# REPORT

of

# THE STATE CORPORATION COMMISSION

To

# THE GOVERNOR

And

# THE GENERAL ASSEMBLY OF VIRGINIA


## Senate Document No. 8

COMMONWEALTH OF VIRGINIA
Department of Purchases and Supply
Richmond
~~1973~~
1974

# I. INTRODUCTION

In early January, 1973, the State Corporation Commission closed the doors of an industrial loan association located in the City of Norfolk. Subsequently, the Commission applied for the appointment of a receiver to take charge of the institution and wind up its affairs. The collapse of this institution, which had been in existence since 1915, marked the first failure of a Virginia industrial loan association. Needless to say, the first failure was one too many.

The failure of any financial institution is a tragic event rarely experienced by Virginians in recent decades.[1] The tragedy ensuing the collapse was amplified by the fact that the deposits [2] of the industrial loan association, which at the time of closing amounted to approximately $12 million, were not insured. The depositors were thus deprived of an immediate payoff which would have been available had their deposits been insured. Instead, since their recoveries will depend solely upon the total amount that will be realized by the liquidation of the association's assets, the depositors face excruciating uncertainty as to both the amount and time of their recoveries. This lack of insurance has precipitated the question of whether all financial institutions which accept and invest the funds of Virginia's citizens should be required to have deposit insurance.[3] This question held the concern of many Members of the General Assembly who, during the 1973 Session, considered no less than eight Bills directly attributable to the Norfolk collapse.[4] Their concern is appropriate because it has been long recognized, at least by regulators, that the examination process cannot and will not afford complete protection against failures. A recent study by the Federal Deposit Insurance Corporation of 57 failures of insured banks with deposits ranging from $435,000 to $93 million that occurred between 1960 and 1972 concluded: "It is unreasonable to expect that bank failures will ever be eliminated." [5] This conclusion carries with it the obvious implication that examinations, as conducted by either state or federal regulatory authorities, do not create insurmountable barriers to failures. If this premise is valid, and we think it is, it follows that some means should be sought by which the impact of failures on depositors may be either eliminated or substantially alleviated.

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[1] Since 1950, one State-chartered bank and two State-chartered savings and loan associations have been placed in involuntary liquidation. The bank and one of the savings and loan associations had deposit insurance. The other savings and loan association was uninsured and was not subject to periodic examination by the Commission under the law as it existed at that time (1956). While a number of State-chartered credit unions have been liquidated, only two, since 1959, have been involuntarily liquidated (See Footnote 21, *infra*).

[2] The word "deposits," where it appears in this Report, is used in a broad sense to include funds of the public placed in savings and loan associations where they are called "shares" and industrial loan associations where they are called "certificates of investment." In credit unions, the savings of members are known as "shares" and are so referred to in this Report.

[3] The term "deposit insurance" as it appears in this Report is also used in a broad sense to include insurance issued to and held by a financial institution which directly protects persons who deposit funds in savings accounts or purchase certificates of deposit, savings shares, certificates of investment or other writing evidencing that such person has funds in the institution.

[4] See Appendix A for a summary of these Bills.

[5] John J. Slocum, Chief, Division of Liquidation, Federal Deposit Insurance Corporation, "Why 57 Insured Banks Did Not Make It—1960 to 1972," *The Journal of Commercial Bank Lending*, August, 1973, pp. 44-66.

As of December 31, 1972, there were 762 Virginia financial institutions regulated by the State Corporation Commission. Included in that total were 157 banks,[6] 45 savings and loan associations, 130 credit unions, 18 industrial loan associations, and 412 small loan companies.[7] All of these are examined annually by the Commission's Bureau of Banking.

The present extent of uninsured deposits in savings and loan associations, credit unions, and industrial loan associations supervised by the State Corporation Commission is tabulated below. The figures in columns 1 and 2 are as of December 31, 1972. Columns 3 and 4 have been adjusted to reflect deposit insurance obtained subsequent to that date.

| | 1 | 2 | 3 | 4 | |
|---|---|---|---|---|---|
| | Total Assets | Total Deposits | Deposits in Insured Institutions [8] | Deposits in Uninsured Institutions | Percent of Uninsured Deposits to Total Deposits |
| Savings & Loan | 1,156,078,245 | 984,122,131 | 961,184,364 | 22,937,767 | 2.3% |
| Credit Unions | 118,853,312 | 100,732,959 | 26,240,043 | 74,492,916 | 73.9% |
| Industrial Loan | 29,632,800 | 17,628,548 | -0- | 17,638,548 | 100% |
| TOTALS | 1,304,564,357 | 1,102,483,638 | 987,793,255 | 114,690,383 | 10.4% |

With respect to savings and loan associations, credit unions, and industrial loan associations, Senate Joint Resolution No. 138 directs that inquiry be made into (1) "insurance [9] required" and (2) insurance which "should be required." In discussing the first directive, this Report will demonstrate the extent to which such institutions have deposit insurance. Discussion of the second directive will include mention of the availability and terms of deposit insurance and the Commission's recommendations on the central and several related issues. Legislation to accomplish these recommendations is appended to the Report.[10]

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[6] As of December 31, 1972, the 157 State-chartered banks had deposits in excess of $4.5 billion. The deposits in these banks are insured by the Federal Deposit Insurance Corporation to the extent of $20,000 per account. Although banks are without the scope of this Report, it is here noted that the Commission must ascertain prior to the issuance of a certificate of authority that the applicant's "... deposits are to be insured or guaranteed by a State or federal agency up to the limits of the insurance provided thereby." See Code of Virginia (1950), as amended, §6.1-13.

[7] As of December 31, 1972, the 412 small loan companies had assets in excess of $244 million. Small loan licensees are not authorized to receive deposits.

[8] Of course, the entire deposit liability is not fully insured because coverage is limited to $20,000 per account. The Commission has been advised by the Federal Home Loan Bank Board that as of year end 1971, 95.6% of the deposit accounts of insured savings and loan associations in Virginia were fully protected. It would seem reasonable to assume that the figure for insured credit unions would be no less than that for savings and loan associations.

[9] In light of the legislative history of Senate Joint Resolution No. 138, the Commission construes the reference therein to "insurance" as a reference to "deposit insurance" (See Note 3, *supra.*).
Thus, the Report does not discuss the many other forms of insurance customarily obtained by financial institutions such as property and liability insurance, and fidelity and surety bonds.

[10] See Appendix C to this Report.

# REPORT

of

# THE STATE CORPORATION COMMISSION

Richmond, December 3, 1973

TO

THE HONORABLE LINWOOD HOLTON, *Governor of Virginia*

and

THE GENERAL ASSEMBLY OF VIRGINIA

The State Corporation Commission submits the following Report in compliance with the Acts of Assembly of 1973, p. 1333:

## SENATE JOINT RESOLUTION NO. 138

Directing the State Corporation Commission to study insurance required of certain financial institutions.

Whereas, the current session of the General Assembly has received for consideration various legislative proposals dealing with insurance required of certain financial institutions; and

Whereas, such proposals raise complex questions with which it is difficult to deal under the pressure of a legislative session and which should properly be the subject of a careful and studied examination; now, therefore, be it

Resolved by the Senate of Virginia, the House of Delegates concurring, That the State Corporation Commission is directed to make a study of insurance required or which should be required of certain financial institutions.

