

A REPORT
of the
CREDIT UNION
at the
VETERANS ADMINISTRATION REGIONAL OFFICE
Roanoke, Virginia
by
George Montford Tawes

VIRGINIA POLYTECHNIC INSTITUTE
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MASTER'S DEGREE
in
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"THE REAL JOB OF THE CREDIT UNION IS TO
PROVE, IN MODEST MEASURE, THE PRACTICALITY OF
THE BROTHERHOOD OF MAN."

-Roy F. Bergengren

ACKNOWLEDGMENT

I wish to take this opportunity to thank
[REDACTED] for her trouble and time used
in assisting me in securing the material necessary
for this thesis. [REDACTED]

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INTRODUCTION

I. Basic Credit Union History

From our historical viewpoint, Germany is the birthplace of credit unions as we know them. Egyptian and Babylonian manuscripts tell of men selling their souls for enough to buy a little seed which they would laborously cultivate, only to owe most of the harvest to the lender. The plight of the people of Germany in 1850 was hardly less desperate. In the city and in the country they earned too little. The food and supplies they had to buy cost too much. They were thus the natural victims of the unscrupulous, soulless money lenders.

In the city, Schulze-Deletzsche set out to do something about this. He came first and was conservative and materialistic. The Schulze-Deletzsche system served small tradesmen and artisans in the towns and cities and more nearly resembled a banking system. 1)

In the country it was Raiffeisen. Raiffeisen was mayor of two country towns between 1846 and 1865 and was distressed by the plight of his people. His first cooperatives were really not cooperatives, but were organizations by which he persuaded the rich to make seeds and supplies available at cost and to pool funds which the poor people might borrow at low interest rates. However he soon decided that self-help societies must be developed. He started the first of these, using Schulze-Deletzsche as a model, in 1864. He developed 425 local socie-

1) R.F. Bergengren-Cuna Emerges p. 12; Rolf Nugent-A Credit Union Primer pp. 7-12; Garis-Principles of Money Credit and Banking p. 439.

ties and a federation of these societies. This federation provided an advisory service, published a semi-monthly paper, owned a library and press, promoted the organization of new societies, trained officials, provided insurance contracts, and was the general forerunner of the Credit Union National Association.²⁾

During the last half of the nineteenth century this rural development in Germany served as a model for a similar one in Italy, where it was under the leadership of Luiga Luzzatti and Leone Wollemborg, and had the support of the Catholic Church. Here the form of our present operation was being crystallized. The current practice of requiring a small entrance fee was introduced. Endorsement as security was stressed. Luzzatti called it "capitalization of honesty." In 1913 there were 2,094 of these rural credit societies in Italy.³⁾

The father of the Canadian credit union was Alphonse Des Jordins, a journalist of Quebec. He organized the first Canadian credit union at Levis, Quebec, in 1900 and organized 150 other credit unions with Catholic help. He also organized the first credit union in the United States in the St. Marie Parish of Manchester, New Hampshire, in 1909.⁴⁾

-
- 2) R.F. Bergengren-Cuna Emerges pp. 12-13; Rolf Nugent-A Credit Union Primer pp. 7-12; Garis-Principles of Money Credit and Banking p. 992; James-The Economics of Money Credit and Banking p. 439.
 - 3) R.F. Bergengren-Cuna Emerges pp. 13-14; Rolf Nugent-A Credit Union Primer p. 7; Garis-Principles of Money Credit and Banking p. 993.
 - 4) R.F. Bergengren-Cuna Emerges pp. 14-16; Rolf Nugent-A Credit Union Primer, pp. 8-13; Garis-Principles of Money Credit and Banking p. 993.

Credit unions in the United States are modeled after these European credit unions as adopted in Canada, but they also owe a debt to the credit societies of India.

The first general credit union legislation in this country was passed in Massachusetts in 1909. Edward A. Filene traveled about India and studied the credit unions set up in Indian villages. Filene was deeply impressed by the soundness of the idea, and brought home his enthusiasm. This played a major part in getting the Massachusetts law passed. In 1921 Filene established the Credit Union National Extension Bureau. The purposes of this Bureau were: 1. to get the needed enabling laws; 2. to organize credit unions to serve as examples; 3. to increase the number of credit unions to the point where it would be possible to organize self-sustaining state leagues and a national association of these leagues. These goals were achieved in 1934 when the constitution of the Credit Union National Association was drawn up and signed. 5)

John Sprunt Hill, a member of a United States Commission to investigate rural credit agencies abroad, drafted the North Carolina rural credit union laws in 1915 as a result of his studies. 6)

Between 1921 and 1935 credit union laws were enacted in thirty-seven states. A law for the District of Columbia was

5) R.F. Bergengren-Cuna Emerges pp. 18-23, 33, 184, 219-220, 223; J. T. Holdsworth-Money and Banking p. 238; Prather-Money and Banking p. 622; White-Money and Banking p. 666; F.C. James The Economics of Money Credit and Banking p. 344.

6) R.F. Bergengren-Cuna Emerges - p. 20.

enacted by Congress in 1932, and in 1934, Congress enacted Senate Bill 1639 which makes credit union organization possible everywhere in the United States. During the period over 3000 credit unions were organized with 750,000 members. Thirty-five state leagues of credit unions were organized. In August 1934 a Constitutional Convention of credit unions was held at Estes Park, Colorado, attended by fifty-two delegates from twenty-two states. A Constitution and By-laws for the Credit Union National Association were adopted. Between October and December 1934 it was ratified by thirty-five states. The first national board meeting of the Credit Union National Association was held on January 27, 1935 at Kansas City, Missouri. 7)

7) R.F. Bergengren-Cuna Emerges pp. 17, 30-32.

II. Social Significance of the Federal Credit Union in the United States

A. What the Federal Credit Union is

Section 2 of the Federal Credit Union Act defines a Federal Credit Union as: "A cooperative association organized in accordance with the provision of this chapter for the purpose of promoting thrift among its members and creating a source of credit for provident and protective purposes."

The Federal Credit Union is a corporation chartered and supervised by the Federal Government through the Bureau of Federal Credit Unions. The powers of Federal Credit Unions are set forth under Section 7 of the Federal Credit Union Act.

Section 9 of the Federal Credit Union Act limits the organization to groups having a common bond of occupation, association, or residence. This requirement of law limits the activity of Federal Credit Unions to well-defined groups having a feeling of cohesiveness and neighborliness which is an incentive to cooperate with each other in solving their financial problems.

In a Federal Credit Union, ownership and control are vested in the members. This subject will be considered in more detail when the members are discussed.

The terms of Section 16 of the Federal Credit Union Act provide for merger, consolidation, or dissolution of Federal Credit Unions under rules and regulations issued by the supervising authority.

B. What the Federal Credit Union Does

The true success of a credit union is not measured by the amount of money it accumulates or the amount of dividends it pays on investments. Instead its true worth is shown through the years by how well it served the people in their need to form habits of thrift, to pull themselves out of financial difficulties without recourse to high rate money lenders, and to educate themselves generally in the control of their own finances.

Credit unions encourage their members to use their share accounts to accumulate savings out of income. In this way they build economic security for themselves and families. 8)

In a Federal Credit Union the money accumulated by the savings of members is used by the members through loans to them granted upon the judgment of persons elected by the members for that purpose. 9)

"Credit unions eliminate usury by providing its members, when in urgent need, with a source of credit at reasonable costs which they could not otherwise obtain. It promotes industry by enabling its members to borrow for productive and other beneficial purposes. It trains its members in business methods and self-government, endows them with a sense of social responsibility, and educates them to a full realization of the value of cooperation." 10)

8) N.R.Neifield-Credit Unions in the United States p.323;
White-Money and Banking p. 667.

9) N.R.Neifield-Credit Unions in the United States p. 339.

10) Rolf Nugent-A Credit Union Primer p. 17.

Individual credit unions are more formally organized into provincial and state leagues, usually with a paid staff of at least one. The leagues are united into the federation called the Credit Union National Association or CUNA. CUNA obtains for credit unions low cost banding. It gives personal advice and assists through a field staff as well as by correspondence. It publishes "Bridge," a monthly publication dealing with credit union operating and promotional problems. It serves as a clearing house for the development of all phases of credit union action, including legislative, organizational, and promotional. It also has two affiliate organizations: the Cuna Mutual Insurance Society and the Cuna Supply Cooperative. The Cuna Mutual Insurance Society provides loan protection insurance, life savings insurance, home protection insurance, and individual life insurance. All of these are especially designed for credit unions and their members at low cost. Cuna Supply Cooperative provides operating and promotional supplies, also especially designed for credit unions. These organizations are ultimately owned and controlled by the credit union members. 11)

C. Membership in the Federal Credit Union

The increase in membership is the result, in part, of the organization of new credit unions, and in part, the growth of existing credit unions. The increase in membership and growth in shareholdings, which represents savings by members, are evidence of the promotion of thrift by Federal Credit Unions.

11) T. W. Daig-The Credit Unions Proper Place in History.
January 1947 "Bridge" p. 8.

Figures showing the increase in membership in the Federal Credit Unions since 1935 are given in Table 1.

According to Table 1 the number of members of all Federal Credit Unions increased from 118, 665 members in 1935, to 1,628,339 members in 1948. This is a 1,509,674 increase. Membership increased from 1947 to 1948, 182,424, or nearly 13 percent over 1947. Continued growth in existing Federal Credit Unions raised the average membership to 401 which was the highest on record.

The average number of members of Federal Credit Unions chartered and organized in the year 1948 was 143, while those that were started during 1947 had an average membership of 267 by the end of 1948. Credit unions operating longer progressively increase their average membership. Thirty-nine percent of the 4,202,104 persons eligible for membership in Federal Credit Unions have joined. Although the ratio of actual to potential members is increasing, many Federal Credit Unions could more than double their membership by intensifying their educational activities. 12)

D. Extent and Growth of the Federal Credit Unions

The information below is condensed from the Federal Credit Unions Report of Operations for the year 1948. This report is published by the Federal Security Agency, Social Security Administration, Bureau of Federal Credit, Unions, Washington, D. C. If the reader desires more extensive information on this subject I suggest he obtain the report.

12) Federal Credit Unions Report of Operations for the Year 1948.

TABLE 1.

Number of Members, Amount of Shares, and Amount of Loans
Outstanding December 31, Reporting Federal Credit
Unions 1935-48

Year	Number of Reporting Credit Unions	Number of Members	Amount of Shares	Amount of Loans
1935	762	118,665	2,224,610	\$ 1,830,489
1936	1,725	307,651	8,572,776	7,399,124
1937	2,296	482,441	17,741,090	15,772,400
1938	2,753	631,436	26,869,367	23,824,703
1939	3,172	849,806	43,314,433	37,663,782
1940	3,739	1,126,222	65,780,063	55,801,026
1941	4,144	1,396,696	96,816,948	69,249,487
1942	4,070	1,347,519	109,498,801	42,886,750
1943	3,859	1,302,363	116,988,974	35,228,153
1944	3,795	1,303,801	133,586,147	34,403,467
1945	3,757	1,216,625	140,613,962	35,155,414
1946	3,761	1,302,132	159,718,040	56,800,937
1947	3,845	1,445,915	192,410,043	91,372,179
1948	4,058	1,628,339	235,008,368	137,642,327

Source: Federal Credit Unions Report of Operations for the Year 1948.

At the close of 1948 there were 166 charters held by inactive Federal Credit Unions including 101 in the process of liquidation, one under suspension, and 64 that received their charters too late in the year to begin operations. Table 2 presents the changes in the number of Federal Credit Unions for each year since 1935.

During the period 1935 through 1939 more than 400 Federal Credit Unions were added each year to those in operation. The number of operating Federal Credit Unions declined during 1942, 1943, 1944 and 1945 because the number of liquidations exceeded the number of new charters granted in those years. Conditions resulting from the war depressed the rate of organization and accelerated the rate of liquidations. Since 1945 the number in operation has increased each year. During 1948 the number of operating Federal Credit Unions increased 213, which is more than twice the net gain made in 1947.

Growth has been gradual since the first credit union was chartered October 1, 1934, and shows the strengthening of the established credit unions. It has been demonstrated that growth in assets may be slow in individual cases until sufficient size is attained to permit effective loan service to members. After this point is reached, growth may be rapid for a period of years. Since larger Federal Credit Unions usually maintain regular office hours and more likely to have employees who devote their time exclusively to work of the credit union, better service which stimulates further growth in assets

TABLE 2.

Changes in Number of Federal Credit Unions

1935-48

Year	Number of Charters			Number of Charters Outstanding at end of year		
	Granted	Canceled	Net Change	Total	Inactive Credit Unions	Operating Credit Unions
1935	1) 906	---	1) 906	906	134	772
1936	956	4	952	1,858	107	1,751
1937	638	69	569	2,427	114	2,313
1938	575	83	432	2,859	99	2,760
1939	529	93	436	3,295	113	3,182
1940	666	76	590	3,885	129	3,756
1941	583	89	494	4,379	151	4,228
1942	187	89	98	4,477	332	4,145
1943	108	321	-213	4,264	326	3,938
1944	69	285	-216	4,048	233	3,815
1945	96	185	-89	3,959	202	3,757
1946	157	151	6	3,965	204	3,761
1947	207	159	48	4,013	168	3,845
1948	341	130	211	4,224	166	4,058

1) Includes 78 charters granted in 1934

and membership may be provided. In addition, larger Federal Credit Unions are able to make larger loans. The percentage distribution of Federal Credit Unions grouped according to size is presented in Table 3.

In 1935 more than 90 percent of the operating Federal Credit Unions had assets of less than \$10,000, while at the end of 1948, 26 percent had assets below this amount. The number with assets in excess of \$100,000 accounted for only one-tenth of one percent of all Federal Credit Unions in 1935. Thirteen years later 16 percent of all operating Federal Credit Unions had assets in excess of \$100,000.

During 1948 the growth in assets of Federal Credit Unions continued. At the close of the year, the average assets for the 4,058 operating Federal Credit unions amounted to \$63,680, which represents an increase of 16 percent. The number of credit unions with total assets of less than \$1,000 increased from 72 to 101 in 1948. This resulted from the addition, late in the year, of new Federal Credit Unions to those in operation. At the same time, the number of Federal Credit Unions with assets of \$100,000 and over increased from 528 to 656. The number with total assets of \$1,000,000 or more increased from eight to ten.

