CHAPTER 98.
[H. B. 188.]

SAVINGS AND LOAN ASSOCIATIONS.

An Act relating to the organization, management, and supervision of savings and loan associations; providing for the conversion of Federal savings and loan associations; amending sections 20, 23, 28, 29, 47 as heretofore amended, 48, 49 as heretofore amended, 50, 51, 56, 57 and 65 of chapter 183 of the Laws of 1933; and repealing chapter 9 of the Laws of 1935.

Be it enacted by the Legislature of the State of Washington:

Section 1. Chapter 183 of the Laws of 1933 is amended by adding thereto a new section, to be known as section 6-A, as follows:

Section 6-A. Whenever any savings and loan association existing under the laws of the United States and located within this state is authorized to dissolve and it shall have taken the necessary steps to effect dissolution, or whenever the charter of such association has become inoperative because of a change in or nullification or a repeal of the laws under which it was organized, or whenever such association is authorized by the laws of the United States to convert itself into a savings and loan association under the laws of the state, such association, upon resolution therefor of three-fourths (3/4) if of its directors, at a meeting duly called for such purpose, or upon action taken under authority of the laws of the United States therefor, with the approval in writing of the supervisor, may execute and file articles of association as herein provided, together with a certificate executed by its president and secretary setting forth the facts authorizing such filing.

Upon the filing of said articles and said certificate, with the written approval of the supervisor, such association shall become a savings and loan association under the laws of this state and there-
upon all of the assets of such Federal savings and
loan association shall be vested in and become the
property of such state savings and loan association,
subject to all existing liabilities against such federal
association and its property not liquidated prior to
such conversion, and every person who was a share-
holder or member of such Federal savings and loan
association shall be a shareholder in such state asso-
ciation in like amount. If, at such conversion, the
association holds capital stock of a corporation
formed for the purpose of receiving and realizing
upon its segregated assets, such asset realization
corporation shall forthwith become subject to the
supervision of the supervisor.

SEC. 2. Section 20 of chapter 183 of the Laws of
1933 (Remington's Revised Statutes 3717-20) is
amended to read as follows:

Section 20. Any officer, agent, or employee may
be removed by the board of directors at its pleasure
and/or in such manner and/or by such authority
as the by-laws may provide. The directors of every
association shall require from its officers, agents,
and employees who have control over or access to
cash or securities of such association, a bond or
bonds, with duly qualified corporate surety author-
ized to do business in the State of Washington, con-
ditioned that the surety thereon will indemnify and
save harmless the association against any and all
loss or losses arising through the larceny, theft,
embezzlement, or other fraudulent or dishonest act
or acts of any such officer, agent, or employee, in
amount or amounts as follows: (1) For associ-
ations with assets up to one million two hundred fifty
thousand dollars ($1,250,000), for each such officer,
agent, or employee the sum of two thousand five
hundred dollars ($2,500) or two per-cent (2%) of
the assets of the association, whichever is greater;
(2) for associations with assets exceeding one mil-
lion two hundred fifty thousand dollars ($1,250,000) and up to two million five hundred thousand dollars ($2,500,000), for each such officer, agent, or employee the sum of twenty-five thousand dollars ($25,000); (3) For associations with assets exceeding two million five hundred thousand dollars ($2,500,000) and up to and including five million dollars ($5,000,000), for each such officer, agent, or employee an amount to equal one per cent (1%) of the assets of the association; (4) For associations with assets exceeding five million dollars ($5,000,000) and up to and including ten million dollars ($10,000,000), for each such officer, agent, or employee the sum of fifty thousand dollars ($50,000); (5) For associations with assets exceeding ten million dollars ($10,000,000) and up to and including twenty million dollars ($20,000,000), for each such officer, agent, or employee a sum equal to one-half of one per cent of the assets of the association; (6) For associations with assets in excess of twenty million dollars ($20,000,000), for each such officer, agent, or employee the sum of one hundred thousand dollars ($100,000).

Such bond or bonds shall be approved by the board of directors of the association and shall be filed with the supervisor and approved by him. The supervisor, in his discretion, from time to time may increase or decrease the amount or amounts of the foregoing schedule of bond requirements.