The study shall deal with insurance requirements of financial institutions referred to in Chapters 3.1, 4 and 5 of Title 6.1 of the Code of Virginia.

All agencies, officers and employees of the Commonwealth and all of its political subdivisions shall cooperate with and assist the State Corporation Commission in its work as required.

The State Corporation Commission shall complete its work and report to the Governor and General Assembly no later than October one, nineteen hundred seventy-three.

The Report was prepared by the Commission and submitted to a panel consisting of persons interested in the matters within the scope of Senate Joint Resolution No. 138 for review and comment in light of their knowledge and experience. To the members of the panel and to the members of the Commission's staff who assisted us in meeting the task assigned by the Resolution, we express our sincere appreciation.

Respectfully submitted,

JUNIE L. BRADSHAW, *Chairman*
PRESTON C. SHANNON, *Commissioner*
THOMAS P. HARWOOD, JR., *Commissioner*

## II. SAVINGS AND LOAN ASSOCIATIONS

### *A. Insurance Required*

Prior to June 1, 1973, the effective date of Chapter 156 of the 1973 Acts of Assembly (Code, §6.1-195.47, as amended) there was no provision in Virginia law requiring deposit insurance as a condition precedent to the granting of authority to engage in the business of a savings and loan association. That legislation requires the Commission to ascertain prior to the issuance of a certificate of authority that the applicant either (1) is fully insured by the Federal Savings and Loan Insurance Corporation (FSLIC), or (2) has received a commitment by the FSLIC to insure its accounts immediately subsequent to the issuance of a certificate of authority. The legislation further provides that the Commission, upon finding all other requirements have been met, may issue the certificate upon condition that the applicant shall not commence business until FSLIC has issued the deposit insurance. Since all Federally-chartered savings and loan associations must be insured by FSLIC, the effect of Chapter 156 of the 1973 Acts of Assembly is to place State and Federally chartered associations on parity in this respect.

There is no provision in Virginia law requiring a State-chartered savings and loan association authorized to begin business prior to June 1, 1973, to have deposit insurance. As of December 31, 1972, the 45 State-chartered savings and loan associations held savings deposits amounting to $984,122,131. Of that amount 97.6% was on deposit with associations that have FSLIC insurance. There were nine uninsured State-chartered savings and loan associations (three stock and six mutual) having total savings deposits of $23,660,212 or 2.4% of the total.[11] Since that date, one of the uninsured associations with deposits of $722,445, has obtained FSLIC insurance. As of the date of this Report, the remaining uninsured associations, their year of organization, and savings deposits at year end 1972 are:

| | |
|---|---|
| * Augusta County S & L Assoc. (1969) | $ 2,510,065 |
| Community S & L Assoc. (1958) | 526,616 |
| **Elizabeth Bldg. & Loan Assoc., Inc. (1912) | 1,239,636 |
| * Home S & L Assoc., Inc. (1922) | 10,049,248 |
| **Homestead Mut. Bldg. & Loan Assoc., Inc. (1928) | 5,380,256 |
| Magic City Bldg. & Loan Assoc., Inc. (1915) | 222,875 |
| **Montgomery County Mut. Bldg. & Loan Assoc., Inc. (1929) | 2,975,734 |
| * Vinton S & L Corporation (1931) | 33,337 |
| | $22,937,767 [12] |

* Stock associations.
**Operated, in part, under a share accumulation plan.

Of these eight associations, one has a pending application for FSLIC insurance and the deposit liability of another, it is predicted, will be assumed by an insured association through the process of merger. Savings deposits in these two institutions aggregate approximately $10.3 million.

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[11] Source: 1972 Annual Report of the Bureau of Banking to the State Corporation Commission, p. 99.

[12] Source: *Ibid.*, pp. 112-123.

Three of the eight uninsured associations with outstanding deposits of $9,595,626 are ineligible for FSLIC insurance because they operate partially upon the share accumulation plan (also known as the "Sinking Fund Method").[13] This plan carries statutory recognition in that portion of §6.1-195.2 which provides:

> Notwithstanding any other provision of law with respect to rates of interest which may be charged, an association which on September one, nineteen hundred fifty-nine, was operating on a share accumulation plan whereby its earnings were equitably distributed to both borrowers and shareholders may continue to operate upon the same plan.[14]

### *B. Insurance Which Should Be Required*

There has existed in Virginia, and elsewhere, since the creation in 1934 of the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation,[15] a dual system of chartering and supervision of savings and loan associations. Organizers of such associations are thereby afforded entry into the business, at their election, through either the State or Federal regulatory bodies. Federal chartering has always been limited to associations operating under a mutual plan, whereas Virginia law permits chartering under either a mutual or capital stock plan.

This alternative method of entry has worked an interesting change in the deposit base of the two systems and has had a revealing impact on the growth of the State system. At year end 1960, deposits in all associations operating in Virginia amounted to $620.5 million of which $464.7 million, representing 74.9% of the total, were with Federal associations. At year end 1972, total deposits in all associations amounted to $2.631 billion of which $1.649 billion, or 60.0 percent, were with Federal associations; thus, the intervening years have worked a gradual shift from a predominantly Federal system deposit-wise to a more balanced distribution between the two systems.

There is a further basic difference between the two systems. Insurance of deposits in Federal associations by FSLIC has always been required by law. As stated previously, mandatory Federal insurance of State-chartered associations authorized to commence business prior to June 1, 1973, is not required.

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[13] The share accumulation plan operates this way: Assume a loan of $1,000 with interest at 6% per annum repayable in 139 monthly installments of $11.50 each, of which $5.00 is charged for interest, the same amount to accumulate shares, and $1.50 for premium. Over the life of the loan, the borrower will have paid $1,598.50 of which $695.00 is credited to a sinking fund to accumulate shares. The same amount is charged for interest while $208.50 represents a premium for granting the loan. At the end of the term of the loan, the 6% interest earned by the borrower on his accumulated shares will have amounted to $305.00 which, when credited to the sinking fund shares, produces $1,000.00, the amount necessary to "cancel" the loan.

[14] 1960 Acts of Assembly, c. 402, p. 621.

[15] The Federal Savings and Loan Insurance Corporation was created by Act of Congress in 1934 and charged with the duty "to insure the accounts of all Federal associations" and with authority to insure "the accounts of building and loan, savings and loan, and homestead associations and cooperative banks organized and operated according to the laws of the State . . . in which they are chartered or organized." [12 U.S.C.A., §1726(a)]. State stock associations are eligible for such insurance.

The extent of deposits in uninsured State associations has been tabulated, *supra*, and set at 2.3% of total deposits in such associations as of the date of this Report. At December 31, 1972, deposits in uninsured State associations amounted to $23.6 million which when related to the total deposits in both State and Federal associations of $2.631 billion reduced the percentage of deposits in uninsured associations to slightly less than 9/10 of 1%, overall. While this may be regarded as *de minimis*, it represents the extent of uninsured exposure and obviously these funds, all of which are in State associations, are entitled to every protection that the Commission can raise against the possibility of loss.