Among the Federal Credit Unions chartered and organized during 1948, average assets were \$6,000. Those that were started during 1947 had average assets in excess of \$21,000 as of December 31, 1948. The rate of growth of newly chartered credit unions has increased rapidly during the past few years.

TABLE 3.

Percentage Distribution of Federal Credit Unions
Grouped According to Amount of Assets

1935-48

Year	All Federal Credit Unions			Percentage of Federal Credit Unions with Assets of		
	Number	Percent	Less than \$1,000	\$1,000 to \$9,999	\$10,000 to \$99,999	\$100,000 and over
1935	762	100.0	45.8	47.9	6.2	0.1
1936	1,725	100.0	27.1	59.8	12.9	.2
1937	2,296	100.0	20.1	58.6	20.7	.7
1938	2,753	100.0	15.8	55.7	27.5	1.0
1939	3,172	100.0	10.9	51.7	35.6	1.8
1940	3,715	100.0	9.9	46.5	40.8	2.8
1941	4,144	100.0	8.4	42.2	45.0	4.4
1942	4,070	100.0	6.1	41.2	47.1	5.6
1943	3,859	100.0	3.9	39.3	50.1	6.7
1944	3,795	100.0	2.7	36.2	53.3	7.8
1945	3,757	100.0	1.9	33.9	55.2	9.0
1946	3,761	100.0	2.0	30.6	56.5	10.9
1947	3,845	100.0	1.9	26.7	57.7	13.7
1948	4,058	100.0	2.5	23.7	57.6	16.2

Source: Federal Credit Unions Report of Operations for the Year 1948.

CREDIT UNION AT THE VETERANS ADMINISTRATION
REGIONAL OFFICE IN ROANOKE, VIRGINIA

I. INTRODUCTION

In 1947 a group of enterprising employees of the Veterans Administration Regional Office in Roanoke, Virginia, decided they would like to have a credit union of their own. This credit union first started operation under the Federal Credit Union Laws in May 1947. It is called the VARO Federal Credit Union and operates under Federal Charter 5486. VARO stands for Veterans Administration Regional Office.

The first Financial and Statistical Report was published in June 1947, one month after the credit union was organized. This report, Form FCU 109, illustrated in Figure 1, is published monthly.

In June 1947, there were 149 members with 11 members having a total of \$690.00 in loans. The December Financial and Statistical Report of that year carried 202 members with 90 members holding \$4123.25 in loans. In December 1948 membership jumped to 290 members with 98 members having loans amounting to \$7270.00. One year later there was a decrease of 55 in membership, but those obtaining loans were still on the increase. The Financial and Statistical Report published in December 1949 carried 235 members with 124 members holding a total of \$13,855.20 in loans.

From May 1947 to December 1949 this credit union has made a total of 479 loans amounting to \$52,149.50.

FINANCIAL AND STATISTICAL REPORT

For Period Ended _____, 19____ Charter No. _____

CREDIT UNION

Address _____

BALANCE SHEET				STATEMENT OF INCOME AND EXPENSE		
ACCT. NO.	ASSETS		END OF THIS MONTH	ACCT. NO.	INCOME	THIS YEAR TO DATE
101	Loans:	NUMBER	UNPAID BALANCES	401	Interest on Loans	
(a)	Current and less than 2 months delinquent			405	Income from Investments	
				406	Profit on Sale of Bonds	
(b)	Military Loans			204	Cash Over and Short	
	DELINQUENT:			409	Other Income	
(c)	2 months to 6 months				Total Income	
(d)	6 months to 12 months					
(e)	12 months to 18 months					
(f)	18 months and over				EXPENSES	
(g)	Total Loans			201	Interest on Borrowed Money	
102	Notes and Contracts Receivable			202-1	Treasurer's Salary	
104	Cash			202-2	Other Salaries	
105	Petty Cash			202-3	Stationery and Supplies	
106	Change Fund			202-4	Cost of Space Occupied	
107	U. S. Bonds			202-5	Educational Expense	
108	Federal Savings and Loan Shares			202-6	Borrowers' Insurance	
109	Loans to Other Credit Unions			202-7	Depreciation of Furn., Fix. and Equip.	
110	Interest Purchased on Bonds			202-8	Collection Expense	
111	Assets in Liquidation			202-9	Surety Bond Premium	
112	Furniture, Fixtures, and Equipment			202-9	Other Insurance	
113	Unamortized Organization Cost			202-9	Examination Fees	
115	Other Assets			202-9	Supervisory Fee	
				202-9	Miscellaneous General	
				203	Reserve Adjustments for Bad Loans Charged off	
				204	Cash Over and Short	
	Total			205	Losses on Sale of Bonds	
	LIABILITIES			206	Other Losses	
301	Accounts Payable					
302	Notes Payable					
303	Matured Interest Payable					
306	U. S. Savings Bond Remittances Payable					
307	Dividends Authorized					
309	Deferred Profits on Liquidation of Loans				Total Expenses	
				313	Net Profit	
				313	Net Loss	
				ITEM	STATISTICAL INFORMATION	
				1.	Number of accounts at end of period	
310	Shares			2.	Number of potential members	
311	Reserve for Bad Loans			3.	Loans made since organization—No.	
316	Special Reserve for Delinquent Loans			4.	Loans made since organization—Amt.	
				5.	U. S. Savings Bonds Sold to date—No.	
312	Undivided Profits			6.	U. S. Savings Bonds Sold to date—Amt.	
313	Profit and Loss			7.	Loans Charged Off to date—Amt.	
	Total			8.	Recoveries on Loans Ch'd. Off to date—Amt	

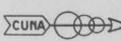
II. ORGANIZATION

A. The Members

1. Membership

To become a member of this credit union one must be employed at the Regional Office. The prospective member must apply for membership and pay an entrance fee of twenty-five cents. This entrance fee is advisable in order to defray the organization expenses without impairing its capital, and make provisions for the admission of new members upon an equitable basis when the book value of shares is in excess of their par value. No other fees are charged. Membership is limited to persons elected by the board of directors although they elect almost all applicants to membership. Membership is greatly encouraged. Applicants for membership fill out Form FCU 150, illustrated in Figure 2. This application is made out in ink and all names written in full.

Figure 2.

Book Number	NAME (to be filled in by the treasurer)		
Residence or Post Office Address			
Occupation	Division or Department	Telephone or Ext. No.	
Date of Birth	Husband's first name or wife's maiden name		
I hereby make application for membership in the			
Credit Union and agree to conform to its laws and amendments thereof and subscribe for at least one share.			
SIGNATURE: 			
This application approved by the Board of Directors and entered			
Date:	Clerk:		
 Form FCU-150		Printed in U.S.A.	

All applications of elected members are numbered in order of election and filed alphabetically. This file is useful both as a means of verifying signatures and also as a cross reference for looking up account numbers.

It is also possible for two or more members to have joint membership in the credit union. All sums invested in shares, and all dividends can be owned jointly. In case of death of any one or more of the joint members, all rights and privileges go to the survivor or survivors. Form 202A illustrated in Figure 3 is a joint membership agreement.

Figure 3.

JOINT MEMBERSHIP AGREEMENT

The undersigned hereby apply for a joint membership in the.....

.....

credit union, and, in consideration of the approval of applicants in joint membership by the said credit union, do hereby agree each with the other and with the said credit union, that all sums now invested in shares or hereafter paid in as payments on shares, and all dividends therefrom shall be owned by us jointly with the right of survivorship, and shall be subject to withdrawal by either or the survivor of us and said payments upon withdrawal shall be valid and release and discharge such credit union from any payments so made.

In case of the death of any one or more of said joint members all rights and privileges of membership and all rights and privileges of ownership in all shares held jointly in said credit union shall be vested in the survivor or survivors.

Dated:.....

.....

.....

.....

} Joint Members

 Form 202-A  

A pass book is given to each member and it must be presented when paying or receiving money. Figure 4 gives a sample of this pass book.

Figure 4.

BOOK No. _____

NAME _____

ADDRESS _____

CITY _____ STATE _____



© CUNA

"TEACH YOUR DOLLARS
TO HAVE MORE CENTS"

CREDIT UNION

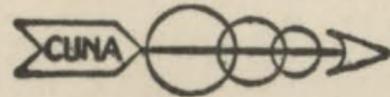
CUNA  FORM 3 PRINTED IN U. S. A. 

No. _____

M _____

IN ACCOUNT WITH THE

CREDIT UNION



FORM 107

In case this pass book is lost,
notify the Treasurer at once in writing.

Published and distributed by the
CUNA SUPPLY COOPERATIVE
An affiliate of the Credit Union National Association
Raiffesen House, Madison, Wisconsin
Printed in U. S. A.



Always Present this book when paying or receiving Money

This Book No. _____ Certifies that

M _____

Address _____

has been duly elected a member of the

_____ **CREDIT UNION**

No other receipt for payments on Shares, Repayments of Loans, Interest or Fines will be given. Transferable to qualified members only. Checks credited only subject to collection.

No payment will be accepted or paid out at the office without this pass book. Where payments are forwarded by mail or otherwise, the book should be presented for posting.

Repayments on Loans, and Interest **MUST BE MADE** as per Note and By-Laws. Fines for non-payment of loans and shares will be levied unless excused by the Board of Directors.

SHARES

DATE	PAID IN	WITHDRAWN	BALANCE	FEE FINES	CASHIER
------	---------	-----------	---------	--------------	---------

NOT TO BE USED

BOOK No. _____ NAME _____

LOANS

DATE	LOANED	REPAID	BALANCE	INTEREST	FINES	CASHIER
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2. Control by Members

The absolute control of the credit union lies in its members. This is accomplished through action taken at the annual meetings held during January of each year, and through special meetings which may be called from time to time.

Members elect directors and committeemen; exercise democratic control over the credit unions activities; and receive reports each year from the board of directors, committees, and administrative officers.

The board of directors and committees are directly responsible to the members for the proper exercise of the authority and responsibility delegated to them. The members have broad powers to replace officials who fail to carry out their wishes with respect to operation of the credit union.

3. Shares

Savings by members are made in the form of share purchases each being valued at five dollars. A low par value of shares is fixed so that no eligible person shall be deprived of membership and that no member shall be deprived of the full privileges of membership. In February 1950 the board of directors established the total amount of share-holding a member might have in this credit union at any one time as \$900.00. Prior to that time it was \$800.00. This limit is necessary because if one or more members were allowed to hold a large proportion of the shares, they might influence unduly the policies of the union.

Savings may be made in amounts as small as twenty-five cents per month and may be withdrawn at will. The application for shares withdrawal, Form FCU 114, is illustrated in Figure 5. The credit union's board of directors may require two months notice for withdrawal of funds as in a savings bank, but this provision is seldom invoked. The regular savings by small sums is encouraged.

4. Meetings

The annual meeting of the members is held in January of each year. Special meetings may be held from time to time. Meetings not prescribed in the by-laws are special meetings. Each member present at annual or special meetings has one vote. Voting is done by show of hands and no voting is done by proxy. The officers of the credit union are considering holding socials at annual meetings to encourage attendance by members. Section 10 of the Federal Credit Union Act and Article V of its by-laws contain complete information with respect to the conduct of meetings of members.

B. Board of Directors

The directors consist of five members elected by the members of the credit union. Any borrowing or non-borrowing member of the credit union may be nominated and elected to the board of directors. A member may not serve on both the board of directors and the supervisory committee. Persons

APPLICATION FOR SHARE WITHDRAWAL

Book No. _____

Date _____

Payroll No. _____

TO: _____
Federal Credit Union

Please issue to me and _____ a check in the amount
(Name of any other person)

of _____ (\$ _____) and charge to my shares account.

Signed _____

APPROVED BY:
Credit Committee*

Check No. _____

_____ (Initials)

Date of Check _____

Co-makers and/or Endorsers**

_____ Signature

_____ Signature

* Must be approved by the credit committee if this withdrawal reduces shares balance to an amount less than loan liability as maker, co-maker and/or endorser.

** Also must be approved by co-makers, and/or endorsers on outstanding loan of maker.

Figure 5.

should be well qualified for their positions, and willing to give unselfishly of their time and effort.

Elections for the board of directors take place at annual meetings. Elections to the board are held in such a manner that the terms of office of not more than a bare majority of the board shall expire at the same annual meeting. The term of office is two years. The manner of electing directors and their term of office are stated in Article VII, Section 2, of the Credit Union Bylaws.

1. Meetings

The board of directors meets in the second week of each month. Sometimes it is necessary and desirable to meet more often in order to maintain proper control over the affairs of the credit union.

2. Duties

Sound leadership, which is the key to success in a credit union, depends on the individual directors.

It would not be possible to list all the actions which might conveniently be required of the board of directors. The following list however, will give some idea of the nature of policies and actions which may be required to consider from time to time:

- 1) Provision for office space and facilities
- 2) Election of officers
- 3) Purchase of supplies and equipment

- 4) Manner of notice to directors of board meetings
- 5) Approval of minutes of previous meetings of the board
- 6) Filling vacancies on board and committee
- 7) Credit union business days
- 8) Election of new members
- 9) Establishing a cash fund for making change
- 10) Designation of depository for credit union funds
- 11) Investment of funds not required for loans to members
- 12) Borrowing on behalf of credit union
- 13) Maximum shareholdings for members
- 14) Savings regulations for borrowers
- 15) Limits on loans
- 16) Terms of loans
- 17) Interest rate to be charged on loan
- 18) Security on loans
- 19) Requirements as to insurance on chattels accepted as security on loans
- 20) Collection action on delinquent loans
- 21) Disposition of uncollectible loans
- 22) Policy on fines
- 23) Fixing salary of employees
- 24) Educational program
- 25) Amendment of by-laws

C. The Officers

Section II (b) of the Federal Credit Union Act and Article VIII, Section I, of the by-laws, provide that the

officers of the credit union shall be elected by the board of directors and from their number. Officers provided for in the law are president, vice-president, treasurer and clerk.

