STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
FINANCIAL EXAMINATIONS DIVISION

IN THE MATTER OF THE PROPOSED AMENDMENTS TO THE RULES CONCERNING THE OPERATION OF COMMERCIAL BANKS

STATEMENT OF NEED AND REASONABLENESS OF PROPOSED AMENDMENTS

STATEMENT OF AUTHORITY

Minn. Stat. § 46.01, subdivision 2 (1982) as amended, provides that the Commissioner of Commerce (hereinafter "Commissioner") has the power to promulgate rules as necessary to administer or execute the laws relative to financial institutions subject to the Commissioner's supervision and examination. Commercial banks are organized pursuant to Minn. Stat. Chs. 45, 47, 48 and 300 and are subject to the constant supervision and examination by the Commissioner as directed as Minn. Stat. § 46.04. The above-captioned amendments are proposed by the Commissioner pursuant to this authority.

On August 15, 1983, the Commissioner published Notice of Intent to Solicit outside opinion regarding the proposed amendments. (8 S.R. 248)

FACTS ESTABLISHING NEED AND REASONABLENESS

As more specifically stated below, the proposed amendments are needed in order to remove conflicts and possible sources of confusion in existing rules due to recent and material changes in law and practices governing and directing the day to day operation of Minnesota's 544 state-chartered banks. In large part these proposed amendments are responsive to the current and justifiable trend to deregulation of the financial services industry which includes all forms of depository financial instiți-

tutions. Commercial banks are among the most closely regulated industries. Depending upon the charter, state or national, its membership in the Federal Reserve, its insurance of accounts by the Federal Deposit Insurance Corporation, or holding company affiliations a bank may be subject to regulatory control by five federal agencies in addition to the Department of Commerce. The U.S. Congress has mandated a reduction in the bulk and specifity of regulations through its Financial Regulations Simplifications and Paperwork Reduction Acts of 1980, among others, including the most significant deregulation effect with the establishment of the Depository Institutions Deregulation Committee in 1980 under the Depository Institutions Deregulation and Monatory Control Act of 1980. It is important that state banks benefit fully from this deregulation effort and that state regulations are not duplicative, conflicting or unnecessarilly restrictive, so as to unduly limit state chartered banks either by sheer weight of regulatory compliance, or inhibiting them from equal competive advantages with Federal banks in the restructured financial services market.

It has become clear through the efforts of this regulatory improvement project of revising all existing bank rules, that statutory law is often simply restated in rule or that either changes in that law or legitimate developments in the financial institutions market require repeal or significant modification of rules of long standing. This process has, in addition to being thorough and timely, relied on the basic premise that the safety and soundness of depository institutions is protected in the public interest primarily through a rigorous program of on-site examinations and statistical monitoring for an appraisal of conditions in terms of asset quality and management capability. Formal regulatory control in the form of the Minnesota Code of Agency Regulations is intended to establish a framework or prescribe the strict parameters where necessary, and not to manage day to day operational judgement. Many of the existing rules imposed close, often judgemental,

direction on what has grown to become widely available and changing areas for alternative action without jeopardizing the safety and soundness necessary to financial institutions in the public interest.

The following rules as amended include changes to accomplish the:

-Elimination of rules restating generally accepted safe-sound banking practices and accounting principles.

-Elimination of rules simply restating statutory provisions.

-Elimination or modification of rules where inconsistent with current statutory provisions.

-Recognition of current policy positions for consistency between various and often competing types of financial institutions.

-Consistency with July 1, 1983 effective reorganization of the Department of Commerce under Ch. 289, 1983 Session Laws.

2675.0200 (BD 1) Loans - Financial Statements is an existing rule relating to loan credit files requiring a signed financial statement to justify all unsecured advances above a stated amount in relation to the size of each bank. The specific triggering amounts are outdated in this long standing rule as demoninations of risk and bank size relative to today's credit underwriting and unsecured lending practices. The rule should be repealed as it prescribes unnecessarily strict requirements and triggers potentially excessive administrative costs at the levels stated. Restating these levels on an overall basis for banks, even at what may represent current levels of practice, is an unwarranted usurpation of individual well-run bank policy-making responsibility at the board level.

One aspect of the rule is valid and reasonable for supervisory purposes. Upon examination any unsecured amount which leads to the adverse classification of credit should be justification for an examination directive clearly requiring that a

properly signed financial statement be obtained to support the credit decision. This is a logical fulfillment of the purposes of the safety and soundness examination in terms well known and customary practice in bank credit administration. What constitutes a current financial statement is clarified.

This requirement logically carries out the intention of Minn. Stat. § 46.04, Subd. 2, which requires the examiner (e.g. commissioner) to inspect and verify bank assets to determine with reasonable certainty that the values are correctly carried on its books. The method of verification are those "which the commissioner may determine to be adequate....". Minn. Stat. § 46.01, Subd. 2, provides the authority for such rule promulgation.