The Commission is convinced that all State-chartered savings and loan associations should have deposit insurance and has adopted several policies to encourage that end. It believes that an association's lack of deposit insurance is a fact properly considered in determining whether "public convenience and necessity" will be served by authorizing a branch office. More recently, the Commission has adopted a policy of requiring each uninsured association to furnish annually a certified audit of its financial condition prepared by a reputable accounting firm.

To the Commission's knowledge, deposit insurance is available to savings and loan associations only through the Federal Savings and Loan Insurance Corporation. Indeed, the 1973 amendment to §6.1-195.47 requiring all new associations to obtain FSLIC insurance renders all but moot any discussion of other possible sources of deposit insurance. The procedure for obtaining such insurance is, briefly, as follows.

A State-chartered association applying for FSLIC insurance must agree (1) to pay the reasonable costs of such examinations as may be necessary in connection with such insurance; (2) to permit and pay the cost of periodic FSLIC examinations if the insurance is granted; (3) to pay the premium charges for the insurance; (4) to abide by restrictions on its lending area; and (5) to abide by the FSLIC regulations including those dealing with advertising and sales practices, and reserve requirements. [12 U.S.C.A., §1726(b)].

FSLIC must reject any application if it finds ". . . that the capital of the applicant is impaired or that its financial policies or management are unsafe. It may reject an application if it finds ". . . that the character of the management of the applicant or its home financing policy is inconsistent with economical home financing or with the purposes of . . . [Subchapter IV, Title 12, U.S.C.A.]."

Upon approval of its application, the association becomes obligated to pay an initial premium charge of one-twelfth of one percent of the total amount of all insured accounts. Thereafter, such premium is payable annually. In addition to the annual premium, FSLIC may assess an additional premium to cover losses and expenses. However, the total amount assessed against any association may not exceed, in any one year, one-eighth of one percent of its insured accounts. (12 U.S.C.A., §1727).

Accounts in FSLIC insured associations are insured up to $20,000 per account. FSLIC becomes obligated to pay the insurance when there is an adjudication or other official determination of a court of competent jurisdiction or other public authority pursuant to which a conservator, receiver, or other legal custodian is appointed for the association for the purpose of liquidation. (12 U.S.C .A.,§1728).

The wide acceptance of FSLIC deposit insurance by State-chartered savings and loan associations without the existence of a statutory

requirement offers strong evidence that management has for the most part regarded such insurance as a competitive necessity. The Commission recognizes that some of the uninsured associations have competed against FSLIC insured associations by paying a slightly higher rate of interest on deposits. Although it is not known whether depositors who place their savings in uninsured associations are aware of the lack of insurance, there is reason to believe, because of the almost total extent of insurance coverage, that many of them assume their deposits are insured. The General Assembly of Virginia obviously shares this belief as evidenced by its enactment in 1973 of §6.1-195.63:1 of the Code of Virginia.[16] While it is too early to quantify the impact of this disclosure requirement, the Commission believes it will at least result in a significant reduction of deposit growth and probably a reduction in deposits. The Commission thinks that the average depositor will elect to sacrifice a small amount of interest in return for the protection afforded by insurance of his deposit.

The Commission has considered carefully the legislation enacted by the General Assembly in 1973 and believes that it, together with the Commission's announced policies with regard to uninsured associations, has placed these associations on notice that the General Assembly and the Commission expect them to take steps necessary to procure FSLIC insurance. As has been noted, there has been a decided trend toward deposit insurance by these associations in recent months.

The three associations that are presently ineligible for FSLIC insurance because of their partial operation on the share accumulation plan have been encouraged by the Commission to discontinue the plan and convert existing loans to a "direct reduction repayment plan." [17] Each of these associations has informally advised the Commission that it is no longer utilizing the share accumulation plan and two have stated an intention to apply for deposit insurance. It could be hoped that these three associations would act expeditiously to convert existing loans made on the share accumulation plan to the direct reduction repayment plan. There is no apparent barrier to such a conversion as long as there is no alteration in the number and amount of periodic payments. Under these circumstances the nominal six percent yield as expressed in the example found in footnote 13 (p. 5) would increase but that fact is of no seeming consequence since there presently is no ceiling on the amount of interest that may be legally charged on real estate loans secured by a first deed of trust or first mortgage on real estate. There is no substantive difference between interest and premium since they are both essentially charges for the use of money. The Commission recommends amendment of §6.1-195.2 and §6.1-195.19 to insure that no further loans are made on the share accumulation plan.

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[16] "§6.1-195.63:1. Statement required when accounts are not insured. — Every savings and loan association authorized to conduct its business as such in this State which does not have its savings accounts insured by the Federal Savings and Loan Insurance Corporation shall place in a prominent manner in every advertisement for savings accounts in the association and on every certificate or passbook evidencing such account the words 'The accounts in this association are not insured.' "

[17] The "direct reduction repayment plan" is by far the most widely used method of repayment and owes its popularity to the FHA. The term "direct reduction" offers an apt description of the plan. The fixed monthly (or other periodic) payment pays interest first while the balance is applied to the reduction of principal. Interest is computed on the balance remaining at the end of the preceding month.

As previously stated, the Commission is convinced that all State-chartered savings and loan associations should have deposit insurance. It, therefore, recommends legislation that would require all State-chartered associations to have FSLIC deposit insurance by July 1, 1977. The Commission is advised that it usually takes the Federal Home Loan Bank Board longer to process the application of an association that has commenced business than one submitted by a newly formed association. The Commission would hope that the Federal Home Loan Bank Board would act on their applications as expeditiously as possible in recognition of the fact that these associations are under statutory mandate to obtain deposit insurance. Considering this application process, together with the fact that the three associations with loans on the share accumulation plan will have to go through the process of converting those loans, the Commission believes that the July 1, 1977, date is reasonable.

In making this recommendation, the Commission does not intimate that associations which have not as yet applied for deposit insurance are unsound or inadequately managed. In addition, it most certainly is not the desire of the Commission to create any circumstances which may operate to the detriment of these associations or the savings and loan industry. The Commission believes that these associations, in order to effectively compete for savings dollars, will eventually recognize the necessity of deposit insurance. Thus, the effect of this recommendation is perhaps only to hasten that which is inevitable.

## III. CREDIT UNIONS

### *A. Insurance Required*

There is no provision in Virginia law requiring State-chartered credit unions to have deposit insurance. Of the 130 credit unions in operation on December 31, 1972, the shares in seven, are, as of the date of this Report, insured through the National Credit Union Administration (NCUA) which administers the National Credit Union Share Insurance Fund. The seven insured credit unions and the amount of their shares as of December 31, 1972, are:

| | |
|---|---|
| Amoco Yorktown Refinery | $ 310,237 |
| Colonial Stores' Employees | 1,350,527 |
| N.N.S. & D.D. Co. Employees | 21,461,657 |
| Norfolk General Hospital | 192,920 |
| Old Dominion University | 805,059 |
| Spurance Cellophane Employees | 1,945,423 |
| William Byrd Press Employees | 174,220 |
| | $ 26,240,043 [18] |

The total represents 26.1% of the $100,732,959 of shares held as of December 31, 1972, by the 130 credit unions.

