

**286.5-451 Loans on direct reduction plan -- Pledge of stock on loan -- Interest rate -
- Property improvement loans -- Participation with other lenders -- Condition
for making uninsured loans.**

- (1) Associations may make loans on the direct reduction plan. The board of directors may or the bylaws of the association shall prescribe interest rates which may be variable and may prescribe the duration of the loan, and the loan shall be payable in equal weekly or monthly installments.
- (2) The applicant for such loan shall subscribe for and shall pledge one (1) or more shares of stock of the association or the association may require the applicant for such loan to subscribe for and pledge shares or fractional shares of stock, equal, when paid up, to the amount of the loan. Payment of dues and interest shall be credited upon the loan and shares in accordance with the direct reduction plan adopted. In consideration of making loans upon such plan no dividend shall be declared or paid or credited upon amounts credited as dues or principal upon such loans, but all payments, made on the loans shall be first applied to interest due to the date of respective payments and the balance applies as dues on principal, and interest shall be collected only on the balance. When the amount paid in as dues and credited as payment on the shares as calculated equals the value of a share or shares, such shares shall be considered paid in full and automatically canceled but such cancellation shall in no manner affect or reduce the stipulated weekly or monthly installment payments provided to be paid in the note or mortgage given to evidence and secure the payment of the loan. No borrower shall be permitted more than one (1) vote for any and all shares owned by him, which are pledged as security for a loan.
- (3) When any such installment becomes due and remains unpaid for six (6) weeks after it has become due and payable, then all the balance of such installments, both due and to become due, shall immediately become due and payable at the option of the holder of the note, and the borrower shall be notified of the delinquency, and payments shall be demanded, by mail with postage prepaid to the address of the borrower as it appears on the books of the association. If the delinquent payments of principal and interest are not paid within thirty (30) days from the mailing of the notice, then all money paid in as dues or principal and such shares, may be forfeited by the association and applied first to the payment of interest due and the balance on principal and suit may be brought to enforce payment of the note and mortgage.
- (4) Associations may make loans on the sole security of savings accounts or savings certificates. No such loan shall exceed the withdrawal value of the accounts owned or savings certificates or otherwise pledged for or by the borrower. No such loan shall be made when an association has applications for withdrawal which have been on file more than sixty (60) days and not reached for payment.
- (5) (a) Associations may make loans on a reduction plan where the reduction of loan or credit upon loan shall be made at the end of every semiannual period. The applicants for such loans shall subscribe for shares equal, when paid up, to the amount of such loans.

- (b) The bylaws shall prescribe the interest rate and duration of the loan, and the loan shall be payable in equal weekly or monthly installments. Payment of dues, interest, and premium, shall be credited upon the semiannual reduction plan. At the end of each semiannual period, the dues paid, and any dividends credited, shall be credited upon the loan.
 - (c) All payments made on the loan shall first be credited to payment of interest and premium, and the balance, with dividends credited, shall be applied on principal at the end of every semiannual period. After such credit, interest shall be charged on the balance. When the amount paid is as dues together with dividends credited, equals the par value of the shares, such shares shall automatically be canceled, and the mortgage released.
 - (d) All loans made under this plan shall be subject to the provisions relating to repayment of loans, and relating to default in payment of dues and interest as provided in this subtitle.
- (6) Associations may make without regard to the foregoing any loan, secured or unsecured, which is insured or guaranteed in any manner and in any amount by the United States or any instrumentality thereof.
 - (7) In the case of loans made under subsections (4), (5), and (6) of this section, in the event the ownership of the real estate security or any part thereof becomes vested in a person other than the party or parties originally executing the security instruments, and provided there is not an agreement in writing to the contrary, an association may, without notice to such party or parties, deal with such successor or successors in interest with reference to said mortgage and the debt thereby secured in the same manner as with such party or parties, and may forbear to sue or may extend time for payment of or otherwise modify the terms of the debt secured thereby, without discharging or in any way affecting the original liability of such party or parties thereunder or upon the debt thereby secured.
 - (8) Associations may make property improvement loans to home owners and other property owners for maintenance, repair, modernization and improvement of their properties and loans for the financing of mobile homes with or without security, provided that no such loans made at rates in excess of those permitted by KRS 360.010 shall exceed the rate provided by Title I of the Federal Housing Act of 1934, as amended and the Servicemen's Readjustment Act of 1944, as amended, and provided, further, that not in excess of twenty-five percent (25%) of assets of the association shall be so invested.
 - (9) The power to make loans shall include:
 - (a) The power to purchase loans of any type that the association may make and
 - (b) The power to make loans upon the security of loans of any type that the association may make.
 - (10) Associations may participate with other lenders in loans of any type that such an association may otherwise make, provided that the other participants are instrumentalities of or corporations owned wholly or in part by the United States or this state, or are associations organized under the laws of this state, or are

associations or corporations insured by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation, or are life insurance companies with assets in excess of one hundred million dollars (\$100,000,000), or are employees' or self-employed persons' trusts qualified and exempt from federal income tax under the provisions of the laws of the United States.

- (11) Associations may sell without recourse any loan, including any participating interests therein, at any time, provided that the total dollar amount of such loans sold, including such sale, within the calendar year beginning January 1 immediately preceding the date of such sale, does not exceed a sum equivalent to twenty-five percent (25%) of the dollar amount of all loans and participating interests in loans held by such association at the beginning of such calendar year; provided, further, that the commissioner, upon application of the association showing good cause, may authorize the sale of a greater amount during a calendar year. Notwithstanding the limitations of this subsection, loans may be assigned with recourse to any federal home loan bank of which the association is a member.
- (12) Associations may service mortgages. The maximum principal amount of mortgages thus serviced by an association at any one (1) time shall not exceed two-thirds (2/3) of the amount of the savings liability of such association.
- (13) Provided, however, that the ability of savings and loan associations to make such loans as set forth in this section, which are not insured or guaranteed as herein set forth, shall be contingent and conditioned upon the savings and loan association being fully insured by the Federal Savings and Loan Insurance Corporation as provided by Title IV of the National Housing Act of 1934, as amended.
- (14) The commissioner is authorized and directed to prescribe such rules, regulations, and forms as are deemed to be necessary and appropriate to accomplish the basic purposes of and the provisions contained within this subtitle.

Effective: July 15, 2010

History: Amended 2010 Ky. Acts ch. 24, sec. 692, effective July 15, 2010. -- Amended 1972 Ky. Acts ch. 267, sec. 3(1) to (14) -- Created 1964 Ky. Acts ch. 138, sec. 25, effective June 18, 1964.

Formerly codified as KRS 289.451.

Legislative Research Commission Note (7/12/2006). In accordance with 2006 Ky. Acts ch. 247, secs. 38 and 39, this statute has been renumbered as a section of the Kentucky Financial Services Code, KRS Chapter 286, and KRS references within this statute have been adjusted to conform with the 2006 renumbering of that code.