Such bond or bonds shall be presented to and considered by the board of directors at its regular meeting in January of each year and the board shall, at such meeting, by resolution fix and determine the amount of bonds of the respective officers, agents, and employees for the ensuing year.

The premium thereon may be paid by the association. Said bond or bonds shall be approved by the attorney for the association as to form and legal sufficiency.
Sec. 3. Section 23 of chapter 183 of the Laws of 1933 (Remington's Revised Statutes 3717-23) is amended to read as follows:

Section 23. An association may, if provided in its by-laws, issue installment shares, juvenile shares, savings shares and fully paid certificate shares.

Installment shares are those upon which regular stipulated payments shall be made at stated periods until the sum of such payments and dividends credited thereon equal their par value. An association may, in its by-laws, provide for and may in such case pay a higher dividend rate than is concurrently paid on savings shares to the holders of such installment shares if such installment shares are carried to their maturity and may so provide that if such installment shares are not carried to their maturity and are withdrawn theretofore, if withdrawn prior to two years from being subscribed shall receive fifty per cent of the dividend earnings thereon, if withdrawn between two and three years after being subscribed shall receive sixty per cent of the dividend earnings thereon, if withdrawn between three and four years after being subscribed, seventy per cent of the dividend earnings thereon, if withdrawn between four and five years after being subscribed, eighty per cent of the dividend earnings thereon, and if withdrawn after five years after being subscribed, ninety per cent of the dividend earnings thereon.

Savings shares are shares for which the purchaser shall pay the full par value at the time of issuance and such shares may be issued in units of one or more shares and/or a fractional part of a share. Trustees, administrators, executors, guardians, and other fiduciaries, either individual or corporation, in their fiduciary capacity, and municipal corporations, may purchase such shares to the extent of and while the same are covered by Federal insurance.
Sec. 4. Section 28 of chapter 183 of the Laws of 1933 (Remington's Revised Statutes 3717-28) is amended to read as follows:

Section 28. Each association shall issue to each member a certificate showing his share holdings in the association, which certificate may be in pass book form, and as to all such pass books and/or certificates issued from and after the taking effect of this act, the same shall contain a summary of the provisions of the law and the by-laws of the association relating to withdrawals and the right thereto and such other information as may be deemed desirable, such summary to be approved by the Supervisor of Savings and Loan.

Sec. 5. Section 29 of chapter 183 of the Laws of 1933 (Remington's Revised Statutes 3717-29) is amended to read as follows:

Section 29. A member wishing to withdraw his savings shares, or a portion thereof, shall give notice in writing of such desire, which provision may be waived by the association.

If upon presentation of notice for withdrawal, full withdrawal value thereof is not paid, it shall be the duty of the association to enter upon each notice for withdrawal presented its number in sequence and date of presentation and to file the same in the records of the association, and after filing such notice a member shall not be entitled to receive any dividends on his shares for which notice of withdrawal is given: Provided, A member having filed notice of withdrawal may cancel the same by notice thereof in writing filed with the association, whereupon such shares, from and after the date of such cancellation of notice, shall participate in dividends earned thereafter.

The withdrawal value of free shares shall be the par value thereof and in addition thereto di-
The withdrawal value of installment shares shall be the amount of the installment payments thereon together with accrued dividends declared thereon to be computed as to percentage of amount paid, in accordance with the terms of this act, and less any fees and fines legally chargeable against the same.

Sec. 6. Section 47 of chapter 183 of the Laws of 1933, as amended by chapter 171, Laws of 1935 (Remington's Revised Statutes 3717-47) is amended to read as follows:

Section 47. Every association shall have power to purchase, own, vote, and sell stock in, or act as agent for, a Federal home loan bank, Home Owners' Loan Corporation, or other state or Federal agency organized under the authority of the Laws of the United States or of the State of Washington and authorized to loan to or act as a fiscal agency for savings and loan associations; to procure insurance of its mortgages and of its shares from the Federal housing administrator, the Federal savings and loan insurance corporation, or any state or Federal corporation or agency authorized to write such insurance; and, in the exercise of these powers, may comply with any requirements of law or rules, regulations or orders promulgated by the Federal home loan bank board, Federal housing administration or the administrator thereof or Federal savings and loan insurance corporation, may execute any contracts or pay any premiums required in connection therewith, and may segregate its assets into classes where advisable for any of these purposes and, when directed by the supervisor, shall cancel the then existing notices of withdrawal of its shareholders, which cancellations shall be effective as of the date on which the respective notices of withdrawal were filed. Premiums paid
for insurance procured pursuant to the provisions of this section shall not be included in computing operating expenses under the provisions of section 66 (Remington's Revised Statutes 3717-66) hereof.