### *B. Insurance Which Should Be Required*

Credit Unions are appropriately described as cooperative financial associations which exist for the purposes of extending credit to their members and promoting thrift among them. In Virginia, membership in a credit union is restricted ". . . to persons having a specified common bond of interest, members of their families, associations of such persons, other credit unions

[18] Source: Call Reports as of December 31, 1972, on file with the Bureau of Banking.

and employees of the credit union." For many years, the Commission has construed the phrase "specified common bond of interest" as embracing only employees of the same employer. Federal regulatory authorities, on the other hand, have given the phrase a wider interpretation to include not only individuals having a common employer, but also fraternal, professional and trade associations, religious (parish) groups, labor unions and residential groups.

Immediately after the Commission grants a certificate of incorporation, the directors of a new credit union are required to adopt a set of by-laws in conformance with Chapter 4 of Title 6.1.[19] Once the by-laws are filed with and approved by the Commission, and all requirements as to organization have been complied with, the Commission is required to issue a certificate authorizing the credit union to commence business unless it has reason to believe that it, "... is formed for any other than legitimate credit union business, or that the moral fitness, financial responsibility, or business qualifications of the persons named as officers and directors are not such as to command the confidence of the community in which the credit union proposes to operate." [Code of Virginia (1950), as amended, §6.1-197]

The Virginia statutes do not prescribe a minimum potential membership as a condition to the issuance of authority to commence business. The Commission has not looked with favor on applications that demonstrate a minimum potential membership of less than 150 persons. It recognizes also that there can be, and often is, a vast difference between potential membership and actual membership. While potential may be numerically high, factors such as a lack of group interest and leadership and the existence of sufficient depositories and sources of credit in the area may result in only a handful of actual members. This is illustrated by the following table which groups the 130 State-chartered credit unions by size of membership as of December 31, 1972.[20]

| NUMBER OF MEMBERS | NUMBER OF CREDIT UNIONS | SHARES |
|---|---|---|
| Less than 100 | 20 | 464,342 |
| 101 to 250 | 32 | 1,643,287 |
| 251 to 500 | 23 | 4,690,644 |
| More than 500 | 55 | 93,934,686 |
| | 130 | $100,732,959 |

From the table, it is seen that 40% of the State-chartered credit unions (52 of 130) have a membership of less than 250 persons. They also have only 2% of the total savings shares in State-chartered credit unions.

There is inherent in credit unions with small membership more than the normal risk of unsuccessful operation. If share volume is low, the volume of loans and other investments will be low. Consequently, earnings and reserves (from which losses are absorbed) will be in modest, although not necessarily inadequate, amounts. During the period January 1, 1960, to June 30, 1973, twenty-one State-chartered credit unions ceased operation. Two were absorbed by existing credit unions while the remainder went into voluntary liquidation. Of the twenty-one, ten had less than 50 members at the time operations were

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[19] The Commission has prepared for distribution recommended by-laws for credit unions. Their adoption is not compulsory, but they are widely used.

[20] Source: Statements of Condition as of December 31, 1972, filed with the Bureau of Banking.

ceased. Six had between 50 and 100 members and none of the remaining five had more than 250 members.[21]

While it may not bear directly on the questions to which this Report is addressed, the Commission considers it appropriate to recognize the above facts and to recommend that it be given broader regulatory authority over the entry of new credit unions into the State system. It recommends the enactment of legislation that would empower it to adopt by regulation additional requirements for authority to commence business.

Credit unions are democratically controlled, each member having only one vote regardless of the amount of his shares. At the annual meeting, members are required by law to elect a board of directors of not less than five members, and a credit committee and a supervisory committee of not less than three members each. The board of directors is charged by law with the general management of the affairs, funds and records of the credit union which include certain duties specified by law.[22] The credit committee must approve every loan except that it may appoint loan officers to whom may be delegated authority to approve loans up to the unsecured limit [23] or in excess of such limit if the excess is fully secured by the pledging of shares. The supervisory committee is required to inspect the securities, cash and accounts of the credit union and, at the close of each fiscal year, make or cause to be made a thorough audit of the receipts, disbursements, income, assets and liabilities of the credit union and make a full report thereon to the board of directors. This report must be read at the annual meeting of members and made a part of the corporate records.

Investment of the funds of a credit union are limited by law to the following: (1) loans to members; (2) loans to other credit unions doing business in Virginia to the extent permitted by the by-laws; (3) deposits in banks doing business in Virginia; (4) shares of other credit unions doing business in Virginia in an amount up to 10% of its outstanding shares and reserves; (5) obligations of the United States, the Commonwealth of Virginia or any political subdivision of the Commonwealth; and (6) shares of any savings and loan association doing business in this State. As to the last category, the Commission recommends an amendment to allow investment in the shares of Federally insured savings and loan associations.

The capital of credit unions consists principally of shares owned by members. Shares are withdrawable and the total amount of shares outstanding is variable rather than fixed. Shares are not transferable except between members. Their withdrawable value does not fluctuate with book value or earnings, but is based solely on the amount placed in the share account together with such dividends as may be credited thereto. The members own the

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[21] All of these credit unions have been liquidated without any loss to members except two which suffered losses aggregating $2,568. In several cases, more than 100 cents on the dollar was realized in liquidation. The Virginia Credit Union League, a trade association, advanced a total of $4,745.40 from its Stabilization Fund to seven of these credit unions that went into voluntary liquidation. Recoveries have thus far amounted to $491.54 and additional recoveries are expected. So as not to convey the impression that this situation is limited to State-chartered credit unions, it is noted that during the same period, the Stabilization Fund advanced funds to ten Federal credit unions.

[22] See Code of Virginia (1950), as amended, §6.1-221.

[23] The unsecured loan limit must not exceed an aggregate of $2,500 to any one individual or 2½% of the credit union's outstanding shares and reserve fund, whichever is less; but in no case shall the limit be less than $200. (Code of Virginia (1950), as amended, §6.1-217)

business, and the shares are debt obligations subordinate to all other obligations of the credit union.

To the Commission's knowledge, the only source of deposit insurance available at this time to State-chartered credit unions is the National Credit Union Administration (NCUA), an independent agency of the United States. NCUA has the duty to insure all Federal credit unions and the authority to insure the shares of State-chartered credit unions.

Federal deposit insurance for credit unions is a recent development, having been made available in 1970 by the enactment of Public Law 91-468 of October 10, 1970. The Report submitted by the House Committee on Banking and Currency advocating the enabling legislation expressed the Committee's wish that it be clear that the legislation was designed solely to give credit unions the same insurance afforded other federally-chartered financial institutions (banks and savings and loan associations) and that it should be considered a reward for the outstanding job performed by credit unions. The proposed legislation was in no way intended to indicate that credit unions were facing a period of fiscal difficulty. "On the contrary," the Report stated, "your committee feels that credit unions are in perhaps their strongest financial condition in history." [24] Notwithstanding this encomium, the Committee advocated that all Federal credit unions be required to obtain Federal share insurance and that requirement was legislatively imposed.

