

CHAPTER 34a. CONSUMER LOANS, COMMERCIAL PAPER AND CORPORATE DEBT SECURITIES

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Authority

The provisions of this Chapter 34a issued under section 159 of the Savings Association Code of 1967 (7 P. S. § 6020-159), unless otherwise noted.

Source

The provisions of this Chapter 34a adopted February 12, 1982, effective February 13, 1982, 12 Pa.B. 644, unless otherwise noted.

§ 34a.1. Definitions.

The following words and terms, when used in this chapter have the following meanings, unless the context clearly indicates otherwise:

Association—A savings association subject to the Code.

Code—The Savings Association Code of 1967 (7 P. S. §§ 6020-1—6020-254).

Closed-end consumer credit—Consumer credit other than open-end consumer credit.

Commercial paper—Any note, draft or bill of exchange which arises out of a current transaction or the proceeds of which have been or are to be used for current transactions and which has a maturity at the time of issuance not exceeding 9 months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

Consumer credit—Credit extended to a natural person for personal, family or household purposes including loans secured by liens on real estate and chattel liens secured by mobile homes; provided, the association relies substantially upon other factors such as the general credit standing of the borrower, guarantees, or security other than the real estate or mobile home as the primary security for the loan; appropriate evidence to demonstrate justification for such reliance should be retained in the association's files. Among the types of credit included in this term are consumer loans; educational loans; unsecured loans for real property alteration, repair or improvement or for the equipping of real property; loans in the nature of overdraft protection; and credit extended in connection with credit cards.

Consumer credit classified as a loss—Closed-end consumer credit delinquent 120 days or more—5 monthly payments or more—and open-end consumer credit delinquent 180 days or more—seven zero-billing cycles or more. For the

purposes of computing delinquency, a payment of 90% or more of the contractual payment will be considered as a full payment. If an association can clearly demonstrate that repayment would occur regardless of delinquency status—for example: the loan is well-secured by collateral and is in the process of collection, the loan is supported by a valid guarantee or insurance, or it is a loan where claims have been filed against a solvent estate—then such loan need not be classified as a loss. The following table illustrates the delinquency computation:

Closed-end consumer credit			
<i>Due Date</i>	<i>Period</i>	<i>Delinquency Status</i>	<i>Classification</i>
3/10	3/10-4/09	Not delinquent	—
6/10	6/10-7/09	90 days or 4 payments	Slow
7/10	7/10-8/09	120 days or 5 payments	Loss*
8/10	8/10-9/09	150 days or 6 payments	Loss*

Open-end consumer credit					
<i>Statement</i>	<i>Day</i>	<i>Cycle</i>	<i>Payment Record</i>	<i>Delinquent</i>	<i>Classification</i>
1	1	—	—	0	—
7	180	6	No payment	150	Slow
8	210	7	No payment	180	Loss*
9	240	8	No payment	210	Loss*

*Charge-off as required.

Consumer loan—A secured or unsecured loan to a natural person for personal, family, or household purposes. Such loan—as a type of consumer credit—may be made as either open-end or closed-end consumer credit but does not include credit extended in connection with credit cards and loans in the nature of overdraft protection.

Corporate debt security—A marketable obligation, evidencing the indebtedness of any corporation in the form of a bond, note, or debenture which is commonly regarded as debt security and is not predominantly speculative in nature. A security is marketable if it may be sold with reasonable promptness at a price which corresponds reasonably to its fair market value.

Loans—Obligations and extensions or advances of credit. Any reference to a loan or investment includes an interest in such a loan or investment.

Open-end consumer credit—“Open-end credit” as defined in Regulation Z (12 CFR 226.2).

Scheduled items—Slow consumer credit and slow loans other than loans specified in the Definition of “consumer credit classified as a loss.”

Slow consumer credit—Closed-end consumer credit delinquent 90 to 119 days—four monthly payments—and open-end consumer credit delinquent 90 to 179 days four to six zero-billing cycles. For the purposes of computing delinquency, a payment of 90% or more of the contractual payment will be considered

as a full payment. If an association can clearly demonstrate that repayment would occur regardless of delinquency status—for example: the loan is well-secured by collateral and is in the process of collection, the loan is supported by a valid guarantee or insurance, or it is a loan where the claims have been filed against a solvent estate—then such loan need not be classified as “slow consumer credit.” The following table illustrates the delinquency computation:

Closed-end consumer credit

<i>Due Date</i>	<i>Period</i>	<i>Delinquency Status</i>	<i>Classification</i>
3/10	3/10-4/09	Not delinquent	—
4/10	4/10-5/09	30 days or 2 payments	—
5/10	5/10-6/09	60 days or 3 payments	—
6/10	6/10-7/09	90 days or 4 payments	Slow

Open-end consumer credit

<i>Statement</i>	<i>Day</i>	<i>Zero Billing Cycle</i>	<i>Payment Record</i>	<i>Days Delinquent</i>	<i>Classification</i>
1	1	—	—	0	—
2	30	1	No payment	5*	—
3	60	2	No payment	30	—
4	90	3	No payment	60	—
5	120	4	No payment	90	Slow
6	150	5	No payment	120	Slow
7	180	6	No payment	150	Slow

*For purposes of illustration, assume consumer has 25 days in which to pay before payment is considered delinquent.

