

**533.303 Reserves.**

1. At the end of each dividend period, but no less than quarterly, the gross income of the state credit union shall be determined.

2. A legal reserve against losses on loans and against such other losses as may be specified by rule shall be set aside from the gross income in accordance with the following schedule:

a. A state credit union in operation for more than four years and having assets of five hundred thousand dollars or more shall set aside the following amounts in the following order:

(1) Ten percent of the gross income until the legal reserve equals four percent of the total outstanding loans and risk assets.

(2) Five percent of the gross income until the legal reserve equals six percent of the total outstanding loans and risk assets.

b. A state credit union in operation for less than four years or having assets of less than five hundred thousand dollars shall set aside the following amounts in the order set forth:

(1) Ten percent of the gross income until the legal reserve equals seven and one-half percent of the total outstanding loans and risk assets.

(2) Five percent of the gross income until the legal reserve equals ten percent of the total outstanding loans and risk assets.

3. a. If the legal reserve falls below the percent of the total outstanding loans and risk assets required for a state credit union by [this section](#), the state credit union shall replenish the legal reserve by regular contributions in the amounts needed to reach the required reserve. However, the superintendent may waive the reserve requirement when in the superintendent's opinion the waiver is necessary or desirable.

b. The legal reserve shall belong to the state credit union and shall be used to meet losses.

c. The reserve shall not be distributed to members as interest or dividends except on liquidation of the state credit union or in accordance with a plan approved by the superintendent.

4. The superintendent may require a state credit union to set aside additional amounts as a special reserve if an examination of assets discloses that the legal reserve of the state credit union is inadequate.

5. A state credit union shall maintain an adequate allowance for loan and lease losses account and such other valuation allowance accounts as may be necessary to provide for the full and fair disclosure, in the state credit union's financial statements, of the assets, liabilities, and equity of the state credit union.

6. For the purpose of establishing legal reserves, the following shall not be considered risk assets:

a. Cash on hand.

b. Deposits and shares in federally insured banks, savings banks, and credit unions.

c. Assets which are insured by, fully guaranteed as to principal and interest by, or due from the United States government, its agencies, and instrumentalities.

d. Loans to other credit unions.

e. Student loans insured under the provisions of 20 U.S.C. §1071 – 1087 or similar state programs.

f. Loans insured by the federal housing administration under 12 U.S.C. §1703.

g. Loans fully insured or guaranteed by the federal government, a state government, or any agency of either.

h. Common trust investments which deal in investments authorized in [section 533.301](#).

i. Prepaid expenses.

j. Accrued interest on nonrisk investments.

k. Furniture and equipment.

l. Land and buildings.

m. Loans fully secured by a pledge of shares within the state credit union.

n. Deposits in the national credit union share insurance fund.

o. Real estate loans in transit to the secondary market as specified by rule.

7. Notwithstanding any other provision of [this section](#), a state credit union shall maintain

a sufficient amount of net worth as required by the state credit union's deposit insurer and rules of the superintendent.

[2007 Acts, ch 174, §34](#)

Referred to in [§533.312](#), [§533.329](#)