An association so segregating its assets may transfer the assets in one or more classes, with the approval of the supervisor, to a corporation formed or to be formed for the purpose under and pursuant to the uniform business corporation act, the directorate of which shall be identical with that of the association and the capital stock of which shall be owned by the association. The association, however, may cause qualifying shares of such corporation to be issued to its directors, to be held, however, by them in trust for the association; and, upon the transfer to such corporation of a portion of the assets of the association, the shareholdings of the association shall be reduced proportionately and the corporation shall issue its debentures, upon such terms and conditions as the directors shall decide and the supervisor shall approve, proportionately to the shareholders of the association for the assets so received by it.

Such corporation shall be subject to examination and supervision by the division of savings and loan for the same purposes and to the same extent as are savings and loan associations.

The provisions of section 12 (Remington's Revised Statutes 3717-12) hereof shall not apply to a director of an association transferring a portion of its assets to such corporation: Provided, however, That each director of the association shall at all times hold, in shares of the association and debentures of such corporation, an aggregate amount equal to the requirements of said section 12 (Remington's Revised Statutes 3717-12).

Sec. 7. Section 48 of chapter 183 of the Laws of
1933 (Remington's Revised Statutes 3717-48) is amended to read as follows:

Section 48. Every association shall issue share-certificate or savings pass books in return for all moneys received as investments from members and no association shall carry any demand, commercial or checking account. An association may borrow money upon its notes or debentures in an amount not in excess of twenty-five per cent (25%) of the shares of all classes and groups issued by it as shown by its last preceding semi-annual statement. Notwithstanding such limitation, an association may borrow from any Federal home loan bank or other similar Federal or state agency in such an amount or any part thereof as may be provided in the laws, rules and regulations relating to loans by such Federal home loan bank or other similar Federal or state agency and, as security for such loan, may pledge, hypothecate, or otherwise encumber any of the property and/or securities, real or personal, owned by such association and, in connection therewith may comply with any requirements of law or rules or regulations relative to the conduct of such Federal home loan bank or other similar Federal or state agency. In all cases where money is borrowed by an association, the association shall forthwith furnish to the supervisor copies of all written instruments evidencing such indebtedness.

Sec. 8. Section 49 of chapter 183, Laws of 1933, as amended by section 2 of chapter 171, Laws of 1935 (Remington's Revised Statutes 3717-49) is amended to read as follows:

Section 49. Every savings and loan association shall have on hand at all times, in cash, or available deposits in banks and trust companies, a sum not less than three per cent (3%) of its outstanding privately owned shares and, in addition, a sum, in cash, deposited in banks and trust companies, or
invested in bonds or obligations of the United States of America in an aggregate amount equal to not less than three per cent (3%) of its outstanding privately owned shares and, in addition, a sum, in cash, deposited in banks and trust companies, or invested in any bonds in which an association may invest in an aggregate amount equal to not less than three per cent (3%) of its outstanding privately owned shares: Provided, That an association will not be required to comply with this provision prior to February 15, 1941, if it shall, on or before April 1, 1940, have an amount equal to three per cent (3%) of its outstanding privately owned shares invested in accordance herewith.

Subject to the foregoing provision, if an association, at any time, shall have less than the nine per cent (9%) hereinabove prescribed in cash or deposited in banks and trust companies, or invested as hereinabove prescribed, such association shall immediately discontinue lending or the making of investments, except those for which its commitments have previously been issued, until a status complying with the provisions of this section shall be re-established.