2675.0300 (BD 2) Loans - Delinquent Loans is an existing rule prescribing classes of loans in default based upon increasing degrees of non-performance of their contractual terms. This rule is long standing and remains reasonably accurate and consistent with current examination methods, yet is ackwardly written, resulting in confusion in some cases. This review of the rules provides the opportunity to clarify the language consistent with the Federal Deposit Insurance Corporation (FDIC) directive for examination and periodic reporting purposes without substantual change in the existing comparative quantative factors or statistical trend results. The state and FDIC share the examination of over 500 state chartered insured banks and utilize a common examination report format.

The substitute language recommended is taken from the Federal Deposit Insurance Corporation Examination Manual currently in use and includes elucidating examples to foster consistent reporting compliance results. This rule is reasonable and needed to provide both the industry and the commissioner with a consistent measure of one aspect of asset quality through the examination authority in Minn. Stat. § 46.04, Subd. 1, and periodic financial and statistical reports obtained under

Minn. Stat. § 48.48, Subd. 1, in cooperation with the federal regulatory counterparts. Minn. Stat. § 46.01, Subd. 2, provides the authority for such promulgation.

2675.0950 (BD 7) Second Mortgages is an existing rule proposed to be repealed. The rule was necessitated by enactment of Minn. Stat. § 48.19, which precluded junior real estate liens as security for a bank loan. The rule clarified the difference between taking junior lien as additional collateral on loans previously contracted and the prohibition against further advances unless a first lien equivalent is maintained by the bank.

The rule should be repealed as the underlying statute has been amended to allow loans to be secured by junior liens on real estate. Effective April 24, 1980, Ch. 599, 1980 Session Laws completed the revision of exceptions to the prohibition to junior liens which rendered this rule inconsistent. Minn. Stat. § 46.01, Subd. 2, provides the authority for such repeal procedure.

2675.0700 (BD 8) Permanent Endorsements is a long standing rule prescribing documentation specifying rights in indirect credit instruments purchased or discounted to a bank. This rule should be repealed as current commercial practices have developed to the point where such assignments are commonly recognized and practiced.

2675.0800 (BD 9) Lease Financing is an existing rule prohibiting investments for acquisition of personal property by a bank to be used in connection with a subsequent customer lease agreement. Effective in 1975 the legislature has redefined public policy authorizing such lease financing by banks. As amended, Minn. Stat. § 48.152 is inconsistent and rule should be repealed.

2675.0901 (BD 10) Real Estate Loans-Documentation is a long standing rule imposing policy standards for the documentation of loans secured by real estate mortgages. Since its promulgation the legislature has authorized second or junior lien real

estate lending (see comments to rule 2675.0950) and documentation has been influenced by secondary market requirements and alternative forms of evidence of title in Minnesota. Therefore it is necessary and reasonable to simplify mandatory requirements. Also, a reasonable dollar threshold of $7,500 (also adopted for similar rule for credit union file requirements) assumes loan risk underwriting will rely on character, capacity and credit rather than real estate values in liquidation. This rule will continue to be heavily relied upon as the standard in examination and supervision of a substantial involvement of bank loan assets in larger real estate credits. This revision brings rule into conformity with current market documentation standards and removes excess requirements.

2675.1100 (BD 11) Bond Investments Records is an existing rule which is a necessary and intregal part of the record keeping standards for bank investment transactions. It also consolidates language clarifying and preventing aggregating or netting out securities transactions. Rule paragraph (D) operates to assure the recognition of gains and losses each time ownership of a security changes involving the bank and is a restatement of rule 2675.2020, which is proposed to be repealed.

2675.1110 (BD 12) Eligible Securities is an existing rule which qualifies securities purchased as eligible for bank investment based upon marketability. Sub-paragraph (C) relating to maturity as an element of marketability is proposed to be amended to extend the maturity standards from the historical 10 years to 20 years. This change is needed to reasonably permit banks to purchase real estate mortgage backed securities which represent safe, sound, marketable securities based on recent developments in the private placement market. Also, the requirement that 75% of the principal be amortized over the term of the security is arbitrary and inflexable in this rapidly changing market. These provisions should be deleted.

2675.1130 (BD 14) Investment Qualities is an existing rule which establishes standards for eligible investments in securities by banks in terms of recognized, published rating services. The only needed change in this rule is to remove the reference to the "Bond Department of the Banking Division" which is no longer an operating division and which is inconsistent within the recent reorganization of the Department of Commerce. Clearly the determination of equivalent value will be made by the bank and examined for consistency with the standards of this rule. No predetermined listing of eligible, non-rated securities is comtemplated by the agency and therefore it must be concluded that the rule permits a prudent judgement to be made by the bank to be reviewed in the examination process.

2675.2030 (BD 15) Banks Not to Participate in Marketing is an existing rule which establishes an absolute prohibition against a bank acting as principal underwriting agent in the marketing of corporate securities. It is proposed that the rule be repealed in anticipation of potential deregulation at the Federal level which could create a competitive disadvantage for state banks. Present statute does not speak directly to this issue and it is recognized as a public policy issue which has grown in potential controversy and should be determined in the legislature not by administrative rule.

2675.1140 (BD 16) Holding Bonds on Par or Face Value is an existing rule which should be retained to establish the liability due to the bank upon purchase of a security as the par or face value. It is necessary however to clarify the statutory authority referred to in the application of this rule. The lending limit Minn. Stat. § 48.24, controls the maximum exposure of such an obligation and also contains pertinent exclusions as referenced in the amendment to the rule.