The officers are directors who are chosen to perform certain management functions. They have certain responsibilities as officers in addition to their responsibilities as directors. Officers are elected at the first meeting of the board of directors following the annual meeting of members. The term of office for officers is one year.

1. President

The president is the chief executive officer of the credit union. It is his responsibility to preside at and conduct meetings of the board of directors and of the members. He sees that members and non-members are continually informed of the availability of the service and the advantages of using the credit union for credit needs and regular savings. The president is an executive and leader, not a figurehead.

The president is required to countersign all checks, notes and instruments obligating the credit union. This responsibility is not taken lightly. He knows where credit union funds go and that they are paid out for a proper purpose. This is a safeguard both to the members and the treasurer.

Whenever it is necessary the president calls special meetings of the board. When at least three directors request the president in writing to call a special meeting, he is required

to do so in accordance with the by-laws. He also carries out the instructions of the board.

The president as chairman of the board of directors, presents the annual report to the board.

The by-laws require the president to appoint a nominating committee thirty days before the annual meeting. The purpose of this is to put before the members names of people who are not only capable but willing to serve. The nominating committee should never be used to perpetuate a certain group of persons in office and is not intended to discourage nominations from the floor.

2. Vice-President

The duties of the vice-president are to act as president whenever the president is absent or unable to perform his duties. He is usually given some duties to perform even when the president is on the job. The office of president is one for which the by-laws specifically provide an "understudy" who will be ready to take over when the president is unable to act.

3. Treasurer

The treasurer is responsible for doing and supervising most of the detailed work of the credit union. She (the present treasurer is a woman) is responsible for maintaining a complete record of all transactions of the credit union. The present treasurer has been in office since this

credit union was first organized. The treasurer has charge of receiving, recording, depositing, and distributing funds. The treasurer is responsible for signing on behalf of the credit union, all instruments of disbursements or obligations. She is charged with determining that any such instrument is properly authorized and in accordance with the laws, the by-laws, and any instructions of the board. The treasurer is responsible for all cash received and placed under her control. She is the only officer in the credit union who is bonded.

The treasurer prepares the monthly financial and statistical report for the board of directors. These reports illustrated in Figure 1 are posted on the main bulletin board located in the lobby of the Veterans Administration Regional Office to keep members informed. She is required to submit biannual reports to the Bureau of Federal Credit Unions by June 30 and December 31. She also prepares an annual report summarizing the year's business and presents it at the annual meeting.

The treasurer, together with the president, is responsible for carrying out the board's instructions relative to outside instruments or borrowing.

The first step that will be taken when a change in treasurer occurs is the transfer of all cash on hand and negotiable securities held by the credit union from the retiring treasurer to her successor in office. All cash on hand is recorded on the books of the credit union by the retiring treasurer and she will see that her records and accounts are in order, and

that she has made proper accounting for cash, loans, and other assets.

Moneys and securities will be carefully counted and the retiring treasurer will obtain a written receipt for them from her successor. A copy of the receipt will be placed among the permanent records of the credit union as evidence of the proper accounting for funds transferred.

The supervisory committee will be requested to witness the transfer of assets and to make an audit of the books and affairs of the credit union as of the date upon which the retiring treasurer relinquishes control of the records.

It is expected that the present treasurer will continue to hold office for some time to come as she has done a very efficient job. I believe she will continue to be elected to office.

The treasurer of this credit union is not compensated for her work although the credit union gave her fifty dollars in 1948 and one hundred dollars in 1949. The treasurer's work is increasing with the growth of the credit union. The board of directors are considering paying her a small salary as much of the credit union's work now has to be done at home in the evenings.

4. Clerk

The office of clerk is combined with that of the treasurer and is filled by the same person. It is not advisable to combine these offices, but as the credit union continues to grow I believe a separate person will act as clerk.

The additional duties required by the treasurer in acting as clerk gives an extra burden to the treasurer. The clerk is required to keep and sign accurate minutes of all of the board of director's and members' meetings. The clerk is required to prepare and give written notice of all members' meetings in accordance with the by-laws. Another duty is to prepare and send an annual election report and a notice of any changes in the management to the Regional Representative, Bureau of Federal Credit Unions, Federal Security Agency, 10 Forsyth Street Building, Atlanta, Georgia.

D. The Committees

1. The Credit Committees

The credit committee is composed of three members who should be persons of good judgment and who inspire the confidence and respect of the members. They should have an understanding and appreciation of the financial problems encountered by the average member and have the patience to assist in the solution of these problems. Members of the credit committee are elected to serve for two year terms, by the members at the annual meeting. Vacancies that occur during the year are filled by the board of directors until the next annual meeting.

The work of the credit committee involves one of the greatest services a credit union member is privileged to render his fellow members. It calls for firmness tempered by faith and tolerance in making decisions that may vitally influence the economic welfare of others.

Credit committee members elect from their own number a chairman and secretary, both positions being held by the same committee member.

a. The Secretary's Duties

The secretary prepares and maintains minutes of all actions taken by the credit committee. A regular form FCU 203, illustrated in Figure 6, is used for this purpose. The minutes are prepared during or immediately following the meeting while the transactions are still fresh in the mind of the secretary. Separate minutes are prepared for each meeting and each copy of the minutes are signed by the secretary. In the absence of the secretary, temporary officials do the job.

b. Meetings

Following each annual meeting of the members, the credit committee meets and organizes for the ensuing year. At such meetings the committee elects the secretary and chairman.

The credit committee meets once every month. When necessary, the credit committee is prepared to render emergency service on short notice. The committee can legally

The following applications were rejected:

BOOK NO.	NAME	AMOUNT	REASON

Release of collateral was approved in the following cases:

BOOK NO.	NAME	BALANCE OF LOAN	COLLATERAL RELEASED

Withdrawal of funds by borrowers, indorsers, and guarantors was approved in the following cases:

BOOK NO.	NAME	AMOUNT OF WITHDRAWAL	REMARKS

The following actions were also taken by the committee:

Signed _____ Chairman Secretary of Committee

act, however, only at an actual meeting where there is opportunity for free discussion and group consideration. Credit union members should not be encouraged to take advantage of the willingness of the committee to hold special meetings in emergencies.

c. Duties

In addition to the official minutes of the credit committee, the credit committee indicates its decisions regarding requests for loans submitted on application form FCU 200, illustrated in Figures 7 and 8. The decision of the committee is clearly and neatly set forth on the loan application. Erasures and alterations are strictly avoided as well as crumpling or soiling of the form. The loan application becomes a permanent record of the credit union and is prepared and preserved with this thought in mind.

The by-laws require that all transactions of the members with the credit union shall be kept strictly confidential. Almost nothing can do more harm to the credit union than a credit committee member who can not hold the work of the committee in confidence. The average person desires to keep his financial affairs to himself, particularly when he is borrowing money. The committee does not conduct its meetings in places that are public and care is taken to divulge no information whatsoever concerning the individual transactions of borrowers.



Book No. _____

Note No. _____

Credit Union

APPLICATION FOR LOAN

I hereby apply for a loan of \$ _____ for a period of _____ weeks months, to be repaid in _____

weekly }
semi-monthly } installments of \$ _____ each plus interest; I prefer the first payment to fall due on _____
monthly }

I desire this loan for the following purpose (explain fully): _____

Comakers or security offered _____

I hereby certify that all statements made, including those on the reverse side hereof, are true and complete and submitted for the purpose of obtaining credit.

Date

Signature of Applicant

Address

At a meeting held on _____, 19____, we approved a loan in the amount and on the conditions requested by the above applicant, except as to the following (list any changes in amount, terms, or conditions below):

The committee's action is recorded in the minutes of _____, 19____.

(All committee members present must sign.)

Credit Committee

Figure 7.

Figure 8.
(Back of Form FOU 200)

APPLICANT'S STATEMENT

I am indebted to the following creditors (list all debts such as doctor bills, installments, loans, etc. Attach additional sheet if necessary):

Creditor	Address	Amt. Owing
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____

Employer _____ Address _____
 Date employed _____ Position _____
 Clock or Payroll No. _____ Date of Birth _____
 Weekly/monthly salary \$ _____ Other income, annual \$ _____
 Wife's/husband's name _____ Dependents, No. _____
 Is wife/husband employed? _____ Weekly/monthly salary \$ _____
 Auto owned, Make _____ Year _____ Mtr. No. _____
 Real estate owned at reasonable market value \$ _____
 Location _____
 References _____

COMAKER'S STATEMENT

Name of comaker _____
 Address _____ Phone _____
 Employer _____ Address _____
 Position _____ Weekly/monthly salary \$ _____
 Wife's/husband's name _____ Dependents, No. _____
 Real estate owned at reasonable market value \$ _____
 Location _____
 References _____

Name of comaker _____
 Address _____ Phone _____
 Employer _____ Address _____
 Position _____ Weekly/monthly salary \$ _____
 Wife's/husband's name _____ Dependents, No. _____
 Real estate owned at reasonable market value \$ _____
 Location _____
 References _____

The annual report to the members winds up the work of the credit committee for the calendar year.

2. The Supervisory Committee

The supervisory committee is composed of three persons who are elected by the credit union members. One person serves for a term of one year and two serve for two years. They function independently of the control of any other official. They handle none of the transactions of the organization, therefore, are able to give constructive criticism in an impartial manner. They have the power to take action if the operating officials violate the by-laws or mishandle the organization in any way. The committee should be tactful and considerate yet firm and insistent where violations are found.

a. Purpose

In order to ascertain the purpose and functions of the supervisory committee, it is first necessary to realize that control of the affairs of the credit union is vested in the members. As a body they are too large to perform the work of the organization, therefore, certain qualified persons are selected from their number to carry out the operations. It is realized that regardless of the confidence the members may place in the elected officials, they are human and, therefore, not perfect. For this reason, some of the operating officials may become careless or even prove to be dishonest. The members need someone who does not pass on loans or handle funds to

scrutinize critically the activities of those who perform these operations, thus the supervisory committee. The powers of this committee should be exercised with discretion.

b. Objectives

The supervisory committee has the important task of safeguarding the assets and interest of members. The committee acts as a watchman constantly on duty to see that the organization is handled so that maximum service may be given with safety. The objectives of the committee are to cooperate closely with the officials of the credit union and to assist in the solution of problems discovered in the analysis and audit of operations. The committee determines whether there have been departures from the practices in the laws, by-laws, and other rulings.

c. Duties

In general the duties of the supervisory committee are outlined in Section II (e) of the Federal Credit Union Act and in Article X of the by-laws. Both the Act and the by-laws are carefully studied by all members of this committee. The committee members have the responsibility of determining whether the other officials are operating the credit union properly, therefore they must know the provisions of the law and instructional material issued by the Bureau of Federal Credit Unions. The manuals published are:

1. The Manual of Accounting Procedure for Federal Credit Unions.
2. The Handbook for Federal Credit Unions
3. The Credit Committee Handbook
4. The Manual of Procedure for Supervisory Committees of Federal Credit Unions

Section II (e) of the Federal Credit Union Act and Article X of the by-laws require the supervisory committee to make at the end of each quarter, an examination of the affairs of the credit union, including auditing its books.

The assets of the credit union are the savings of the members. To determine that these assets have not been mis-handled is the foremost thought in undertaking an audit.

When making audits the committee checks the following:

1. Journal and cash record
2. Individual ledger
3. General ledger
4. Expense ledger
5. Bank reconciliation
6. Bank passbook
7. Bank statements
8. Canceled checks
9. Check books
10. Notes
11. Loan applications
12. Collateral

13. Securities
14. Cash on hand
15. Petty cash vouchers

The supervisory committee Audit Report, Form FCU 110 revised, illustrated in Figure 9, is filled out at the conclusion of each audit period as of June 30 and December 31. This report is sent to the Regional Representative, Bureau of Federal Credit Unions, Federal Security Agency, 10 Forsyth Street Building, Atlanta, Georgia, not later than July 31 and January 31 respectively.

3. The Educational Committee

This credit union has one member on the educational committee who serves for a period of one year. It is advisable though to have a large educational committee so as many members as possible could share in the educational phase of their credit union development.

a. Purpose

Informed membership provides the best foundation for the development and safety of the credit union. The educational committee helps the members to understand the purposes, aims and operation of their credit union so they will be more willing to share responsibility as well as benefits. This results in widespread membership participation and assures democratic control. A good job of membership education is the first step in developing potential leaders.

b. Objectives

The main objective of the credit union is to improve the economic conditions of the people working at the Regional Office. The credit union should bring the best possible service to all persons eligible for membership. Members must participate to obtain the full benefits of credit union service. The educational committee helps members understand and use their credit union, therefore helping to achieve the objectives of the credit union.

c. Duties

The educational committee stimulates membership interest and participation in many ways. The methods used are: personal contact, publications, and encouraging members to participate in credit union activities.

III. THE CREDIT UNION'S FINANCIAL POLICIES

A. Capital

The capital of the credit union consists of the funds paid in upon shares by members, and unpaid dividends created thereon. The Financial and Statistical report for June 1947 revealed that the capital of the credit union for that month was \$1,685.03. This increased to \$4,091.49 by December of that year. The credit union gained momentum through 1948 with the capital increasing to \$7,810.17 by December 1948.

In December 1949 the capital of the credit union was \$16,184.61. The funds of the credit union are deposited with the Mountain Trust Bank, Roanoke, Virginia.

During 1948 it was in the opinion of the board of directors that it was necessary to borrow funds for loans to credit union members. In July 1948 the credit union borrowed \$500 from the Mountain Trust Bank in Roanoke, Virginia, for the purpose of making loans to members. This was repeated in August 1948 when the credit union borrowed \$1000 and again in October 1948 when the credit union borrowed another \$500. These loans have been paid in full.

Since it was not convenient for all the members of the board of directors to negotiate the loan and sign the obligation, binding the credit union to repay it, the board designated the president and treasurer to obtain the loan. The president and treasurer were authorized to sign the note in behalf of the credit union.

B. Earnings

The Financial and Statistical Report revealed that in 1947 the credit union earned \$126.60. In 1948 the earnings were \$518.13 and in 1949 the earnings increased to \$1,046.96 for the year.

C. Losses

The first year the credit union was in operation the loss for bad debts was \$27.50. Since that time there has been no further losses, and the management is pleased with this record. The loss was charged off to profit and loss and in no way affected the dividends paid for that year.