SEC. 9. Section 50 of chapter 183, Laws of 1933 (Remington's Revised Statutes 3717-50) is amended to read as follows:

Section 50. Every savings and loan association incorporated under the laws of the United States and doing business in this state, and the shares or accounts heretofore or hereafter issued by any such association shall have all the rights, powers, and privileges and be entitled to the same immunities and exemptions as savings and loan associations organized under the laws of this state and as are applicable to the shares or accounts of such associations.
SEC. 10. Section 51 of chapter 183 of the Laws of 1933 (Remington's Revised Statutes 3717-51) is amended to read as follows:

Section 51. No association shall make any loan to any officer, director, agent and/or employee of the association or to any firm or corporation in which any officer, director, agent and/or employee of the association is a member or owner: Provided, however, An association may loan to any such officer, director, agent and/or employee of the association upon the security of his free shares in excess of the minimum amount of shares required by this act as qualifying shares.

It shall be unlawful for any officer or director of an association, except as provided above, either personally or through the medium of a partnership of which he is a member, or a corporation in which he is a stockholder or bondholder to the extent of twenty per cent (20%) of the issue thereof, to borrow any money from the association or to become indebted in any way to the association, or to sell or buy or otherwise dispose of or acquire to or from such association any real property or securities of any kind or nature, and it shall be unlawful for any officer, director, agent and/or employee of any association, except as provided above, to knowingly loan or cause to be loaned any of the funds of such association or to knowingly sell or buy or otherwise dispose of any real or personal property of the association to any person who is a director, officer, agent and/or employee of such association or to any partnership of which such person is a member or to a corporation in which such person is a stockholder or a bondholder to the extent of twenty per cent (20%) thereof.

Every person who violates this section or who aids and abets any other person in such violation shall be guilty of a felony.
Sec. 11. Section 56 of chapter 183, Laws of 1933 (Remington's Revised Statutes 3717-56) is amended to read as follows:

Section 56. A savings and loan association may invest its funds:

1. In the bonds or obligations of the United States of America, of the Dominion of Canada, or those for which the faith of the United States or the Dominion of Canada is pledged to provide for the payment of the interest and principal, including bonds of the District of Columbia: Provided, That, in the case of bonds of the Dominion or those for which its faith is pledged, the interest and principal be payable in the United States or with exchange to a city in the United States and in lawful money of the United States or its equivalent.

2. In the bonds or interest bearing obligations of this state, issued pursuant to the authority of any law of this state, for which the faith of the state is pledged to provide for payment of interest and principal.

3. In the bonds or obligations of any other state of the United States for which the faith of such state is pledged to provide for payment of interest and principal and upon which there has been no default of any general obligation for ten (10) years last past.

4. In the valid warrants or bonds of any city, town, county, school district, port district, or other municipal corporation in the State of Washington issued pursuant to law and for the payment of which the faith and credit of such municipality, county, or district is pledged and taxes are leviable upon all taxable property within its limits.

5. In the valid bonds or warrants of any city, county, school district, port district, or other municipal corporation in the United States having a population of not less than 50,000 inhabitants as deter-
mined by the last Federal census, which city, county, or district has not defaulted in interest or principal of any general obligation within ten years last past and for the payment of which the faith and credit of such municipality, county, or district are pledged and taxes are leviable upon all property within its limits.

No such investment shall be made, however, unless such bonds or warrants are rated not less than BAA by Moodys Investors Service or have equivalent rating of another standard rating bureau.

(6) In the light, water, or sewer revenue bonds of any city of this state for the payment of which the entire revenue of the city's light, water, or sewer system, less maintenance and operating costs, is irrevocably pledged.

(7) In the bonds of any irrigation, diking, drainage, diking improvement, or drainage improvement district of the county in this state in which is located the principal office of the association, unless the total indebtedness of the district, after the completion of the improvements for which the bonds are issued, plus the amount of all other assessments of a local or special nature against the land assessed or liable to be assessed to pay the bonds, exceeds forty per cent (40%) of the value of the benefited property, exclusive of improvements, at the time the bonds are purchased or taken by the association, according to the actual valuation last placed upon the property for general taxation.