In applying to NCUA for deposit insurance, a credit union must agree (1) to pay the costs of the examination made to determine whether it is eligible for insurance; (2) to permit and pay the reasonable costs of periodic examinations; (3) to permit NCUA to have access to all reports of examinations conducted by state regulatory authorities; (4) to provide protection and indemnity against burglary, defalcation, and other similar insurable losses as required by State law; [25] (5) to maintain the regular reserve required by State law; [26] (6) to maintain such special reserves as may be required by NCUA; (7) not to issue or have outstanding any account or security the form of which has not been approved by NCUA; (8) to pay the premium charges; and (9) to comply with the requirements of law and NCUA regulations. [12 U.S.C.A., §1781(b)].

NCUA must reject any application upon finding that the applicant has insufficient reserves, has unsafe or unsound financial conditions or policies, has unfit management, would create undue risk to the National Credit Union Share Insurance Fund, or has powers and purposes which are "... inconsistent with the promotion of thrift among its members and the creation of a source of credit for provident and productive purposes." [12 U.S.C.A., §1781(c)(2)].

The premium for the insurance is one-twelfth of one percent of the total amount of the credit union's accounts as of the close of the preceding calendar year. In addition, a special premium not in excess of the regular premium, may

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[24] *Federal Share Insurance For Credit Unions*, Report No. 91-1457, House of Representatives, 91st Congress, 2nd Session.

[25] Pursuant to §6.1-211 of the Code of Virginia, the Commission by regulation, has prescribed the minimum penalty of the surety bond required to be maintained by a credit union. The amount required varies according to the credit union's total resources. Such surety bonds may not be cancelled without ten days written notice to the Commissioner of Banking.

[26] At the end of each dividend period, a minimum of 10% of gross income received during that period must be transferred to the reserve fund until such time as the reserve fund is equal to 10% of the total liabilities of the credit union. (§6.1-218 of the Code of Virginia).

be assessed if expenditures from the Fund exceed income of the Fund. A credit union insured in the year it is chartered is not required to pay any premium for that year if its total accounts for that year average $10,000 or less. [12 U.S.C.A., §1782(c)].

NCUA provides insurance to the extent of $20,000 per account. The insurance is payable when the credit union is closed for liquidation on account of bankruptcy or insolvency.

While State-chartered credit unions may participate in the NCUA program, this privilege has not met with enthusiastic response. As recently as August 31, 1973, the Credit Union National Association found that only 13% (1,391 in number) of all State-chartered credit unions are insured through NCUA. Various reasons have been assigned for the indifferent reception given by State-chartered credit unions to NCUA insurance. Most prominent among these is the belief that State-chartered credit unions would lose their identity as such if they were incorporated into the Federal program. They would thereby be subjected to supervision by both Federal and State regulatory authorities whereas their Federal counterparts would be responsible to the former only.

Some opponents of State legislation requiring compulsory Federal insurance for State-chartered credit unions predict the ultimate demise or, at least, a traumatic attrition, of the State segment of the credit union system should such a requirement be imposed. It would, they maintain, direct newly-organized credit unions into the Federal system and would encourage the conversion of existing State-chartered credit unions to Federal credit unions. Why, they propound, should a credit union subject itself to dual regulation when entry into the Federal system would result in unitary regulation? The Commission would not presume to share their prediction or respond to their question. It does believe, however, that there is a real possibility that some erosion of the State system would result if Federal insurance of State-chartered credit unions is made mandatory.

It should not be inferred, however, that this posture bespeaks an opposition to deposit insurance, *per se*. Our inquiries lead us to conclude that it is the consensus of State-chartered credit unions that such insurance is desirable. The Commission is convinced that State-chartered credit unions should be insured. In addition to the most important reason supporting this conviction (the protection that insurance affords credit union members), it is quite probable that a lack of insurance could put State-chartered credit unions at a competitive disadvantage.

The opponents of compulsory Federal deposit insurance are presently investigating possible alternatives to the Federal program. Their proposals in this regard are fully set forth in a letter dated August 31, 1973, from the Credit Union National Association to all state credit union leagues. The letter states with clarity the various proposals under consideration, the methods to accomplish them, and other pertinent information. This letter is of such interest that it is included in its entirety in this Report.[27]

The Commission concludes that Federal insurance of the shares in State-chartered credit unions should not be required *at this time*. It recommends legislation requiring State-chartered credit unions to obtain insurance through either the National Credit Union Administration or an alternative plan of insurance having equal benefits which would be acceptable to the Commission. This requirement, with respect to both existing and new

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[27] See Appendix B.

credit unions should not become effective prior to July 1, 1976. The delay would provide State-chartered credit unions with sufficient time to formulate an acceptable plan, obtain the Commission's approval, and place the plan in effect. The Commission believes that the great majority of State-chartered credit unions will prefer an alternative to NCUA insurance and should have a reasonable opportunity to create one.

The Commission also recommends that legislation be enacted requiring every credit union that does not have its shares insured by an agency of the Federal government or through a plan of insurance approved by the Commission to place in a prominent manner in any advertisement for shares in the credit union and on any document evidencing the ownership of shares the words: "The Savings Accounts In This Credit Union Are Not Insured."

## III. INDUSTRIAL LOAN ASSOCIATIONS

### *A. Insurance Required*

There is no provision in Virginia law requiring industrial loan associations to have deposit insurance. There are presently seventeen industrial loan associations in operation. They are of two types, those authorized to accept deposits (i.e., sell certificates of investment) and those that are not. The former are permitted to have their deposits insured or guaranteed but may not advertise that fact unless such insurance is issued by a state or federal agency or an insurance company licensed to do business in this State.[28]

Of the seventeen industrial loan associations in operation, five are authorized to receive deposits. These five, the year of their incorporation, and their deposits as of December 31, 1972, are:

| | |
|---|---|
| Mutual Savings and Loan Company, Inc. (1913) | $ 478,311 |
| Peoples Industrial Loan Corporation (1950) | 3,772,988 |
| *Richmond Industrial Loan and Thrift (1941) | 3,705,089 |
| *Roanoke Industrial Loan and Thrift (1917) | 8,138,631 |
| **Virginia Loan and Thrift Corporation (1926) | 1,533,529 |
| Total | $17,628,548 [29] |

*These two associations are under common ownership.
**A proposal is under consideration pursuant to which an insured bank will take over this association under an assumption of assets and liabilities.

At the present time, none of these industrial loan associations has deposit insurance.

[28] The General Assembly at its 1958 Regular Session created the Commission to Study Matters Relating to Industrial Loan Associations (House Joint Resolution No. 51). The Report of that Commission, dated April 26, 1959, contains information concerning the history and method of operation of industrial loan associations. The Commission apparently considered the question of deposit insurance. After finding that two associations with deposits of about $6.1 million had deposit insurance with an insurance company not licensed in Virginia which had admitted assets of $78,000 and a net worth of $61,000, the Commission recommended the provision now found in §6.1-232(2). At that time, a foreign insurance company was required to have minimum capital and surplus of $300,000 in order to obtain a license in this State.