D. Dividends Paid

Under the provision of the Act the members have the power to declare dividends at the annual meetings. The by-laws however, place responsibility for recommending the rate of dividends on the board of directors. The amount of dividends paid depends on the amount earned during the current year, the amount in the undivided profits account, the trend of earnings and expenses and the possible growth of the credit union. This credit union has paid a dividend of six percent since starting operations.

E. Interest Charged

Interest charged on loans up to \$500 is one percent per month on the unpaid balance. At a meeting of the board of

directors held near the end of 1948, it was determined that the interest charged on loans over \$500 would be three fourths of one percent per month on the unpaid balance. This was done in order to compete with other lending agencies.

IV. THE LOAN APPLICATION AND APPLICANT

A. How Members Apply For Loans

When a member applies for a loan, it is common practice to contact the treasurer as she keeps the supply of application forms, FCU 200, illustrated in Figures 7 and 8, on hand. The applicant takes one, completes it, and turns it in for consideration. The officers of the credit union are glad to assist the applicants in making out applications.

Both sides of the loan application are fully completed by the applicant and co-makers in order that the credit committee may have sufficient information to pass on the case intelligently. In cases where co-makers are not necessary, the sections designated for them is left blank.

B. Investigating the Applicant

Although the credit committee should treat the information submitted on the loan application with confidence, the committee is not limited to this information. The committee investigates the applicant from any reliable source available because applicants sometimes become forgetful of important facts concerning their financial condition. If the amount of the loan is large or the application appears weak, the credit committee may request the applicant to appear in person and discuss the loan application in detail.

The treasurer can inform the committee as to the applicants previous loan and share record, his contingent liability as co-maker on outstanding loans, and other pertinent facts. The credit committee should not lean on the treasurer too heavily in regard to the merits of the loan application. This is the responsibility of the credit committee alone and must not in any way be shirked or delegated to any other person.

C. Character of Applicant

Character is a very significant element in the extension of credit. In reviewing the loan application the credit committee looks into the character of the applicant. Honesty, loyalty, responsibility and good habits are all factors of character. Regardless of the security offered and ability to repay, a loan to a person of bad character almost inevitably leads to difficulty. At times the reputation and character of a member may be so bad that the credit committee can not conscientiously approve his loan. Fortunately these cases are rare.

D. Eligibility For Loans

In order to borrow money, an individual must be a member of the credit union. The board of directors have also established the rule that a member must have a minimum share balance of five dollars before he is eligible to apply for a loan. This restriction is legal but of rather doubtful value because a member may be in great need of credit and be denied loan service through inability to meet the requirement.

The credit committee may feel somewhat prejudiced against the person who refuses or neglects to join the credit union until he needs a loan. Credit should not be denied on this basis alone.

Unfortunately there are certain individuals for whom credit seems to hold a peculiar and permanent fascination. They develop a chronic habit of being in debt continuously, much to the detriment of their own personal welfare. The purpose of the credit union is to improve the financial condition of the members and there is concern about the member who needlessly continues in debt. Every effort is made to help the chronic borrower mend his ways, plan his financial future, and live within his income.

E. Loans to Credit Union Officials

The Federal Credit Union Act and the by-laws remove certain temptations by prohibiting loans to members of board of directors, the supervisory committee, and the credit committee in excess of their shareholdings. The law and the by-laws in this regard are strictly observed.

These restrictions on borrowing are found in Section 7 (5) of the Federal Credit Union Act and Article XII, Section 3, of the by-laws.

F. Loans to Members Who Have Left the Field of Membership

Members who have left the field of membership covered by this credit union are not granted loans in excess of their

shareholdings. This is a sound rule. When the bond of association which ties people together is broken the difficulties and inconveniences of investigation and collection are greatly increased.

V. PURPOSE OF LOAN

The credit union by-laws require the credit committee to determine whether or not the loan sought is for a provident or protective purpose. The credit union here is in a unique position, for unlike credit committees of most financial institutions, the committee is as much concerned over the applicant's welfare as over the welfare of the lending organization. It is not enough for a loan to be safe. It must be for a worthwhile deserving purpose that will prove helpful to the borrower. A summary of purposes for which VARO Credit Union loans have been made is given in Table 4.

There will always be emergencies. Unfortunately circumstances such as accidents, illness, or death as well as carelessness or poor management may make a thrifty saver a needy borrower overnight. Often consolidation of debts is an emergency, especially if the member's creditors are pressing him too closely. On the other hand, many loans effectively increase the borrower's income because of the substantial saving through cash purchasing as well as the resultant lower interest costs.

The credit committee keeps in mind these factors and is usually able to decide whether the loan will be beneficial or helpful to the borrower.

Table 4.

VARO CREDIT UNION LOANS

Purpose of Loan	Percentage of Total Loans
House Furnishings	49
Electric Applicances	21
Pay outstanding Bills	14
Doctor Bills	11
Loans for Closing Costs on Homes	4
Automobiles.	1

A. Refinancing Loans

There are numerous reasons why borrowers occasionally desire to refinance their loans. The reasons may be entirely legitimate such as the purchase of new household furniture, the expense of unexpected illness, or other reasons difficult to anticipate at the time the loan was originally made. The request for refinancing may also be due to the improvidence of the borrower who has spent his income unwisely or has incurred additional debts which make him unable to make his loan payments. Sometimes the borrower's affairs may not have been properly adjusted at the time the loan was made.

Refinancing is a method to adjust these difficulties so the loan can be kept in current condition. The credit committee watches very carefully to keep mistakes of this nature at a minimum.

B. Falsifying the Purpose of the Loan

The credit committee is genuinely concerned when a member falsifies the real purpose of the loan on his loan application. Such cases are carefully studied and when necessary, proper disciplinary action is taken.

The credit committee tries to gain the confidence of credit union members and keep from acquiring a reputation for being too severe toward persons somewhat improvident. The credit committee also tries to be thorough in investigating the loan application so members will not be tempted to falsify their real purpose of the loan.

C. Tailor-Made Credit

Loans must be tailor-made and fit the borrower so he can carry the loan comfortably, and without difficulty. This means that the credit committee must be fully informed as to the applicant's obligations, income, and expenses. Extending credit without sufficient information or adequate analysis usually brings much grief during the life of the loan. Regardless of security or character, a loan for an amount or on terms that the borrower can not repay is certainly headed for difficulty.

Some of the important factors deserving consideration in ascertaining the amount, terms, and condition of the loan, will be discussed below.

1. Amount of Loan

This credit union makes unsecured loans up to \$50 and loans secured by co-signers to \$300. It is also possible to finance automobiles through the credit union after the usual one third down payment is made. When buying cars, an excess of \$300 is needed but these automobile loans are secured by a deed of trust or chattel mortgage on the car. The automobile must be fully covered by insurance. The credit union complies with local laws as to obtaining and recording liens. The common practice is to hold the title of the car until payment is satisfied. The size of loans members may secure has grown with the credit union.

2. Terms of Repayments

Repayment of loans may be made over a period of two years is desired. The repayment schedule of the loan corresponds with the borrower's anticipated income and his ability to pay. Loan installments, plus interest, are payable semi-monthly or monthly, beginning with the first payday following the granting of the loan.

This credit union does not engage in any payroll deduction plan.

a. The Extension Agreement

Unfortunate circumstances such as sickness, accidents, death or others beyond the borrower's control may prevent him from living up to the agreed terms of his loan. In such cases, when necessary and advisable the borrower may apply for an extension of the terms of repayment on a basis he can meet. The Form FCU 115 illustrated in Figure 10 is a copy of the Extension Agreement used by the credit union.

When the form for extension is executed by the borrower and approved by the co-makers and the credit committee, the original repayment terms of the loan are automatically revised to conform with those approved in the extension agreement. In receiving a request for an extension the credit committee applies the same tests it did on the original loan.

If the board of directors is attempting to enforce collection the credit committee may not act on any request

EXTENSION AGREEMENT

Note Number _____

Book Number _____

WHEREAS the undersigned, _____, has executed a note in favor of

_____ Credit Union in the original amount of \$ _____ and payable \$ _____ each _____ starting _____, 19____, and which has an unpaid principal of \$ _____; and

WHEREAS the above borrower finds that he is unable to complete the payment of this loan on the present terms;

NOW THEREFORE, he requests that relief be given in the form of an extension of time. If this extension is approved I hereby agree to pay the balance remaining due on this note at the rate of \$ _____ each _____ starting _____, 19____, with interest at the same rate as provided in the original note, all other provisions of the original note except those changed by this agreement to remain in full force and effect.

The following co-makers on the above loan agree to the extension of the above described note on the terms given and hereby waive all claims for exemption of liability as a result of said extension:

(Signed) _____ (BORROWER)

Extension approved by following members of the Credit Committee on _____, 19____:

Figure 10.

for extension unless the board relinquishes its jurisdiction to the credit committee.

b. Savings as the Loan is Repaid

One of the principle purposes of the credit union is to help members get out of debt and improve their financial condition so they may enjoy a better standard of living. A borrowing member is not benefited to the fullest degree unless he also accumulates some savings during the lifetime of the loan. Various circumstances may limit the amount of savings a borrower can make, but without a steady growing share account the borrower will never gain a regular habit of thrift or feel a part of the credit union. This is not required but is encouraged.

VI. SECURITY

A. Co-makers

The additional signature of two co-makers on the note constitutes adequate security for a loan. The credit committee makes the same credit analysis of the co-maker's financial condition that it does of the borrower. The co-makers have full responsibility to pay the loan in case the borrower defaults. Co-makers have to be in the field of membership of the credit union. Members in the same families can not be co-makers.

1. "Merry-Go-Round" ¹³⁾ Co-makers

The credit committee watches closely the "you sign for me and I'll sign for you" ¹⁴⁾ proposition. This consists of two or three loan applicants agreeing to act as co-makers for one another. The arrangement above constitutes the "Merry-go-round" of credit responsibility. In this credit union at least one co-maker who is not a member of the reciprocal plan is necessary.

2. Officials as Co-makers

Section 7 (5) of the Federal Credit Union Act and Article XII, Section 3, of the by-laws, prohibits directors, supervisory committee members, and credit committee members to act as co-makers for any amount. It is the sound purpose to keep such officials entirely free from contingent liability to the credit union so that they may perform their duties

13) and 14) Credit Committee Handbook p. 21

without restriction or temptation arising from personal financial obligations.

3. Limiting Co-makers Liability

The amount of contingent liability any one member may have in the VARO Credit Union is \$900. The credit committee does not permit members to assume contingent liability as co-makers beyond any reasonable capacity to repay. This committee has a definite responsibility to restrain certain members who have a weakness for signing from becoming everybody's co-maker. These friendly souls who will sign for anybody are a detriment to the credit union as well as to themselves. Well meaning as such individuals are, unless their signature brings something in the way of security to the credit union, such loans are not regarded as adequate security. In approving co-maker loans, the credit committee carefully analyzes the contingent liability of both maker and co-maker.

B. Personal Property

The only personal property that can be used for security on loans is automobiles. This is done when new cars are purchased. After the customary one third down payment is made, the credit union will finance the balance due on the car. The credit union holds the chattel loan on the car until the amount due is required to furnish appropriate insurance on the automobile with a loss payable clause in favor of the credit union.

S U M M A R Y

The Veterans Administration Regional Office Credit Union, located in Roanoke, Virginia, is a cooperative association, organized to promote thrift among its members and to accumulate a fund from these savings to make needed loans to members for useful purposes, at reasonable interest rates. It is chartered and supervised by the Federal Government through the Bureau of Federal Credit Unions.

Membership is limited to those who work in the Regional Office. Control and management are in the hands of the members. Each member present at annual or special meetings has one vote. Members elect directors and committeemen, exercise democratic control over the credit union's activities, and receives reports each year from the Board of Directors, Committees, and administrative officers. Only members may borrow from the credit union.

CONCLUSION

The VARO Credit Union states its interest rate as a percentage of the amount each month on the unpaid balance of the loan. The rate is one percent per month on the unpaid balance on loans up to \$500 and three-fourths of one percent per month on the unpaid balance on loans of \$500 or more. At one percent per month on the unpaid balance, the true annual interest rate is twelve percent. The credit union charges interest only for the period the borrower has money. If he signs a note to repay in six months and is able to wipe the slate clean in four months, he pays interest only for four months. Beyond the stated interest there can be no other fees except a nominal penalty for delay in meeting the scheduled payments. The penalty may be waived if the member offers a valid reason for being late. Twelve percent interest looks high at first glance, but let us look at what can happen.

Licensed small loan companies or personal finance companies are now the largest dispensers of cash credit to customers. The Uniform Small Loan Laws restrict their loans to \$300. The interest charged may be two and one half, three or three and one half percent per month on the unpaid balance, depending on the state. At three percent a month on the unpaid balance, however, the actual rate of interest is thirty-six percent a year.

15) Prather; Money and Banking, pp. 618-621.

Industrial banks are another source of small loans. The "Morris Plan Banks" are the best known and largest of this group. Loans vary in size from \$100 all the way to \$5,000. Industrial bank loans are generally quoted at six or seven percent. Actually it is six or seven percent discount; that is, interest is deducted in advance. The bank also deducts a two percent fee or commission for making the loan. On a \$100 loan then, the borrower gets only \$92. At two dollars per week he repays the amount he actually receives in forty-six weeks. But he has to keep paying for fifty weeks to repay the face value of the note. Since the six percent has to be figured on a constantly diminishing unpaid balance, the interest rate is actually over seventeen percent a year. 16)

Life insurance is another possibility. On ordinary life insurance the policy holder may borrow sums limited by the amount of the company's reserve he has helped to build with his premium payments. He is therefore borrowing his own money. 17)

The most ancient lineage in the loan business goes with the insignia of the three balls. The pawn broker is half merchant, half lender. Interest rates vary from twelve to 120 percent per year. 18)

16) Prather - Money and Banking, pp. 615-618

17) Huebner - Life Insurance, pp. 327-335

18) Prather - Money and Banking, pp. 614-615

The Governors Committee in Massachusetts checked on "6" percent rates in the installment buying. In 105 cases in which "6 percent" was quoted, here are what the rates actually came to: 19)

1 case came to 6 percent

6 cases were actually between 7 and 10 percent

61 cases amounted to between 11 and 20 percent

19 cases were between 21 and 30 percent

10 cases were really rates of between 31 and 100 percent

8 cases were between 101 and 679 percent.

