any amount thereof which is expended shall be reimbursed to the general fund of the State from fees collected by the commissioner attributable, but not limited to filing and approval of organization certificates, annual supervision and examinations, and other revenues realized from or on account of credit unions organized under this chapter, until repaid in full.

SECTION 3. This Act shall take effect on July 1, 1974.

(Approved May 29, 1973.)