[29] Source: 1972 Annual Report of the Bureau of Banking to the State Corporation Commission, pp. 126-127.

In addition to the deposits which may be accepted only by the aforementioned associations, all industrial loan associations can look to borrowed money, including loans from commercial lenders and the sale of debentures as a source of funds.[30] The two associations under common ownership which are authorized to accept deposits had debentures subordinated to deposits amounting to $4,629,150 outstanding at the end of 1972. The remaining three associations had no debenture obligations. Of the twelve associations without authority to accept deposits, two had debentures outstanding at that time amounting to $573,559.

*B. Insurance Which Should Be Required*

Industrial loan associations authorized to accept deposits are not eligible for either FDIC or FSLIC deposit insurance. In conjunction with this study, the Bureau of Insurance was requested to ascertain whether deposit insurance was available through the private insurance industry. The Bureau has advised the Commission that it is unable to locate any private insurer, licensed or unlicensed, that would make deposit insurance available to these associations.

Industrial loan associations authorized to sell certificates of investment may use both the fully paid and partial payment system. A fully paid certificate of investment is similar to a certificate of deposit issued by a bank. A certificate of investment purchased in installments is similar to a savings account in a bank.

Section 6.1-230 of the Code of Virginia, which was enacted in 1960 following the study and report by the Commission to Study Matters Relating to Industrial Loan Associations, provides that an industrial loan association that had certificates of investment issued and outstanding on January 1, 1959, may become a bank by complying with the provisions of the Virginia Banking Act. On that date, there were eleven industrial loan associations authorized to issue certificates of investment. Five of these have subsequently converted into banks and are now insured by the Federal Deposit Insurance Corporation. No new industrial loan association has been issued a certificate of authority since the effective date of that statute.

In accord with a further recommendation of that Commission, the General Assembly enacted §6.1-228 of the Code of Virginia which provides that any industrial loan associations incorporated after July 1, 1960, would have all the powers of banks, would be subject to all restrictions applicable to banks, and would for the purposes of State supervision and control be banks.[31] The obvious effect of this statute is to permit a bank to have the words "industrial loan association" in its corporate name. For reasons that are patent, no one has exercised that privilege. In the words of the Commission which recommended the legislation, its intent was to "remove as to all future associations the provisions that have made existing industrial loan associations ineligible for insurance." [32]

Industrial loan associations for many years offered a unique source of credit to the borrowing public. They made loans at a rate of interest more favorable to the borrower than that permitted to small loan companies. At the time of the enactment of the Industrial Loan Act (1920), banks were not engaged to any appreciable extent in making small installment loans or in

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[30] The remaining principal source of funds is, of course, capital stock.

[31] 1960 Acts of Assembly, c. 62, p. 67.

[32] Report of the Commission to Study Matters Relating to Industrial Loan Associations (1959), p. 10.

consumer financing. Today, banks are very heavily committed in such activity and offer the borrowing public installment loans and consumer financing at rates of interest more favorable than that available from industrial loan associations. This evolution has resulted in industrial loan associations no longer being impressed with the uniqueness that once characterized them.

The Commission believes that the deposits held by industrial loan associations should be insured. It holds this opinion in full recognition of the fact that these associations, in their present form, are not eligible for Federal deposit insurance. The time has come to enact measures that would, in effect, require rather than permit these associations to convert to banks if they wish to continue accepting deposits from the public. To this end, the Commission recommends legislation that would require associations authorized to sell certificates of investment to obtain insurance of their deposit liability through either a state or federal agency by July 1, 1975. Associations that failed to meet this requirement would be divested of their authority to sell certificates of investment provided, however, that the Commission could extend that time to a date not later than July 1, 1976. An extension would be granted only where an association had applied for deposit insurance prior to July 1, 1975, but the application had not been acted upon by that date.

This legislation, in our opinion, would provide a reasonable and practical means by which those industrial loan associations that desire to continue accepting deposits could do so and obtain deposit insurance. An association would amend its articles of incorporation to give it banking powers. Subsequently, it would apply to the Commission for a certificate of authority to begin business as a bank. At the same time, it would apply to the Federal Deposit Insurance Corporation for insurance or for membership in the Federal Reserve System (the deposits of banks that are accepted for membership in the Federal Reserve System are automatically insured by the FDIC). If the Commission found that the association met all requirements for the certificate of authority, including the requirement that its deposits are to be insured, it would issue the certificate with the provision that it would not become operative until such time as the required insurance is actually issued. In the interim, the industrial loan association could continue operating as such and exercise its authority to sell certificates of investment.

The Commission also recommends that industrial loan associations that sell certificates of investment be required to disclose in all advertisements for such certificates and on any instrument evidencing the purchaser's ownership of such certificates, the fact that the certificates are not insured.

The Commission also believes it necessary to enact statutory restrictions on the sale of debentures and other debt instruments by industrial loan associations. There is no appreciable difference in the measure of risk borne by holders of certificates of investment (i.e., depositors) and holders of debentures. Both instruments represent debt obligations of an association pursuant to which it undertakes to pay a sum certain at a determinable date. The Commission has long-recognized that the debenture offers an industrial loan association not authorized to sell certificates of investment a means to circumvent that restriction on its powers. The sale of debentures in small denominations, with short-term maturities, paid for on an installment plan is, in our opinion, tantamount to accepting deposits.

The Commission has in the past sanctioned the sale of debentures by industrial loan associations not authorized to sell certificates of investment only upon conditions that the debentures would be in amounts of not less than $1,000, have maturities of not less than one year, and are fully paid upon issuance. The Commission recommends legislation that would give it express

statutory authority to prescribe by regulation the conditions upon which not only debentures, but also all other evidences of debt however described, may be issued by industrial loan associations. This would permit the Commission to establish not only such features as minimum amount, minimum maturity date and the payment plan, but also other pertinent requirements such as one that the evidence of indebtedness be impressed with a statement that the association's liability therefor is not insured.[33]

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[33] The latter requirement would not be unique. The Federal Deposit Insurance Corporation requires banks which issue debentures to place a statement in the debenture to the effect that the obligation is not insured.

## APPENDIX A

Legislation considered by the 1973 Session of the General Assembly included:

1. *House Bill No. 1363* — Required savings and loan associations not insured by the Federal Savings and Loan Insurance to disclose the lack of insurance in every advertisement for savings accounts and on every passbook. Enacted (Acts, 1973, c. 89; Code of Virginia, §6.1-195.63:1).

2. *House Bill No. 1364* — Prohibited the use by an industrial loan association of the words "savings and loan" or "building and loan" in its corporate name. Not Enacted.

3. *House Bill No. 1365* — Provided in essence that a savings and loan association may not be authorized to begin business until its accounts are insured by the Federal Savings and Loan Insurance Corporation. Enacted (Acts, 1973, c. 156; Code of Virginia, §6.1-195.47).

4. *House Bill No. 1658* — Provided in essence that on and after January 1, 1974, no bank, savings and loan association, credit union, or industrial loan association could accept deposits, etc., unless it had deposit insurance in the amount of $20,000 per account. Failure to have such insurance would require revocation of the institution's authority to engage in business. Not Enacted.