The State Legislative Committee of Wisconsin investigated automobile credit there. They found that although most automobile purchasers thought they were paying between eight and twelve percent for credit, they were actually paying between seventeen and forty percent, with many transactions even higher.

Commercial banks are another source of credit for the consumer to consider. The usual rate at which consumer loans are discounted by banks is five or six percent. That means that the interest charged is much the same as the one percent per month on unpaid balances which the credit union charges. Other charges besides interest or discount rates may be made, but they are not usually excessive. The bank may require life insurance by the borrower for the amount and term of the loan, and it may impose late charges for failure to pay an installment

19) 10 close-ups of Consumer Credit - Circular 25, Oct. 1940
pp. 7-8

on time. But generally speaking the accusation of "hidden charges" which increase the cost of the loan is not made against the commercial banks. 20)

After this investigation it may be noted that interest of one percent per month on the unpaid balance charged by this Credit Union is indeed not as unreasonable as it sounds.

Members find the credit union economical when borrowing money. A member can get a loan at a lower rate of interest than he will find at almost any other source.

The VARO promotes thrift among the employees of the Regional Office. The credit union office is handy to the worker on pay day. The money saved with the credit union has earned six percent dividends which are well above what any savings bank will pay as interest. The members themselves decide what dividend rate to declare after they hear the treasurer's report and recommendations of its board of directors.

Table 5 illustrates the fact that the VARO has enjoyed rapid growth during the three years of its existence. The drop in membership recorded for December 1949 was due to transfers from the office. From May 1947 to December 1949 this credit union served its members well by making a total of 479 loans amount to \$52,149.50.

The credit union earnings increased with its growth. In 1947 the credit union earned \$126.60. In 1948 the earnings

Table 5.

Growth of the VARO Credit Union

Date	Members	Members Holding Loans	Loans	Capital
June 1947	149	11	\$ 690.00	\$ 1,685.03
December 1947	202	90	\$ 4,123.25	\$ 4,091.49
December 1948	290	98	\$ 7,270.00	\$ 7,810.17
December 1949	235	124	\$13,855.20	\$16,184.61

were \$518.13 and in 1949 the earnings were \$1,046.96 for the year.

The above figures prove the credit union to be doing a wonderful job for its members.

There is one thing at fault with this credit union but I understand it is to be corrected in the near future. The treasurer has too much work designated to her. It is my opinion that a clerk should be added to the staff of officers to relieve the treasurer of some of her work. The treasurer should also be compensated regularly for her outstanding efforts.

A P P E N D I X

FARM CREDIT ADMINISTRATION

CIRCULAR NO. 22

THE FEDERAL CREDIT UNION ACT
AS AMENDED TO JUNE 15, 1940

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INDEX

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Issued by the

FARM CREDIT ADMINISTRATION

DECEMBER 1941



UNITED STATES
GOVERNMENT PRINTING OFFICE
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CHAPTER 14.—FEDERAL CREDIT UNIONS

§ 1751 Citation of chapter.—This chapter may be cited as the "Federal Credit Union Act." (June 26, 1934, c. 750, § 1, 48 Stat. 1216.) § 1

Act of June 26, 1934, cited to the text was entitled "An Act to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States."

§ 1752 Definitions.—A Federal credit union is hereby defined as a cooperative association organized in accordance with the provisions of this chapter for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes. When used in this chapter the term "Administration" means Farm Credit Administration, and the term "Governor" means the Governor thereof. (June 26, 1934, c. 750, § 2, 48 Stat. 1216.) § 2

§ 1753 Federal credit union organization.—Any seven or more natural persons who desire to form a Federal credit union shall subscribe before some officer competent to administer oaths an organization certificate in duplicate which shall specifically state— § 3

- (1) The name of the association.
(2) The location of the proposed Federal credit union and 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 the shares, 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.
(7) The fact that the certificate is made to enable such persons to avail themselves of the advantages of this chapter.

FOREWORD

This circular contains the provisions of the Federal Credit Union Act, as amended to June 15, 1940, set forth in accordance with the codification thereof in Chapter 14 of Title 12 of the United States Code and supplements thereto.

In the left margin of this circular, opposite each section, is printed the section number of such provision in Title 12 of the Code. In the right margin is printed the number of the section of the Federal Credit Union Act, as amended, of which the provision is a part. At the end of each section is a parenthetical reference to the act of Congress from which the provisions were derived and to any subsequent amendatory acts.

The symbol "12 U. S. C." refers to Title 12 of the United States Code. The symbol "F. C. U. Act" refers to the Federal Credit Union Act, as amended.

Such organization certificate may also contain any provisions approved by the Governor for the management of the business of the association and for the conduct of its affairs and relative to the powers of its directors, officers, or stockholders. (June 26, 1934, c. 750, § 3, 48 Stat. 1217.)

Act of December 6, 1937, c. 3, § 5, 51 Stat. 5, 29 U. S. C. § 158a, provided as follows: "Provision by an employer of facilities for the operations of a Federal Credit Union on the premises of such employer shall not be deemed to be intimidation, coercion, interference, restraint or discrimination within the provisions of sections 7 and 8 of the National Labor Relations Act, approved July 5, 1935, or acts amendatory thereof."

§ 1754 **Approval of organization certificate.**—Any such organization certificate shall be presented to the Governor for approval. Upon such approval the Federal credit union shall be a body corporate and as such, subject to the limitations herein contained, shall be vested with all of the powers and charged with all the liabilities conferred and imposed by this chapter upon corporations organized hereunder. Before any organization certificate is approved an appropriate 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 Federal credit union. Upon approval of such organization certificate by the Governor 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. (June 26, 1934, c. 750, § 4, 48 Stat. 1217.) § 4

§ 1755 **Fees.**—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 Governor, which shall not exceed \$20 in any case; and on the approval of any organization certificate they shall also pay a fee of \$5. During December of each calendar year each Federal credit union shall pay to the Administration a fee of not § 5

to exceed \$10, to be fixed by the Governor, for the cost of supervision: *Provided, however,* That no such annual fee shall be payable by such an organization for the fractional part of the first calendar year during which it is formed. All such fees shall be deposited with the Treasurer of the United States for the account of the Administration and may be expended by the Governor for such administrative and other expenses incurred in carrying out the provisions hereof as he may determine to be proper, the purpose of such fees being to defray, as far as practicable, the administrative and supervisory costs incident to the carrying out of this chapter. (June 26, 1934, c. 750, § 5, 48 Stat. 1217.)

§ 1756 **Reports and examinations.**—Federal credit unions shall be under the supervision of the Governor, and shall make such financial reports to him (at least annually) as he may require. Each Federal credit union shall be subject to examination by, and for this purpose shall make its books and records accessible to, any person designated by the Governor. The Governor shall fix a scale of examination fees to be paid by Federal credit unions, giving due consideration to the time and expense incident to such examinations, and to the ability of Federal credit unions to pay such fees, which fees shall be assessed against and paid by each Federal credit union promptly after the completion of such examination. Examination fees collected under the provisions of this section shall be deposited to the credit of the special fund created by section 1755 hereof, and shall be available for the purposes specified in said section 1755. (June 26, 1934, c. 750, § 6, 48 Stat. 1218; Dec. 6, 1937, c. 3, § 1, 51 Stat. 4.) § 6

§ 1757 **Powers.**—A Federal credit union shall have succession in its corporate name during its existence and shall have power—
(1) To make contracts.
(2) To sue and be sued. § 7

§ 1757 (3) To adopt and use a common seal and alter the same at pleasure. § 7

(4) To purchase, hold, and dispose of property necessary and incidental to its operations.

(5) To make loans with maturities not exceeding two years to its members for provident or productive purposes upon such terms and conditions as this chapter and the bylaws provide and as the credit committee may approve, at rates of interest not exceeding 1 per centum per month on unpaid balances (inclusive of all charges incident to making the loan): *Provided*, That no loans to a director, officer, or member of a committee shall exceed the amount of his holdings in the Federal credit union as represented by shares thereof. No director, officer, or committee member shall endorse for borrowers. A borrower may repay his loan, prior to maturity, in whole or in part on any business day.

(6) To receive from its members payments on shares.

(7) To invest its funds (a) in loans exclusively to members; (b) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (c) in accordance with rules and regulations prescribed by the Governor, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (d) and in shares or accounts of Federal savings and loan associations.

(8) To make deposits in national banks and in State banks, trust companies, and mutual savings banks operating in accordance with the laws of the State in which the Federal credit union does business.

(9) To borrow (from any source) in an aggregate amount not exceeding 50 per centum of its paid-in and unimpaired capital and surplus: *Provided*, That any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital, subject to such

rules and regulations as may be prescribed by the Governor.

(10) To fine members, in accordance with the bylaws, for failure to meet promptly their obligations to the Federal credit union.

(11) To impress and enforce a lien upon the shares and dividends of any member, to the extent of any loan made to him and any dues or fines payable by him.

(12) To exercise such incidental powers as shall be necessary or requisite to enable it to carry on effectively the business for which it is incorporated. (June 26, 1934, c. 750, § 7, 48 Stat. 1218; Dec. 6, 1937, c. 3, § 2, 51 Stat. 4.)

§ 1758 **Bylaws.**—In order to simplify the organization of Federal credit unions the Governor shall, on June 26, 1934, cause to be prepared a form of organization certificate and a form of bylaws, consistent with this chapter, which shall be used by Federal credit union incorporators, 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 Governor for his approval. (June 26, 1934, c. 750, § 8, 48 Stat. 1219.) § 8

§ 1759 **Membership.**—Federal credit union membership shall consist of the incorporators and such other persons and incorporated and unincorporated organizations, to the extent permitted by rules and regulations prescribed by the Governor, as may be elected to membership and as shall, each, subscribe to at least one share of its stock and pay the initial installment thereon and the entrance fee; except that Federal credit union membership shall be limited to groups having a common bond of occupation, or association, or to groups within a well-defined neighborhood, community, or rural district. (June 26, 1934, c. 750, § 9, 48 Stat. 1219.) § 9

§ 1760 **Members' meetings.**—The fiscal year of all Federal credit unions shall end December 31. The an- § 10

nual meeting of each Federal credit union shall be held at such time during the month of the following January and at such place as its bylaws shall prescribe. Special meetings may be held in the manner indicated in the bylaws. No member shall be entitled to vote by proxy, but a member other than a natural person may vote through an agent designated for the purpose. Irrespective of the number of shares held by him, no member shall have more than one vote. (June 26, 1934, c. 750, § 10, 48 Stat. 1219.)

§ 1761

Management—(a) Generally.—The business affairs of a Federal credit union shall be managed by a board of not less than five directors, a credit committee of not less than three members, and a supervisory committee of three members (a majority of whom shall not be directors) all to be elected by the members (and from their number) at their annual meeting, and to hold office for such terms, respectively, as the bylaws may provide. A record of the names and addresses of the members of the board and committees and officers shall be filed with the Administration within ten days after their election. No member of the board or of either committee shall, as such be compensated.

§ 11

(b) Officers.—At their first meeting after the annual meeting of the members, the directors shall elect from their number a president, a vice president, a clerk, and a treasurer, who shall be the executive officers of the corporation and may be compensated for their services to such extent as the bylaws may provide. The offices of clerk and treasurer may be held by the same person. The duties of the officers shall be as determined by the bylaws, except that the treasurer shall be the general manager of the corporation. Before the treasurer shall enter upon his duties he shall give bond with good and sufficient surety, in an amount and character to be determined from time to time by the board of directors, conditioned upon the faithful performance of his trust.

§ 1761

(c) Directors.—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 such meetings shall be kept. Among other things they shall act upon applications for membership; fix the amount and character of the surety bond required of any officer having custody of funds; recommend the declaration of dividends; fill vacancies in the board and in the credit committee until successors elected at the next annual meeting have qualified; have charge of investments other than loans to members; determine from time to time the maximum number of shares that may be held by any individual; and, subject to the limitations of this chapter, determine the interest rates on loans and the maximum amount that may be loaned with or without security to any member.

§ 11

(d) Credit committee.—The credit committee shall hold such meetings as the business of the Federal credit union may require and not less frequently than once a month (of which meetings due notice shall be given to members of the committee by the treasurer) to consider applications for loans. No loan shall be made unless approved by a majority of the entire committee and by all of the members of the committee who are present at the meeting at which the application is considered. 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 in excess of \$100 shall be made without adequate security and no loan shall be made to any member in excess of \$200 or 10 per centum of the Federal credit union's paid-in and unimpaired capital and surplus, whichever is greater. For the purposes of this subdivision an assignment of shares or the endorsement of a note shall be deemed security.

(e) Supervisory committee.—The supervisory committee shall make, at least quarterly, an examination of the affairs of the Federal credit union,

including an audit of its books; shall make an annual audit and a report to be submitted at the annual meeting of the corporation; and, by a unanimous vote, may suspend any officer of the corporation, or any member of the credit committee or of the board of directors until the next members' meeting, which said meeting, however, shall be held within seven days of said suspension and at which meeting said suspension shall be acted upon by the members; and, by a majority vote, may call a special meeting of the shareholders to consider any violation of this chapter, the charter, or of the bylaws, or any practice of the corporation deemed by the committee to be unsafe or unauthorized. The said committee shall fill vacancies in its own membership until successors to be elected at the next annual meeting have qualified. The supervisory committee shall cause the pass-books and accounts of the members to be verified with the records of the treasurer from time to time and not less frequently than once every two years. (June 26, 1934, c. 750, § 11, 48 Stat. 1219; June 15, 1940, c. 366, 54 Stat. 398.)