Cross References

This section cited in 10 Pa. Code § 34a.4 (relating to scheduled items and consumer credit classified as a loss).

§ 34a.2. Consumer loans.

- (a) An association may make direct or indirect consumer loans as follows:
- (1) The following shall be complied with:
 - (i) At any one time the total investment made under this section and § 34a.3 (relating to commercial paper and corporate debt securities) added together shall not exceed 20% of an association’s assets.
 - (ii) Before indirect loans are made through a dealer, the dealer must be approved by the association’s board of directors.
 - (2) The authority to make a consumer loan includes the authority to originate, purchase, sell, service, and participate in such loans; however such loans shall conform to the provisions of this section and the association’s written underwriting standards.

(b) If a loan that may be made under this section is also authorized to be made under another section of this chapter or under other statute or regulation which may have different percentage-of-assets and other limitations or requirements, an association shall have the option of choosing under which applicable provision the loan shall be made.

(c) The total balances of all outstanding loans that may be made under this section in unsecured loans to one borrower is limited to the lesser of .25% of an association's assets or 5.0% of its net worth; however, an association may make up to \$3,000 in unsecured loans to any one borrower and, beginning on January 1, 1982 and annually thereafter, such amount shall be adjusted by the dollar amount that reflects the percentage increase, if any, in the *Consumer Price Index* during the previous 12 months as shown in the November-to-November index.

Cross References

This section cited in 10 Pa. Code § 34a.3 (relating to commercial paper and corporate debt securities).

§ 34a.3. Commercial paper and corporate debt securities.

(a) An association may invest in, sell, or hold commercial paper and corporate debt securities, including corporate debt securities convertible into stock, subject to the limitations set forth in subsection (b); however, at any one time, the total investment made under this section and § 34a.2 (relating to consumer loans) added together shall not exceed 20% of an association's assets. An investment under this section includes the investing in, redeeming, or holding of shares in any open-end management investment company which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and whose portfolio is restricted by such management company's investment policy, changeable only if authorized by shareholder vote, solely to the investments that an association is authorized to invest in under other regulations or statute.

(b) The following are the limitations for investing in, selling, or holding corporate debt securities, including corporate debt securities convertible into stock:

(1) As of the date of purchase, as shown by the most recently published rating made of such investments by at least one nationally recognized investment rating service: the commercial paper must be rated in either one of the two highest grades, and the corporate debt securities must be rated in one of the four highest grades.

(2) The commercial paper or corporate debt securities shall be denominated in dollars, and the issuer shall be domiciled in the United States.

(3) At any one time, an association's total investment in the commercial paper and corporate debt securities of any one issuer or issued by any person or entity affiliated with such issuer shall not exceed 1% of the association's assets; however, this provision shall not apply to investments in the shares of

an open-end management investment company. In such cases, an association's total investment in the shares of any one such company shall not exceed 5.0% of the association's assets.

(4) Investments in corporate debt securities convertible into stock are subject to the following additional limitations:

(i) Purchase of securities convertible into stock at the option of the issuer is prohibited.

(ii) At the time of purchase, the cost of such securities shall be written down to an amount which represents the investment value of the securities considered independently of the conversion feature.

(iii) Such securities must be treated on a national securities exchange.

(iv) Associations are prohibited from exercising the conversion feature.

(5) At any one time, the average maturity of an association's portfolio of corporate debt securities may not exceed 6 years.

(6) An association shall maintain information in its files adequate to demonstrate that it has exercised prudent judgment in making investments under this section.

Cross References

This section cited in 10 Pa. Code § 34a.2 (relating to consumer loans).

§ 34a.4. Scheduled items and consumer credit classified as a loss.

The terms "scheduled items," "slow consumer credit" and "consumer credit classified as a loss" shall have the same meanings as defined in § 34a.1 (relating to definitions) or hereafter recited in 12 CFR 561.15(a), 561.16a and 561.16b. The Department in their examinations will review all scheduled items; and associations shall keep records in accordance with these classifications.

§ 34a.5. Charge-off of consumer credit classified as a loss.

When consumer credit is classified as a loss in accordance with this chapter and 12 CFR 561.16b, it shall be charged against the association's current earnings.

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