Before any such bonds are purchased or taken as security, the condition of the district's affairs shall be ascertained and the property of the district examined by at least two members of the board of the savings and loan association or two competent appraisers appointed by the board, who shall report in writing their findings and recommendations; and no bonds shall be taken unless such report be favorable, nor unless the executive committee of the
board of directors, after careful investigation, is satisfied of the validity of the bonds and of the sufficiency of the assessment or other means provided for payment thereof: Provided, however, That no association shall invest a sum greater than three per cent (3%) of its funds, or, in any event, more than one hundred thousand dollars ($100,000), in the bonds of any one district described in this section.

(8) In the bonds of any local improvement district of any city of this state (except bonds issued for an improvement consisting of grading only), the ultimate payment of which is guaranteed by the municipality under the provisions of guaranty laws of this state: Provided, That one-half of the lots in the local improvement district be improved with revenue producing houses or other improvements and that local improvement district bonds falling within the fifty per cent (50%), in amount of any issue, last callable for payment shall neither be acquired, nor taken as security, and that no association shall invest a sum greater than three per cent (3%) of its funds, or, in any event, not more than one hundred thousand dollars ($100,000) in the bonds of any one district described in this section.

(9) In stock or bonds of any Federal home loan bank, the home owners' loan corporation, any Federal land bank, the Federal savings and loan insurance corporation, the Federal housing administration, or any state or Federal agency organized under authority of the laws of the United States or of the State of Washington, authorized to loan to or act as a fiscal agency for a savings and loan association, and in bonds of a national mortgage association created under the laws of the United States Government.

(10) In first mortgage loans substantially all of which shall be made to members. For every mortgage loan made the borrower shall execute a note stating the terms of the contract, and in every case
such loan shall constitute a first lien upon a fee estate in improved real property. Loans not amortized at least annually are prohibited. Notwithstanding any law limiting the amount that an association may loan to an individual or upon any property, an association may make any mortgage loan insured by the Federal housing administrator or other Federal or state agency, or for which such administrator or agency has issued commitment to insure. Monthly repayment loans not so insured shall not be in excess of sixty per cent (60\%) of the appraised value of the property except that, where secured by property occupied by or intended for the occupancy of the borrower as his home, on which the house is less than one year old at the date of the mortgage or is under construction, the loan shall not be in excess of seventy-five per cent (75\%) of such appraised value. Such appraised value shall be based upon the value of the land, together with the permanent improvements thereon. Appraisals of the value of property upon which loans are to be made shall be determined by two appraisers appointed by the board of directors and approved for such service by the supervisor, such appraisal to be made in writing stating the conservative value of the property, and that each appraiser has personally examined said property, and signed by the appraisers, to be filed with the association before any mortgage loan shall be made. Before any mortgage loan shall be made, the association shall require abstract of title as to the mortgaged property, duly certified by a responsible person or corporation maintaining a complete set of abstract indices to land in the county where such real estate is situated, to be accompanied by a written opinion of a competent attorney to the effect that the proposed mortgage will constitute a first lien upon such property; or a policy of title insurance executed by a responsible title insurance
corporation; or in the case of lands registered under the Torrens system, a duplicate certificate of ownership issued by a registrar of titles, and which loan shall provide that the mortgagor maintain fire insurance upon the buildings and improvements on the mortgaged premises, to be in a company authorized to transact the business of writing fire insurance in this state in such amount as shall be stipulated in the mortgage and with mortgagee loss payable clause attached thereto in favor of the association, and that the said policies be deposited with and held by the association pending payment of the loan. No association shall make any real estate loans except on first mortgages, as in this act provided: And provided, That every association shall have at least eighty per cent (80%) in amount of its real estate mortgage loan investments in the form of monthly installment loans.

A loan may be made on real estate which is to be improved by a building or buildings to be constructed with the proceeds of such loan, if it is arranged that such proceeds will be used for that purpose and that, when so used, the property will be improved to the extent required by this section.

(11) In the purchase of real estate contracts, under the following conditions only:

(a) That it must acquire the title in fee to the property covered by such contract;

(b) That the property be such as would be eligible for a mortgage loan under paragraph (10) of this section;

(c) That not less than twenty per cent (20%) of the principal of the purchase price under said contract shall have been paid or that the amount due under said contract shall not exceed seventy-five per cent (75%) of the appraised value of the property, whichever is the lower, and that the purchaser shall not be in default in performance of any of the terms of said contract;
(d) That the remainder of the purchase price of the contract will, by its terms, be paid within the periods provided in this act for the payment of mortgage loans.