§ 1762 **Reserves.**—All entrance fees and fines provided by the bylaws and 20 per centum of the net earnings of each year, before the declaration of any dividends, shall be set aside, subject to terms and conditions specified in the bylaws, as a reserve fund against possible bad loans. (June 26, 1934, c. 750, § 12, 48 Stat. 1221.) § 12

§ 1763 **Dividends.**—At the annual meeting a dividend may be declared from the remaining net earnings on recommendation of the board of directors, which dividend shall be paid on all paid-up shares outstanding at the end of the preceding fiscal year. Shares which become fully paid up during such year shall be entitled to a proportional part of said dividend calculated from the 1st day of the month following such payment in full. (June 26, 1934, c. 750, § 13, 48 Stat. 1221.) § 13

§ 1764 **Expulsion and withdrawal.**—A member may be expelled by a two-thirds vote of the members of a Federal credit union present at a special meeting called for the purpose, but only after an opportunity has been given him to be heard. Withdrawal or expulsion of a member shall not operate to relieve him from liability to the Federal credit union. The amount to be paid a withdrawing or expelled member by a Federal credit union shall be determined and paid in the manner specified in the bylaws. (June 26, 1934, c. 750, § 14, 48 Stat. 1221.) § 14

§ 1765 **Minors.**—Shares may be issued in the name of a minor or in trust, subject to such conditions as may be prescribed by the bylaws. The name of the beneficiary shall be disclosed to the Federal credit union. (June 26, 1934, c. 750, § 15, 48 Stat. 1221.) § 15

§ 1766 **Certain powers of Governor.**—(a) The Governor may prescribe rules and regulations for the administration of this chapter (including, but not by way of limitation, the merger, consolidation, and/or dissolution of corporations organized under this chapter). § 16

(b) The Governor may suspend or revoke the charter of any Federal credit union upon his finding that the organization is bankrupt or insolvent or has violated any provisions of its charter, its bylaws, or of this chapter, or of any regulations issued thereunder.

(c) The Governor is hereby authorized and empowered to execute any and all functions and perform any and all duties vested in him hereby, through such persons as he shall designate or employ; and he may delegate to any person or persons, including any institution operating under the general supervision of the Administration, the performance and discharge of any authority, power, or function vested in him by this chapter.

(d) All books and records of Federal credit unions shall be kept and reports shall be made in

accordance with forms approved by the Governor.

(e) The Governor is hereby authorized to make investigations and to conduct researches and studies of the problems of persons of small means in obtaining credit at reasonable rates of interest, and of the methods and benefits of cooperative saving and lending among such persons. He is further authorized to make reports of such investigations and to publish and disseminate the same. (June 26, 1934, c. 750, § 16, 48 Stat. 1221; Dec. 6, 1937, c. 3, § 3, 51 Stat. 4.)

§ 1767 **Fiscal agents and depositories.**—Each Federal credit union organized under this chapter, when requested by the Secretary of the Treasury, shall act as fiscal agent of the United States and shall perform such services as the Secretary of the Treasury may require in connection with the collection of taxes and other obligations due the United States and the lending, borrowing, and repayment of money by the United States, including the issue, sale, redemption or repurchase of bonds, notes, Treasury certificates of indebtedness, or other obligations of the United States; and to facilitate such purposes the Governor shall furnish to the Secretary of the Treasury from time to time the names and addresses of all Federal credit unions with such other available information concerning them as may be requested by the Secretary of the Treasury. Any Federal credit union organized under this chapter, when designated for that purpose by the Secretary of the Treasury, shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by the Secretary of the Treasury. (June 26, 1934, c. 750, § 17, 48 Stat. 1222.)

§ 17

§ 1768 **Taxation.**—The Federal credit unions organized hereunder, their property, their franchises, capital, reserves, surpluses, and other funds, and their income shall be exempt from all taxation now or hereafter imposed by the United States or by any State, Territorial, or local taxing authority; except that

§ 18

any real property and any tangible personal property of such Federal credit unions shall be subject to Federal, State, Territorial, and local taxation to the same extent as other similar property is taxed. Nothing herein contained shall prevent holdings in any Federal credit union organized hereunder from being included in the valuation of the personal property of the owners or holders thereof in assessing taxes imposed by authority of the State or political subdivision thereof in which the Federal credit union is located: *Provided, however,* That the duty or burden of collecting or enforcing the payment of such tax shall not be imposed upon any such Federal credit union and the tax shall not exceed the rate of taxes imposed upon holdings in domestic credit unions. (June 26, 1934, c. 750, § 18, 48 Stat. 1222; Dec. 6, 1937, c. 3, § 4, 51 Stat. 4.)

§ 1769 **Appropriation for administration.**—Not to exceed \$50,000 of the fund available to the Governor under section 1404 of this title, for expenses of administration in connection with loans made thereunder to aid in the establishment of agricultural credit corporations, is hereby made available also for administrative expenses in administering this chapter. (June 26, 1934, c. 750, § 19, 48 Stat. 1222.)

§ 19

§ 1770 **Separability of provisions; right to alter, amend, or repeal chapter.**—(a) If any provision of this chapter, or the application thereof to any person or circumstance, is held invalid, the remainder of the chapter, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

§ 20

(b) The right to alter, amend, or repeal this chapter or any part thereof, or any charter issued pursuant to the provisions of this chapter, is expressly reserved. (June 26, 1934, c. 750, § 20, 48 Stat. 1222.)

§ 1771

§ 21

Allotment of space in Federal buildings.—Upon application by any credit union organized under State law or by any Federal credit union organized in accordance with the terms of this chapter, the membership of which is composed exclusively of Federal employees and members of their families, which application shall be addressed to the officer or agency of the United States charged with the allotment of space in the Federal buildings in the community or district in which said credit union or Federal credit union does business, such officer or agency may in his or its discretion allot space to such credit union if space is available without charge for rent or services. (June 26, 1934, c. 750, § 21; July 9, 1937, c. 471, 50 Stat. 487.)

[PUBLIC LAW 574—79TH CONGRESS]

[CHAPTER 711—2D SESSION]

[H. R. 6372]

AN ACT

To amend the Federal Credit Union Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Credit Union Act, as amended, is hereby further amended as follows: Paragraph (5) of section 7 is amended by adding at the end thereof the following: "The taking, receiving, reserving, or charging a rate of interest greater than is allowed by this subsection, when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. In case the greater rate of interest has been paid the person by whom it has been paid, or his legal representatives, may recover back, in an action in the nature of an action of debt, the entire amount of interest thus paid from the credit union taking or receiving the same: *Provided*, That such action is commenced within two years from the time the usurious transaction occurred."

SEC. 2. Section 9 of such Act is amended by adding at the end thereof the following:

"Shares may be issued in joint tenancy with right of survivorship with any person designated by the credit union member, but no joint tenant shall be permitted to vote, obtain loans, or hold office, unless he is within the field of membership and is a qualified member."

SEC. 3. Subsection (c) of section 11 of such Act is amended by striking out the clause "fix the amount and character of the surety bond required of any officer having custody of funds" and inserting in lieu thereof the following: "require any officer or employee having custody of or handling funds to give bond with good and sufficient surety in an amount and character to be determined, from time to time, by the board and authorize the payment of the premium or premiums therefor from the funds of the Federal credit union".

SEC. 4. Subsection (d) of section 11 of such Act is amended by striking out in the first sentence thereof the following: "(by the treasurer)".

SEC. 5. The fourth sentence of subsection (d) of section 11 of such Act is amended to read as follows: "No loan shall be made to any member which shall cause such member to become indebted to the Federal credit union in the aggregate, upon loans made to such member, in excess of \$200 or 10 per centum of the Federal credit union's paid-in and unimpaired capital and surplus, whichever is greater, or in excess of \$300 unless such excess over \$300 is adequately secured."

11
§
SEC. 6. Subsection (e) of section 11 of such Act is amended by adding at the end thereof the following:

"As used in this subsection the term 'passbook' shall include any book, statement of account, or other record approved by the Governor for use by Federal credit unions."

SEC. 7. At the end of such Act a new section is added as follows:

"SEC. 22. The provisions of this Act shall be extended to and include the Panama Canal Zone."

SEC. 8. Subsection (b) of section 16 of such Act is amended to read as follows:

"(b) (1) The Governor may suspend or revoke the charter of any Federal credit union, or place the same in involuntary liquidation and appoint a liquidating agent therefor, upon his finding that the organization is bankrupt or insolvent or has violated any provisions of its charter, its bylaws, or of this chapter, or of any regulations issued thereunder.

"(2) The Governor, through such persons as he shall designate, may examine any Federal credit union in voluntary liquidation and, upon his finding that such voluntary liquidation is not being conducted in an orderly or efficient manner or in the best interests of its members, may terminate such voluntary liquidation and place such organization in involuntary liquidation and appoint a liquidating agent therefor.

"(3) Such liquidating agent shall have power and authority, subject to the control and supervision of the Governor and under such rules and regulations as the Governor may prescribe, (i) to receive and take possession of the books, records, assets, and property of every description of the Federal credit union in liquidation, to sell, enforce collection of, and liquidate all such assets and property, to compound all bad or doubtful debts, and to sue in his own name or in the name of the Federal credit union in liquidation, and defend such actions as may be brought against him as liquidating agent or against the Federal credit union; (ii) to receive, examine, and pass upon all claims against the Federal credit union in liquidation, including claims of members on shares; (iii) to make distribution and payment to creditors and members as their interests may appear; and (iv) to execute such documents and papers and to do such other acts and things which he may deem necessary or desirable to discharge his duties hereunder.

"(4) Subject to the control and supervision of the Governor and under such rules and regulations as the Governor may prescribe, the liquidating agent of a Federal credit union in involuntary liquidation shall (i) cause notice to be given to creditors and members to present their claims and make legal proof thereof, which notice shall be published once a week in each of three successive weeks in a newspaper of general circulation in each county in which the Federal credit union in liquidation maintained an office or branch for the transaction of business on the date it ceased unrestricted operations: *Provided*, That whenever the aggregate book value of the assets and property of a Federal credit union in involuntary liquidation is less than \$1,000, unless the Governor shall find that its books and records do not contain a true and accurate record of its liabilities, he shall declare such Federal credit union in liquidation to be a 'no publication' liquidation, and

publication of notice to creditors and members shall not be required in such case; (ii) from time to time, make a ratable dividend on all such claims as may have been proved to his satisfaction or adjudicated in a court of competent jurisdiction and, after the assets of such organization have been liquidated, shall make further dividends on all claims previously proved or adjudicated; and the liquidating agent may accept in lieu of a formal proof of claim on behalf of any creditor or member the statement of any amount due to such creditor or member as shown on the books and records of the credit union: *Provided*, That all claims not filed before payment of the final dividend shall be barred and claims rejected or disallowed by the liquidating agent shall be likewise barred unless suit be instituted thereon within three months after notice of rejection or disallowance; (iii) in a 'no publication' liquidation, determine from all sources available to him, and within the limits of available funds of the Federal credit union, the amounts due to creditors and members, and after sixty days shall have elapsed from the date of his appointment, shall distribute the funds of the Federal credit union to creditors and members ratably and as their interests may appear.

"(5) Upon certification by the liquidating agent in the case of an involuntary liquidation, and upon such proof as shall be satisfactory to the Governor in the case of a voluntary liquidation, that distribution has been made and that liquidation has been completed, as provided herein, the Governor shall cancel the charter of such Federal credit union: *Provided*, That the corporate existence of the Federal credit union shall continue for a period of three years from the date of such cancellation of its charter, during which period the liquidating agent, or his duly appointed successor, or such persons as the Governor shall designate, may act on behalf of the Federal credit union for the purpose of paying, satisfying, and discharging any existing liabilities or obligations, collecting and distributing its assets, and doing all other acts required to adjust and wind up its business and affairs, and it may sue and be sued in its corporate name.

"(b) After the expiration of five years from the date of cancellation of the charter of a Federal credit union the Governor may, in his discretion, destroy any or all books and records of such Federal credit union in his possession or under his control."

Approved July 31, 1946.

[PUBLIC LAW 813—80TH CONGRESS]

[CHAPTER 711—2D SESSION]

[S. 2225]

AN ACT

To transfer administration of the Federal Credit Union Act to the Federal Security Agency.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That all functions, powers, and duties of the Farm Credit Administration and of the Governor thereof under the Federal Credit Union Act, as amended (U. S. C., title 12, secs. 1751-1772), together with the functions of the Secretary of Agriculture with respect thereto, which were transferred to the Federal Deposit Insurance Corporation by Reorganization Plan Numbered 1 of 1947, part IV, section 401, are hereby transferred to the Federal Security Agency.

SEC. 2. There is hereby established in the Federal Security Agency a Bureau of Federal Credit Unions, which shall be under the supervision of a Director appointed by the Federal Security Administrator. The Bureau of Federal Credit Unions and the Director thereof shall be under the general direction and supervision of the Federal Security Administrator. The functions, powers, and duties of the Farm Credit Administration under the Federal Credit Union Act, as amended, shall be exercised by the Bureau of Federal Credit Unions. The functions, powers, and duties of the Governor of the Farm Credit Administration under the Federal Credit Union Act, as amended, shall be exercised by the Director of the Bureau of Federal Credit Unions.

SEC. 3. There are hereby transferred to the Federal Security Agency, to be used in the administration of the functions hereby transferred, (a) all property, including office equipment, transferred to the Federal Deposit Insurance Corporation pursuant to Executive Order 9148 of April 27, 1942, and in use on the effective date of this Act; (b) all property, including office equipment, purchased by the Corporation for use exclusively in connection with the administration of the Federal Credit Union Act, as amended, the cost of which has been charged to such functions and which is in use on the effective date of this Act; (c) all records and files pertaining exclusively to the supervision of Federal Credit Unions; and (d) all personnel employed primarily in the administration of the Federal Credit Union Act, as amended, on the effective date of this Act.

SEC. 4. All funds allocated, specifically or otherwise, in the budget of the Federal Deposit Insurance Corporation for the administration of the Federal Credit Union Act, as amended, during the fiscal year ending June 30, 1949, which may be unexpended on the effective date of this Act, shall be transferred by the Corporation to the Federal Security Agency for use in the administration of the Federal Credit Union Act, as amended. The Corporation shall be reimbursed for the funds so transferred and shall also be reimbursed for all other funds expended by it prior to the effective date of this Act in the

[Pub. Law 813.]

administration of the Federal Credit Union Act, as amended, in excess of fees from Federal credit unions received by the Corporation, by deducting such amounts from the first moneys payable to the Secretary of the Treasury on account of the retirement of the stock of the Federal Deposit Insurance Corporation owned by the United States, and the Corporation shall have a charge on such stock for such amounts.