5. *House Bill No. 1848* — Prohibited the approval of savings and loan branch office if the applicant was not insured by the Federal Savings and Loan Insurance Corporation. Not Enacted.

6. *Senate Bill No. 809* — Required the Commission to ascertain prior to the issuance of a certificate of authority that a savings and loan association's deposits are to be insured or guaranteed by a State or federal agency up to the limits provided thereby or by licensed insurance company up to similar limits. Not Enacted. (However, see House Bill No. 1365 above).

7. *Senate Bill No. 810* — Required the Commission to ascertain prior to the issuance of a certificate of authority that a bank's deposits are to be insured or guaranteed by a State or federal agency up to the limits provided thereby or by a licensed insurance company up to similar limits. Enacted (Acts, 1973, c. 454; Code of Virginia, §6.1-13(8)).

8. *Senate Bill No. 811* — Provided in essence that on and after April 1, 1974, no bank, savings and loan association, credit union, or industrial loan association could accept deposits, etc., unless it had deposit insurance in the amount of $20,000 per account. Failure to have such insurance would require revocation of the institution's authority to engage in business. Not Enacted.

APPENDIX B

# Credit Union National Association, Inc.

August 31, 1973

TO: All U. S. Leagues

SUBJECT: *Review and Update of State Share Insurance Programs*

*Alternatives to Federal Program.* With the advent of the federal share insurance program which began in 1971 and which covered all federally chartered credit unions, state chartered credit unions were left with several alternatives. One alternative was to join the federal program on a voluntary basis and to submit themselves to the several requirements of the federal program relating to audits, bookkeeping procedures, and physical plant. Another alternative was to remain uninsured and to assume that the existence of the federal share insurance program would not work adversely against them in their non-insured status. Still another option available to state chartered credit unions involved their backing of state legislation which would set up a statewide share insurance program. Wisconsin and Massachusetts are examples of successful state chartered statewide share insurance programs.

*Majority Not in Federal Plan.* At the present time, approximately 1,391 state chartered credit unions accounting for about 13% of all state chartered credit unions are insured under the federal plan. Several states have enacted legislation making it mandatory for state chartered credit unions in those states to become members of the federal share insurance program. There are some 1,040 state credit unions insured under state plans. The vast majority of state chartered credit unions, however, at this time, have not joined the federal program, nor do they belong to a state sponsored share insurance program. This group is estimated to number 10,374 credit unions.

*Threat to Dual Charter?* Various reasons have been stated as to why these credit unions have not joined the federal program. One of the most often heard comments is that state chartered credit unions feel they would lose their identity were they to be incorporated under the federal program. They go on to question the necessity for having both state and federal chartered available if, in fact, all credit unions would be regulated under the one federal body. Other credit union writers feel that the dual chartering system itself is endangered if an alternative to the federal share insurance program is not found in the near future.

Various proposals have been made for providing share insurance coverages for state chartered credit unions on a nationwide basis. One of the most promising concepts involves a program wherein state regulated insurance programs would be reinsured by a central nationwide body. In an effort to provide a nationwide continuity to this program, it has been suggested that CMCI Corporation (the CUNA Mutual/CUMIS holding company) or some other organization could act as a reinsuring vehicle and that a reinsurance of all state programs would be made. The resulting funds would be available for catastrophic losses if such were to occur.

*Ad Hoc Committee Formed.* With these thoughts in mind, an ad hoc committee was formed during the latter half of 1972 to investigate the several possibilities of alternatives to the federal program.

Preliminary meetings were held and by early 1973, the committee had initiated

the drafting of a model State Share Insurance Bill through the cooperation of CUNA, CUNA Mutual, CUMIS and CMCI Corporation.

The model legislation has received the support of the CUMIS Board of Directors, the Executive Committee of the International Association of Managing Directors, the CUNA Executive Committee, and officials of the National Association of Credit Union Supervisors. Numerous other bodies have expressed positive comments regarding this model bill. Interest in the program is running high.

At the present time, the National Share Insurance Program for State Chartered Credit Unions would revolve around the model legislation which creates the state share insurance programs. The CMCI Corporation, or some other body, would act as a reinsuring vehicle so that liquidity could be maintained in all state funds in the event of catastrophic losses in any one region of the country. Additional safeguards would also insure liquidity in the event of a nationwide economic catastrophe.

*Liquidation Studies.* At the present time, comprehensive studies are being made through the CMCI Corporation which will pinpoint state chartered credit union liquidations over the past several years. Hopefully, a meaningful history of liquidations can be developed to assist in rate making for the nationwide plan. Questionnaires have been sent to all state regulatory bodies and the returns are now beginning to come in. It is hoped that the study can be completed by year end and an adequate rating structure devised by that time.

The following is a listing of the current status of selected states and their model legislation:

*Massachusetts*, *Rhode Island* and *Wisconsin* already have a state share insurance program which has been in existence for some time.

*Ohio:* Their bill has passed both Houses and is awaiting the Governor's signature.

*Connecticut:* Their bill has been passed and signed by the Governor.

*Missouri:* This bill, along with a complete recodification of the credit union code, is pending.

*California:* The model legislation is being prepared.

*Texas:* The bill has been passed and signed by the Governor and it calls for compulsory share insurance by June of 1975.

*New Mexico:* Already has their own share insurance corporation.

*Maryland:* Their law has been passed.

*Utah:* This state has already incorporated a share insurance organization.

*North Carolina:* Has had a voluntary program since 1967.

*New York:* Has provision for share insurance in its law.

*Regional Share Insurance Plan Studied.* An action plan that may eventually lead to a regional share insurance facility for several southern states was a product of a meeting of 10 leagues meeting in Knoxville, Tennessee, August 17-18. A total of 29 persons including CUNA staff and resource people was present.

A state share insurance law to be developed for Tennessee would serve as a model for other states and as the possible basis for a regional program. Participants felt that starting on a state-level basis before going into a regional plan was more feasible.

The action plan also calls for another meeting, this time with state supervisory authorities represented, to be held November 6-7 in Atlanta, Georgia. Following this meeting draft legislation will be revised so it can be ready for introduction into the respective state legislatures in 1974 where appropriate.

Leagues participating were Tennessee, Kentucky, West Virginia, Mississippi, Georgia, Virginia, Florida, North Carolina, South Carolina and Alabama.

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If you have any information concerning state share insurance programs that you feel would be beneficial to others, please send them to CUNA, Inc., P. O. Box 431, Madison, Wisconsin 53701.

Henry A. Dykstal
Assistant Managing Director
Research and Development

cc: Herb Wegner, CUNA Managing Director
State Share Insurance Ad Hoc Committee

## APPENDIX C

A BILL to amend and reenact §6.1-195.2 of the Code of Virginia relating to powers, privileges, duties and restrictions conferred and imposed upon savings and loan associations and §6.1-195.19 of the Code of Virginia relating to the issuance of shares by savings and loan associations.

