

**Chapter S-L 12****LEGAL RESERVE****S-L 12.01 Legal reserve**

**S-L 12.01 Legal reserve.** (1) **DEFINITIONS.** For the purpose of this section, the following definitions apply:

(a) "Specified Assets" of an association shall consist of total assets, less cash, U.S. Government obligations, Federal Home Loan Bank stock, prepaid Federal Savings and Loan Insurance Premium (if insured), loans secured by the association's savings accounts, investments up to \$10,000 in savings accounts of other associations insured by the Federal Savings and Loan Insurance Corp., loans in process, and less 80% of the association's FHA and VA loans.

(b) "Scheduled Items" include:

1. Slow loans (other than FHA or VA);
2. Twenty per cent of slow, FHA or VA loans;
3. Real estate owned and in judgment, excluding real estate owned pending transfer to an insuring or guaranteeing Federal agency and federally insured or guaranteed loans in judgment;
4. Real estate sold on contract, the principal unpaid balance of which exceeds applicable lending limitations;
5. Investment securities upon which one or more interest payments due has not been paid; and
6. Deposits in closed financial institutions or those in possession of supervisory authorities.

(c) "Net Worth" is the sum of all general reserve accounts (except specific and valuation reserves) and undivided profits.

(d) "Adjusted Net Worth" is the net worth less 20% of the scheduled items.

(2) **MINIMUM PERIODIC TRANSFERS TO LEGAL RESERVE.** Out of the net income of each earnings distribution period, and prior to the declaration of any earnings distribution rate, an amount equal to at least 5% of said net income shall be transferred to the legal reserve or federal insurance reserve.

(3) **REQUIRED PERIODIC TRANSFERS TO LEGAL RESERVE.** Transfers to the Legal Reserve or Federal Insurance Reserve, in accordance with the provisions of subsection (2) above, shall be made until the association's adjusted net worth is equivalent to 10% of its specified assets at the close of the semi-annual period.

(4) **CREDITS FROM PRIOR PERIODS.** If an association has made any credit to its legal reserve or federal insurance reserve subsequent to December 31, 1963, in excess of the applicable requirement, it may, with approval of the commissioner, apply such excess credit toward the requirements of subsection (2).

**History:** Cr. Register, January, 1964, No. 97, eff. 2-1-64; r. cr. Register, September, 1966, No. 129, eff. 10-1-66; cr. (4), Register, March, 1968, No. 147, eff. 4-1-68; am. (2), Register, April, 1968, No. 148, eff. 5-1-68.

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