SEC. 5. This Act shall become effective on the thirtieth day following the date of enactment.

Approved June 29, 1948.

[PUBLIC LAW 376—81ST CONGRESS]

[CHAPTER 713—1ST SESSION]

[H. R. 6185]

AN ACT

To amend the Federal Credit Union Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (5) of section 7 of the Federal Credit Union Act (12 U. S. C., secs. 1751-1772) is hereby amended by striking out in the first sentence thereof "two years" and inserting in lieu thereof "three years".

SEC. 2. The fourth sentence of subsection (d) of section 11 of the Federal Credit Union Act is amended by striking out "\$300" wherever it appears in such sentence and inserting in lieu thereof "\$400".

SEC. 3. Section 12 of the Federal Credit Union Act is hereby amended to read as follows:

"SEC. 12 RESERVES.—All entrance fees and fines provided by the bylaws and 20 per centum of the net earnings of each year, before the declaration of any dividend, shall be set aside as a regular reserve against losses on bad loans and such other losses as may be specified in the bylaws in accordance with regulations prescribed under this Act: *Provided, however,* That when the regular reserve thus established shall equal 10 per centum of the total amount of members' shareholdings, no further transfer of net earnings to such regular reserve shall be required except that such amounts not in excess of 20 per centum of the net earnings as may be needed to maintain this 10 per centum ratio shall be transferred. In addition to such regular reserve, special reserves to protect the interests of members shall be established when required (a) by regulation, or (b) in any special case, when found by the director to be necessary for that purpose."

Approved October 25, 1949.

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**FEDERAL
CREDIT
UNION**

Bylaws

SPECIMEN COPY

DECEMBER 1948

THIS SPECIMEN COPY of federal credit union bylaws has been prepared in convenient form and size with the thought that it will be kept at hand for ready reference.

Its provisions are those under which most federal credit unions operate. The bylaws of some credit unions, however, have been amended to meet specific conditions existing in those credit unions. As a consequence, the specimen bylaws should be used only as reference or study material, and should be compared with the actual approved bylaws of the particular credit union before the specimen is related to that credit union.

The bylaws are the constitution of the credit union. They define the scope of its activities, its powers; and the duties and the responsibilities of its officials. Those charged with the management of a credit union must, above all others, be thoroughly familiar with its bylaws if they are adequately to avail themselves of the opportunity to render an important service to their associates.

It is therefore strongly urged that the bylaws be studied carefully.

BYLAWS

Federal Credit Union

ARTICLE I

Name—Purposes

SECTION 1. The name of this credit union shall be

“ _____
Federal Credit Union.”

SEC. 2. The purpose of this credit union is to promote thrift among its members, by affording them an opportunity for accumulating their savings; and to create for them a source of credit for provident or productive purposes.

ARTICLE II

Qualifications for Membership

SECTION 1. The field of membership shall be limited to those having the following common bond of association, occupation, or residence:

SEC. 2. Each application for membership must be in writing and must be presented to the board of directors for action at a regular or special meeting thereof.

SEC. 3. An applicant shall not be admitted to membership except by the affirmative vote of a majority of the directors present at the meeting at which the application is acted upon; and shall not become

a member or entitled to any of the rights or privileges of a member until he shall have qualified by paying an entrance fee of 25 cents and shall have subscribed for at least one share of this credit union and paid at least the first installment thereon, as required in section 1 of article III of these bylaws.

SEC. 4. A member who withdraws all his shareholdings thereby ceases to be a member.

SEC. 5. Subject to the conditions herein contained, a member who leaves the field of membership of this credit union may retain his membership therein but may not borrow therefrom in excess of his shareholdings.

ARTICLE III

Capital and Liability

SECTION 1. The par value of each share shall be \$5. Subscriptions to shares are payable at the time of subscription, or in equal installments at the rate of 25 cents per month on each share so subscribed; but on any day when installments are due and payable any number of installments may be paid in advance.

SEC. 2. The maximum amount of shares which may be held by any one member shall be established from time to time by resolution of the board of directors.

SEC. 3. A member failing to pay any installment on shares when due may be required by the board of directors to pay a fine amounting to 1 cent per full week on each \$2 or fraction thereof of the installment or installments in arrears; *provided, however*, that in no case shall such fine be less than 5 cents.

SEC. 4. Shares may be transferred only from one member to another, by written instrument in such form as the board of directors may prescribe and upon the payment to this credit union of a fee of 25 cents for each such transfer.

SEC. 5. Money paid in on shares, or installments of shares, may be withdrawn as in these bylaws provided on any day when payment for shares may be made; but the board of directors shall have the right, at any time, to require members to give 60 days notice of intention to withdraw the whole or any part of the amounts so paid in by them; *provided*, that

no member may withdraw any shareholdings below the amount of his total liability to the credit union as borrower, endorser, comaker, or guarantor without the written approval of the credit committee.

ARTICLE IV

Receipting for Money—Passbooks

SECTION 1. Money paid in or paid out on account of shares, loans, interest, fees, or fines shall be evidenced by entries in the member's passbook. Every entry in the passbook shall identify the person receiving or paying out, on behalf of this credit union, the money represented thereby. No money shall be received from or paid to a member unless the passbook is presented and the proper entry made therein, except money received from members under a payroll-deduction plan or under a machine-bookkeeping system approved by the Bureau of Federal Credit Unions, Federal Security Agency.

SEC. 2. If a passbook is lost or stolen, immediate notice of such fact must be given to the treasurer, and written application must be made for the payment of the amount due the member as represented by said passbook or for the issuance of a duplicate passbook. The board of directors may require the filing of an adequate bond to indemnify this credit union against any loss or losses resulting from the issuance of such duplicate passbook.

ARTICLE V

Meetings of Members

SECTION 1. The annual meeting of the members shall be held during January of each year in the county in which the office of this credit union is situated, at such time and place as the board of directors shall designate.

SEC. 2. At least 7 days before the date of any annual or special meeting of the members, the clerk shall cause written notice thereof to be handed to each member in person, or mailed to each member at his address as the same appears on the records of this credit union; *provided, however*, that any meeting of the members, whether annual or special, may be held without prior notice, at any place or time, if all the

members entitled to vote thereat who are not present at such meeting shall in writing waive notice thereof, before, during, or after the meeting.

SEC. 3. Special meetings of the members may be called by the president (or by the supervisory committee as in these bylaws provided); and shall be called by the president on the written request of not fewer than 10 members.

SEC. 4. The order of business at annual meetings of members shall be:

- (a) Ascertainment that a quorum is present
- (b) Reading and approval (or correction) of the minutes of the last meeting
- (c) Report of directors
- (d) Report of the treasurer
- (e) Report of the credit committee
- (f) Report of the supervisory committee
- (g) Unfinished business
- (h) New business other than elections
- (i) Elections
- (j) Adjournment

The members assembled at any annual meeting may suspend the above order of business upon a two-thirds vote of the members present at the meeting.

SEC. 5. Except as hereinafter provided, at annual or special meetings 15 members shall constitute a quorum. If no quorum is present, an adjournment may be taken to a date not fewer than 7 nor more than 15 days thereafter; and the members present at any such adjourned meeting shall constitute a quorum, regardless of the number of members present. The same notice shall be given for the adjourned meeting as is prescribed in section 2 of this article for the original meeting, and such notice shall be given not fewer than 5 days previous to the date of the meeting as fixed in the adjournment.

ARTICLE VI

Elections

SECTION 1. At least 30 days prior to each annual meeting, the president shall appoint a nominating committee of three members. It shall be the duty of the nominating committee to nominate at the annual meeting one member for each vacancy for which elections are being held.

SEC. 2. After the nominations of the nominating committee have been placed before the members, the president shall call for nominations from the floor. When nominations are closed, tellers shall be appointed by the president, ballots shall be distributed, the vote shall be taken and tallied by the tellers, and the results announced. All elections shall be determined by plurality vote, and shall be by ballot except where there is only one nominee for the office.

SEC. 3. Nominations shall be in the following order:

- (a) Nominations for directors
- (b) Nominations for credit committee members
- (c) Nominations for supervisory committee members.

Elections may be by separate ballots following the same order as the above nominations or, if preferred, may be by one ballot for all offices.

SEC. 4. No member shall be entitled to vote by proxy, but a member other than a natural person may vote through an agent designated in writing for the purpose. A trustee, or other person acting in a representative capacity, shall not, as such, be entitled to vote.

SEC. 5. Irrespective of the number of shares held by him, no member shall have more than one vote.

SEC. 6. Within 10 days after their election, the names and the addresses of all persons elected to office shall be forwarded to the Bureau of Federal Credit Unions, Federal Security Agency, in such manner as may be required by said Bureau.

ARTICLE VII

Board of Directors

SECTION 1. The board of directors shall consist of.....members, all of whom shall be members of this credit union.

SEC. 2. At the first annual meeting, or at any annual meeting following a change in the number of members constituting the board of directors, a bare majority of the directors shall be elected for a term of 1 year, and the others for a term of 2 years. Whenever the number of members on the board of directors is increased by amendment to the bylaws, one-half of such additional members shall be elected at the first annual meeting following the approval of the

amendment for 1 year, and one-half for 2 years. Thereafter the term of office for directors shall be for 2 years and until the election and qualification of their respective successors.

SEC. 3. Any vacancy on the board of directors or credit committee shall be filled by vote of a majority of the remaining directors; but the member so elected shall hold office only until the qualification of a director or committee member who shall be elected at the next annual meeting of the members of this credit union to complete the unexpired term.

SEC. 4. Regular meetings of the board of directors shall be held during the week of each month. The president, or in his absence the vice president, may call a special meeting of the board of directors at any time; and shall do so upon the written request of any 3 directors. The time and place of regular meetings of the board of directors shall be fixed by the board. The president, or in his absence the vice president, shall fix the time and place of special meetings, unless the board, by resolution, prescribes otherwise. Notice of all meetings of the board of directors shall be given in such manner as the board of directors may from time to time, by resolution, prescribe.

SEC. 5. The board of directors shall have the general direction and control of the affairs of this credit union. In addition to the duties customarily performed by boards of directors, the board of directors shall:

- (a) Act upon all applications for membership;
- (b) From time to time fix the amount and character of, and approve, surety bonds required of any persons handling or having custody of funds, and may authorize the payment of the premium or premiums therefor, by this credit union;
- (c) Recommend the declaration of dividends;
- (d) Fill vacancies in the board of directors and in the credit committee, as provided in section 3 of Article VII of these bylaws;
- (e) Employ, fix the compensation, and prescribe the duties of such employees as may, in the discretion of the board of directors, be necessary;
- (f) Determine from time to time the maximum number of shares that may be held by any member;

- (g) Determine from time to time the interest rates on loans and the maximum amount that may be loaned, with or without security, to any member within the limitations prescribed by law. When, by action of the board of directors, the interest rates on future loans are reduced, similar action may be taken with regard to interest rates on unpaid balances of existing loans;
- (h) Authorize and supervise investments of this credit union other than loans to members;
- (i) Designate the depository or depositories for funds of this credit union.
- (j) Authorize borrowings and discounting operations on behalf of this credit union within the limitations prescribed by the Federal Credit Union Act, as amended, and any regulations issued thereunder by the Bureau of Federal Credit Unions, Federal Security Agency
- (k) Supervise the collection of loans to members and authorize, when necessary, the charge-off of uncollectible loans
- (l) If deemed necessary or advisable, adopt a common seal and alter the same.

SEC. 6. A majority of the number of directors specified by the bylaws shall constitute a quorum for the transaction of business at any meeting thereof; but fewer than a quorum may adjourn from time to time until a quorum is in attendance. Written notice of an adjourned meeting need not be given the directors.

SEC. 7. If a director or a credit committee member fails to attend regular meetings of the board of directors or credit committee for 3 consecutive months, or otherwise fails to perform any of the duties devolving upon him as a director or a credit committee member, his office may be declared vacant by the board of directors and the vacancy filled as herein provided.

ARTICLE VIII

Officers and Their Duties

SECTION 1. The officers of this credit union shall be a president, a vice president, a treasurer, and a clerk, all of whom shall be elected by the board of directors

and from their number. The offices of treasurer and clerk only may be held by the same person. Unless sooner removed as herein provided, the officers elected at the first meeting of the board of directors shall hold office until the first meeting of the board of directors following the first annual meeting of the members and until the election and qualification of their respective successors.

SEC. 2. Officers elected at the first meeting of the board of directors following the annual meeting of the members shall hold office for a term of 1 year and until the election and qualification of their respective successors; *provided, however,* that any person elected to fill a vacancy caused by the death, resignation, or removal of an officer shall be elected by the board of directors to serve only during the unexpired portion of the term of such officer and until his successor is duly elected and qualified.

SEC. 3. The president shall preside at all meetings of the members and at all meetings of the board of directors; shall countersign all notes of this credit union and all checks, drafts, and other orders for the disbursement of its funds; and shall perform such other duties as customarily appertain to the office of president or as he may be directed to perform by resolution of the board of directors not inconsistent with the provisions of law or these bylaws.

SEC. 4. The vice president shall have and exercise all the powers, authority, and duties of the president during the absence of the latter or his inability to act.

SEC. 5. The treasurer shall be the general manager of this credit union under the control and direction of the board of directors. Before entering upon his duties, he shall give a proper bond with good and sufficient surety, in amount to be determined by the board of directors as herein provided, conditioned upon the faithful performance of his duties. Subject to such limitations and control as may be imposed by the board of directors, the treasurer shall have custody of all funds, securities, valuable papers, and other assets of this credit union. He shall sign all checks, drafts, notes, and other obligations of this credit union. He shall provide and maintain full and complete records of all the assets and liabilities of this credit union. Within 7 days after the close of each month, he shall prepare and submit to the board of directors a financial statement showing the

condition of this credit union as of the close of business on the last business day of such month, and shall promptly post a copy of such monthly financial statement in a conspicuous place in the office of this credit union, where it shall remain posted until replaced by the financial statement for the next succeeding month. He shall prepare and forward to the Bureau of Federal Credit Unions such financial reports as said Bureau may require. The treasurer may be compensated for his services to such extent as may be determined by the members at any annual or special meeting thereof.