Be it enacted by the General Assembly of Virginia:

1. That §6.1-195.2 of the Code of Virginia be amended and reenacted as follows:

§6.1-195.2. The powers, privileges, duties and restrictions conferred and imposed upon any savings and loan associations existing under the laws of this State on July one, nineteen hundred seventy-two, are hereby abridged, enlarged or modified, as each particular case requires, to conform to the provisions of this chapter, but nothing in this chapter shall affect the legality of any investment heretofore made or transaction heretofore had under authority of any provision of law in force when such investment was made or transaction had.

Notwithstanding any other provision of law with respect to the rates of interest which may be charged, an association which on September one, nineteen hundred fifty-nine, was operating on a share accumulation loan plan whereby its earnings were equitably distributed to both its borrowers and its shareholders may continue to operate upon the same plan, *but no additional loans shall be made or shares issued under such plan after July 1, 1974.*

*An association which, prior to July 1, 1977, does not have its savings accounts insured by the Federal Savings and Loan Insurance Corporation shall not thereafter issue any shares or accept any savings deposit.*

2. That §6.1-195.19 of the Code of Virginia be amended and reenacted as follows:

§6.1-195.19. Notwithstanding any restriction in its article of incorporation limiting the number, kinds and classes of shares that it may issue, every association may issue as many shares of any kind or class as its board of directors, by resolution or bylaw, determines to issue *but subject to the restriction imposed by the second paragraph of §6.1-195.2.*

A BILL to amend and reenact §6.1-197 of the Code of Virginia relating to the approval of bylaws and other prerequisites to commencing business as a credit union.

Be it enacted by the General Assembly of Virginia:

1. That §6.1-197 of the Code of Virginia be amended and reenacted as follows:

§6.1-197. Immediately after the granting of the certificate of incorporation of a credit union by the State Corporation Commission, the directors shall adopt a set of bylaws in conformance with this chapter, and shall file a copy of the same with the Commission. When the bylaws are filed with and approved by the Commission, and all requirements of law *and of such regulations as the Commission may prescribe* as to organization are complied with, the Commission shall thereupon issue a certificate authorizing the credit union to commence business. Provided, however, that the Commission shall not issue a certificate of authority to do business to a credit union when it has reason to believe that the corporation is formed for any other than legitimate credit union business, or that the moral fitness, financial responsibility, or business qualifications of the persons named as officers and directors are not such as to

command the confidence of the community in which the credit union proposes to operate.

A BILL to amend and reenact §6.1-216 of the Code of Virginia relating to the investment of funds of a credit union.

Be it enacted by the General Assembly of Virginia:

1. That §6.1-216 of the Code of Virginia be amended and reenacted as follows:

§6.1-216. The funds of a credit union may be invested in the following ways only:

(1) Lent to members of the credit union;

(2) Lent to other credit unions doing business in Virginia to the extent permitted in the bylaws;

(3) Deposited in banks doing business in Virginia;

(4) Invested up to ten percent of outstanding shares and reserve fund in shares of other credit unions doing business in Virginia;

(5) Invested in obligations of the United States, of the State of Virginia or any political subdivision or agency of the State of Virginia, including revenue bonds;

(6) Invested in the shares of any savings and loan association doing business in this State *whose shares are insured by the Federal Savings and Loan Insurance Corporation.*

A BILL to amend the Code of Virginia by adding a new section numbered 6.1-200.1 requiring certain acts by credit unions which do not have Federal share insurance or share insurance approved by the State Corporation Commission.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia be amended by adding thereto a section numbered 6.1-200.1 as follows:

§6.1-200.1. Every credit union authorized to conduct its business as such in this State which does not have its savings shares insured by a federal or State agency or under a plan of insurance approved by the Commission shall place in a prominent manner in every advertisement for savings shares and on any document evidencing the ownership of shares the words: "The savings accounts in this credit union are not insured."

A BILL to amend the Code of Virginia by adding a new section numbered 6.1-200.2 to require share insurance for credit unions.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia be amended by adding thereto a section numbered 6.1-200.2 as follows:

§6.1-200.2. Any credit union whose shares and short term savings shares are not insured on or before the first day of July, nineteen hundred seventy-six by a State or federal agency up to the limits of the insurance provided thereby or under a plan of share insurance acceptable to and approved by the Commission shall not thereafter receive the savings of its members or issue thereto any other debt obligations of the credit union.

A BILL to amend and reenact §6.1-231 of the Code of Virginia relating to the sale of certificates of investment and §6.1-232 relating to prohibitions as to

industrial loan associations having certificates of investment issued and outstanding.

Be it enacted by the General Assembly of Virginia:

1. That §6.1-231 of the Code of Virginia be amended and reenacted as follows:

§6.1-231. An association that had certificates of investment issued and outstanding on the first day of January, nineteen hundred fifty-nine, may sell certificates of investment upon either the fully paid or partial payment system; *provided, however, that any such association which has not obtained insurance of its liability for such certificates through either a State or federal agency up to the limits of insurance provided thereby prior to July 1, 1975 shall not thereafter sell such certificates. The Commission, upon finding that an association has applied for such insurance prior to July 1, 1975 and that the insurance has not been issued, may suspend the prohibition against its sale of such certificates to a date not later than July 1, 1976.*

2. That §6.1-232 of the Code of Virginia be amended and reenacted as follows:

§6.1-232. An association that has certificates of investment issued and outstanding shall not:

1. Advertise that it is subject to regulation or supervision by the State Corporation Commission or the Bureau of Banking, or publish any advertisement suggesting that it is engaged in the business of banking or that it receives deposits;

2. Advertise that it carries insurance unless its certificates of investment are insured or guaranteed by a State or federal agency ~~or an insurance company authorized to do business in Virginia;~~

3. Own any shares of stock issued by any other corporation except to the extent legal for banks;

4. Invest more than 80% of the amount of its outstanding certificates of investment in loans secured by liens on real estate;

5. Make any loan secured by liens on real estate in excess of that percent of the appraised value permitted to banks;

6. Issue certificates of investment for the purpose of borrowing money from financial institutions;

7. Issue a certificate of investment paying a higher rate of interest than four and one half percent per annum, except that notwithstanding this limitation it may pay at any time an interest rate equal to the highest rate paid by any State savings and loan association or bank located in the same community in the State of Virginia.

A BILL to amend the Code of Virginia by adding a new section numbered 6.1-227.1 relating to the insurance debt instruments by industrial loan associations.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia be amended by adding thereto a section numbered 6.1-227.1 as follows:

§6.1-227.1. The Commission may by regulation prescribe the terms and conditions upon which an industrial loan association may issue bonds, debentures, or other evidences of debt however described offered to the general public by advertisement or solicitation.

A BILL to amend the Code of Virginia by adding thereto a section numbered 6.1-232.1 requiring certain acts by industrial loan associations having certificates of investment issued and outstanding.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia be amended by adding thereto a section numbered 6.1-232.1 as follows:

§6.1-232.1. An association which has certificates of investment issued and outstanding, unless such certificates are insured by a State or federal agency, shall place in a prominent manner in every advertisement for and upon any document evidencing ownership of certificates of investment the words: "The savings accounts in this association are not insured."