(12) Not to exceed ten per cent (10%) of its funds in promissory notes payable to the order of the association upon demand, secured by the pledge or assignment of any bonds, warrants, or interest bearing obligations lawfully purchasable by an association, or secured by pledge or assignment of one or more real estate mortgages of the class prescribed in paragraph (10) of this section, but no such loan shall exceed seventy-five per cent (75%) of the cash market value of the securities so pledged.

Should any of the securities so held in pledge depreciate in value after the making of such loan, the association shall require an immediate payment of such loan, or of a part thereof, or additional security therefor, so that the amount loaned thereon shall at no time exceed seventy-five per cent (75%) of the market value of the securities so pledged for such loan.

(13) When permitted by its by-laws and if not on notice as to withdrawal of shares, in promissory notes made payable to the order of the association on demand, secured by the pledge and assignment of the pass book of the borrowing member as collateral security for the payment thereof. No such loan shall exceed ninety per cent (90%) of the balance due to the holder of such pass book as shown therein.

(14) If not on notice as to withdrawal of shares, in loans upon its own debentures and upon the debentures of any other association doing business in this state in a sum not exceeding ninety per cent (90%) of the principal amount due upon such debentures.

(15) In its shares or savings accounts or the shares or savings accounts of any other association
in this state, either state or Federal, the shares or savings accounts of which are insured by the Federal savings and loan insurance corporation or any other Federal or state agency authorized thereto. Such investments may be either by loan or purchase: Provided, however, That such investments shall not exceed, in any purchase or loan, ninety per cent (90%) of the face value of such shares or savings account.

(16) In furniture, fixtures, and office equipment convenient and necessary for the carrying on of its business.

Sec. 12. Section 57 of chapter 183 of the Laws of 1933 (Remington's Revised Statutes 3717-57) is amended to read as follows:

Section 57. Subject to the provisions of this act and not otherwise, an association may buy, sell or exchange, convey, lease, and/or mortgage and deal in real property including such real estate or leasehold interest therein now owned or as may be reasonably required for the transaction of its business, which may include space for rental by the association to tenants, and the acquisition of real estate through foreclosure or otherwise realized upon security taken by it: Provided, That an association shall not expend or obligate itself for the purchase and improvement of real estate for its business locations in an amount greater than five per cent (5%) of its then assets: And further provided, That this section shall not affect associations as to investments already made in real property for business locations, and it shall not prohibit an investment not exceeding ten per cent (10%) of the assets of the association in business location properties, provided it can be clearly shown to the satisfaction of the supervisor, as evidenced by his written approval thereof, that the contingent fund together with surplus and undivided profits of the association are
equal to five per cent (5%) of the shares of all classes and groups issued by it, plus creditor liabilities, as shown by the last preceding semi-annual statement, and that the reasonable rate of net income to be derived from the investment in its business location property shall be equal to its last dividend rate to members. Net income shall be determined by subtracting from gross income (as determined by going rentals for similar space in the vicinity, which may include reasonable rental from the association, as well as other tenants) the actual operating expenses for the property, plus depreciation and obsolescence (of not less than two per cent (2%) per annum on the improvements thereon) based on the reasonable life of the building at the time of purchase or construction.

SEC. 13. Section 65 of chapter 183 of the Laws of 1933 (Remington’s Revised Statutes 3717-65) is amended to read as follows:

Section 65. Dividends shall not be computed on less than monthly balances and no dividends shall be paid on withdrawals during any dividend period. For dividend purposes, shares purchased on or before the 10th day of any month may have dividends as if purchased on the first day of said month.

SEC. 14. Chapter 9 of the Laws of 1935 (Remington’s Revised Statutes 3717-49a, and 3717-52a, and 3717-56a), is repealed.

Passed the House March 2, 1939.
Passed the Senate March 1, 1939.
Approved by the Governor March 11, 1939.