SEC. 6. The board of directors may appoint an assistant treasurer and authorize him, under the direction of the treasurer, to perform any of the duties devolving on the treasurer, including the signing of checks. He may also act as treasurer during the absence of the treasurer or in the event of his inability to act. Where this authorization is made, the assistant treasurer shall give a proper bond with good and sufficient surety, in amount to be determined by the board of directors, conditioned upon the faithful performance of his duties.

SEC. 7. The clerk shall prepare and maintain full and correct records of all meetings of the members and of the board of directors. He shall give or cause to be given, in the manner prescribed in these bylaws, proper notice of all meetings of the members, and shall perform such other duties as he may be directed to perform by resolution of the board of directors not inconsistent with the provisions of law or of these bylaws.

ARTICLE IX

Credit Committee

SECTION 1. The credit committee shall consist of members, all of whom shall be members of this credit union.

SEC. 2. At the first annual meeting, or at any annual meeting following a change in the number of members constituting the credit committee, a bare majority of the committee shall be elected for a term of 1 year, and the others for a term of 2 years. Whenever the number of members on the credit committee is increased by amendment to the bylaws, one-half of such additional members shall be elected at the first annual meeting following the approval of the amend-

ment for 1 year, and one-half for 2 years. Thereafter the term of office for committee members shall be for 2 years and until the election and qualification of their respective successors.

SEC. 3. The credit committee members shall choose from their number a chairman and a secretary. The secretary of the credit committee shall prepare and maintain full and correct records of all action taken by it. The offices of chairman and secretary may be held by the same person.

SEC. 4. The credit committee shall hold such meetings as the business of this credit union may require, and not less frequently than once a month. Notice of such meetings shall be given to members of the committee in such manner as the committee members may from time to time, by resolution, prescribe.

SEC. 5. The credit committee shall inquire carefully into the character and financial condition of each applicant for a loan and his sureties, if any, to ascertain their ability to repay fully and promptly the obligations incurred by them and to determine whether the loan sought is for a provident or productive purpose and will be of probable benefit to the borrower. The credit committee shall endeavor diligently to assist applicants in solving their financial problems.

SEC. 6. No loan shall be made unless approved by a majority of the entire committee and by all the members of the committee who are present at the meeting at which the application is considered.

SEC. 7. Subject to the limits imposed by law and these bylaws and the instructions of the board of directors, the credit committee shall determine the security, if any, which shall be required for each loan and the terms upon which it shall be repaid. When there are pending more loan applications than can be granted with the funds available, preference shall be given, in all cases, to the applications for smaller loans if the need and credit factors are nearly equal.

ARTICLE X

Supervisory Committee

SECTION 1. The supervisory committee shall consist of three members, none of whom shall be directors, and all of whom shall be members of this credit

union. At the first annual meeting, one member shall be elected for a term of 1 year, and two members for terms of 2 years. Thereafter, all committee members shall be elected for terms of 2 years. Any vacancy in the membership of the supervisory committee of this credit union shall be filled by a vote of the remaining members, but the member so elected shall hold office only until the qualification of the member who shall be elected at the next annual meeting of the members of this credit union to complete the unexpired term.

SEC. 2. The supervisory committee members shall choose from among their number a chairman and a secretary. The secretary of the supervisory committee shall maintain and have custody of full and correct records of all action taken by it. The offices of chairman and secretary may be held by the same person.

SEC. 3. The supervisory committee shall make, at least quarterly, an examination of the affairs of this credit union (including an audit of its books), and shall make a written report thereof to the board of directors; and shall make an annual audit and a written report on the condition and affairs of this credit union to be submitted to the members at each annual meeting. It shall prepare and forward to the Bureau of Federal Credit Unions, Federal Security Agency, such reports as said Bureau may require.

SEC. 4. The supervisory committee shall cause the passbooks and accounts of all members to be verified with the records of the treasurer from time to time and not less frequently than once every 2 years.

SEC. 5. By unanimous vote the supervisory committee may suspend until the next meeting of the members any director, officer, or member of the credit committee. In the event of any such suspension, the supervisory committee shall call a special meeting of the members to act on said suspension within 7 days thereof. The notice of any such special meeting shall state the purpose for which it is to be held.

SEC. 6. By the affirmative vote of a majority of its members, the supervisory committee may call a special meeting of the members to consider any violation of the provisions of the Federal Credit Union Act (including any amendments thereto), or of the charter or the bylaws of this credit union, or to con-

sider any practice of this credit union which the committee deems to be unsafe or unauthorized. Notice of any such special meeting shall be given in the manner elsewhere herein provided for the giving of notice of special meetings of the members.

ARTICLE XI

Organization Meeting

SECTION 1. On receipt of the approved organization certificate, the subscribers thereto shall convene for the purpose of nominating and electing a board of directors, a credit committee, and a supervisory committee.

SEC. 2. The subscribers shall elect a chairman and a secretary for the meeting. The subscribers shall then elect from their number, or from those eligible to become members of this credit union, a board of directors, a credit committee, and a supervisory committee, all to hold office until the first annual meeting of the members and until the election and qualification of their respective successors. If not already a member, every person elected under this section must qualify within 30 days by becoming a member. If any person elected as a director or committee member does not qualify as a member within 30 days of such an election, his office shall automatically become vacant and shall be filled in accordance with the provisions of these bylaws pertaining to the filling of vacancies.

SEC. 3. Following the elections held under the provisions of the preceding section, the directors shall retire from the meeting, and elect the officers, who shall hold office until the first annual meeting and until the election and qualification of their respective successors.

ARTICLE XII

Loans to Members

SECTION 1. Except as otherwise provided in article XV, section 5 of these bylaws, loans shall be restricted to members, and shall be made for provident or productive purposes only.

SEC. 2. Rates of interest shall be fixed from time to time by the board of directors, and shall in no case exceed 1 percent per month on unpaid balances, inclusive of all charges incidental to making the loan.

SEC. 3. No loan shall be made to a director, an officer, a committee member, or to a member who has left the field of membership, in excess of the amount of his shareholdings in this credit union. No director, officer, or committee member shall act as endorser or guarantor for borrowers from this credit union.

SEC. 4. A borrower may repay his loan prior to maturity, in whole or in part, on any business day.

SEC. 5. Applications for loans shall be on forms prepared and furnished by the credit committee and shall in each case set forth the purpose for which the loan is desired, the security (if any), and such other data as may be required.

SEC. 6. No loan shall be made to members in excess of the limitations imposed in section 11 (d) of the Federal Credit Union Act, as amended.

SEC. 7. All applications for loans and the reports of the credit committee thereon shall be filed as permanent records of this credit union.

SEC. 8. Any member whose loan is delinquent for a period of 1 week or more shall, unless excused for cause by the board of directors, pay a fine at a rate not to exceed 1 cent per month on each \$5 or fraction thereof computed on the remaining unpaid balance of the delinquent loan from the date of the last principal payment, or from the date of disbursement if no principal payments have been made; *provided*, however, that in no case shall such fine be less than 5 cents. The board of directors may take such steps toward making collection of delinquent loans, interest, or fines, as may, in its judgment, be advisable.

ARTICLE XIII

Reserves

SECTION 1. All entrance and transfer fees and fines, and 20 percent of the net earnings of each year (before the declaration of any dividend) shall be set aside as a reserve against possible bad loans, which shall not be distributed except in case of final liquidation.

ARTICLE XIV

Dividends

SECTION 1. At the annual meeting only, on recommendation of the board of directors, a dividend may be declared from the net earnings remaining after the setting aside of 20 percent thereof for the reserve for bad loans. Any such dividend shall be paid only on shares fully paid up before December 1, and outstanding on December 31, of the preceding year. In the case of any share which became fully paid up during such year and prior to December 1 thereof, the holder shall be entitled to receive a proportional part of said dividend calculated from the first day of the month following such payment in full.

SEC. 2. No dividend shall be authorized or paid at a rate in excess of 6 percent per annum.

SEC. 3. A member shall be deemed to have one fully paid share for each \$5 paid in, regardless of the number of shares for which he has subscribed.

ARTICLE XV

Deposit and Disbursement of Funds—Investments

SECTION 1. The funds of this credit union shall be deposited only in national banks, or in state banks, trust companies, or mutual savings companies operating in accordance with the laws of the state or states in which this credit union does business; and except with the specific written permission of the Bureau of Federal Credit Unions, shall not be deposited in, or permitted to remain in, any institution the deposits of which are not insured by the Federal Deposit Insurance Corporation.

SEC. 2. All funds of this credit union, except those mentioned in sections 3 and 4 of this article, shall be deposited in such qualified depository or depositories as the board of directors may from time to time by resolution designate; and shall be so deposited within 48 hours of their receipt; *provided, however*, that receipts in the aggregate of \$100 or less need not be deposited more often than once each week.

SEC. 3. All disbursements of funds of this credit union shall be made by checks signed by the treasurer, or a duly authorized assistant treasurer, and counter-

signed by the president, or, in his absence or inability to serve, by the vice president; *provided, however*, that the board of directors may by resolution provide for the establishment and replenishment, at least annually, of a petty cash fund of not exceeding \$10 for postage, and for defraying other expense items of this credit union in amounts of less than \$1.

SEC. 4. A cash fund for the purpose of making change may be established by the board of directors by resolution, in an amount not to exceed \$100. On all cash funds in excess of \$100, however, the board of directors shall obtain the written permission of the Bureau of Federal Credit Unions, Federal Security Agency.

SEC. 5. The funds of this credit union shall be invested only in:

- (a) Loans exclusively to members
- (b) Obligations of the United States of America, or in securities fully guaranteed thereby as to both principal and interest
- (c) Loans to other credit unions in the total amount not exceeding 25 percent of this credit union's paid-in and unimpaired capital and surplus, in accordance with rules and regulations prescribed by the Bureau of Federal Credit Unions, Federal Security Agency
- (d) Shares or accounts of federal savings and loan associations
- (e) Any other manner authorized by the Federal Credit Union Act, as amended.

ARTICLE XVI

Expulsion and Withdrawal

SECTION 1. A member may be expelled only in the manner provided by law. Expulsion or withdrawal shall not operate to relieve a member of any liability to this credit union. All amounts paid in on shares by expelled or withdrawing members, prior to their expulsion or withdrawal, shall be paid to them in the order of their withdrawal or expulsion, but only as funds become available and only after deducting therefrom any amounts due from such members to this credit union.

ARTICLE XVII

Minors

SECTION 1. Shares may be issued in the name of a minor, or in trust therefor. When shares are so issued in trust, the trustee must be a member of this credit union in his own right, and the name of the beneficiary must be stated.

ARTICLE XVIII

Definition of Terms

SECTION 1. When used in these bylaws the terms:

- (a) "Net earnings", for a given period, shall mean the balance remaining after deducting from the gross income of this credit union actually received during such period all expenses paid or payable during such period, and any losses sustained therein (as determined by the board of directors) for which no specific reserve has been set aside. Amounts set aside during such period as a reserve for bad loans shall not be deemed items of expense.
- (b) "Paid-in and unimpaired capital", as of a given date, shall mean the balance of the paid-in shares account as of such date, less any losses that may have been incurred for which there is no reserve or which have not been charged against undivided profits or surplus.
- (c) "Surplus", as of a given date, shall mean the credit balance of the undivided profits account on such date, after all losses have been provided for and net earnings or net losses have been added thereto or deducted therefrom, as the case may be. Reserves for bad loans shall not be considered as a part of the surplus.

ARTICLE XIX

General

SECTION 1. All power, authority, duties, and functions of the members, directors, officers, and employees of this credit union, pursuant to the pro-

visions of these bylaws, shall be exercised in strict conformity with the applicable provisions of law and regulations issued thereunder, and of the charter and the bylaws of this credit union.

SEC. 2. The officers, directors, members of committees, and employees of this credit union shall hold in strictest confidence all transactions of this credit union with its members and all information respecting their personal affairs.

SEC. 3. Notwithstanding any other provisions in these bylaws, any director, committee member, officer, or employee of this credit union may be removed from office by the affirmative vote of two-thirds of the members present at a special meeting called for the purpose, but only after an opportunity has been given him to be heard.

SEC. 4. When any officer is absent, disqualified, or otherwise unable to perform the duties of his office, the board of directors may by resolution designate another member of this credit union to act temporarily in his place. The board of directors may also, by resolution, designate another member or members of this credit union to act on the credit committee when necessary in order to obtain a quorum.

SEC. 5. No director, committee member, officer, agent, or employee of this credit union shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his pecuniary interest or the pecuniary interests of any corporation, partnership, or association (other than this credit union) in which he is directly or indirectly interested. In the event of the disqualification of any director respecting any matter presented to the board of directors for deliberation or determination, such director shall withdraw from such deliberation or determination; and in such event the remaining qualified directors present at the meeting, if constituting a quorum with the disqualified director or directors, may exercise with respect to this matter, by majority vote, all the powers of the board of directors. In the event of the disqualification of any member of the credit committee or the supervisory committee, such committee member shall withdraw from such deliberation or determination.

SEC. 6. Copies of the organization papers of this credit union, its bylaws, and any amendments thereto,

shall be preserved in a place of safekeeping. Returns of nominations and elections and proceedings of all regular and special meetings of the members and directors shall be recorded in the minute books of this credit union. The minutes of the meetings of the members, the board of directors, and the committees shall be signed by their respective chairmen or presiding officers and by the persons who serve as secretaries of such meetings.

SEC. 7. All books of account and other records of this credit union shall at all times be available to the directors and committee members of this credit union, and to any duly authorized representative of the United States Government, upon presentation of the proper credentials.

ARTICLE XX

Amendments to Bylaws and Charter

SECTION 1. Amendments to these bylaws may be adopted and amendments to the charter requested by the affirmative vote of two-thirds of the members of the board of directors at any duly held meeting thereof if the members of the board of directors have been given 7 days' notice of said meeting and the notice has contained a copy of the proposed amendment or amendments. No amendment to these bylaws or to the charter shall become effective, however, until approved in writing by the Director, Bureau of Federal Credit Unions, Federal Security Agency.

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