2675.2050 (BD 17) Purchase of Non-Eligible Securities Disposition, Exceptions is an existing rule operating in connection with BDs 12 and 14, which define eligible securities. BD 17 clearly prohibits the purchase of securities not within the

eligibility criteria in BD 12 and 14. However in the event ineligible securities are discovered in a bank, the commissioner may determine a reasonable time for their disposal. The rule should be amended to remove the discretion in disposing of non-eligible securites which must be disposed of in a reasonable period of time under control of the Commissioner. References to commmissioner of banks is deleted consistent with the reorganization under the commissioner of commerce.

2675.1150 (BD 18) Purchased of Asset at a Premium or Discount is an existing rule establishing the proper treatment for booking securities by a bank and to avoid variations in accounting treatment. However, the language is simplified and clarifies which procedure is mandatory as in the case of charge off of a purchase premium.

2675.1180 (BD 21) Foreign Borrowers Securities is an existing rule that prescribes safe and sound limits to a bank's exposure in foreign securities by type and amount. The maximum amount is amended to coincide with the current statutory limit on liabilities to a bank which attaches to similar investments under Minn. Stat. § 48.24. Also, investments in the African Development Bank is added consistent with laws of Minnesota for 1984, Chapter 382, which added these bonds to Minn. Stat. § 50.14 as eligible investments to which the 20% limit now applies.

2675.2000 (BD 23) Banks Selling with Repurchase Agreement is an existing rule which provides that the sale of a banks' securities may contain agreements for conditional repurchase. It is necessary to amend the rule to make it consistent with the language change in 1982 Session Laws, Chapter 473 and Minn. Stat. § 48.16. The change is to provide for the use of "retail purchase agreements" in U.S. Government securities common to financial institutions and now legislatively authorized. One important characteristic is that the purchaser has the right to require the bank to repurchase the security or portion thereof at a time agreed and price negotiated when sold. This is prohibited for other types of assets under the existing rule and law.

2675.2010 (BD 24) Default Bonds is an existing rule which provides that the commissioner has authority to order bonds in default to be written down in value to market or charged off if worthless in the established market. The rule is unnecessary to require the commissioner to proceed by lawful order when his examination authority in Minn. Stat. § 46.04 provides more timely and appropriate authority to determine that asset values are correctly carried on a bank's books. The examination and supervisory procedure is more responsive than requiring an order in each case which could significantly expose a bank and its activities to public view or unduly delay a proper supervisory relationship into the courts or administrative hearing procedure. This rule should be repealed.

2675.2020 (BD 25) Each Sale and Purchase Separate Transaction is an existing rule providing for an accurate record of securities transactions without risk of comingling or netting out against other transactions. It is a reasonable and proper rule relating to accounting and daily closing required of banks and is repealed but restated in consolidation with rule 2675.1100, which also directly deals with account entry procedure. This is not a repeal but a repositioning for simplicity and continuity.

2675.2060 (BD 26) Procedure for Banks Holding Prohibited Securites like rule 2675.2050, this is an existing rule which was transitional in connection with the promulgation of eligible securities classifications. This rule should be repealed so as not to indirectly sanction the purchase of prohibited securities which are then arguably justified until the divestive procedure is complete (See 2675.2050 comments). The commissioner has sufficient authority in law to accomplish a prompt and necessary remedy to such unsafe and unsound activities. See Minn. Stat. §§ 46.24 to 46.33, Cease and Desist Powers.

2675.2070 (BD 27) Securities Classifications is an existing rule which states an examination procedure to categorize assets in securities by rigid group. It is unnecessary and inflexable to apply these specific categories to identify securities for examination comment. Current examination practices no longer use this system. This rule should be repealed.

2675.2080 (BD 28) Appraisal Principles for Classifications is an existing rule which states specific examination procedure for appraising the quality and value of securities. Current examination procedures used in coordination with the Federal Deposit Insurance Corporation and the Federal Reserve Board use a system of appraisal by substandard, doubtful and loss categories. This is more consistent, well-documented and uses market values to determine book value in extreme cases of illiquidity and other problem circumstances than this rule. This rule should be repealed.

2675.2090 (BD 29) Problem Banks is an existing rule which, when operating in connection with rule 2675.2080, provided specific descriptive conditions for absolute mark-to-market appraisals. There are more current and consistent conditions commonly used in state and federal regulatory systems of examination which should apply. This rule is outdated, unnecessary and should be repealed.

2675.2100 (BD 30) Cash Items is an existing rule which addresses the requirement of maintaining adequate and complete day-to-day audit trail of unprocessed cash items. The requirement that these daily records must be kept for two years is an unnecessary burden even if computerized. It is customary for banks to formulate reasonable retention and destruction schedules for such records on an annual basis. The strict two year requirement should be deleted.

2675.2110 (BD 31) Banking House is an existing rule limits the bank's investment in brick and mortar. The rule requires amendment to be consistent with 1982 legislative changes to Minn. Stat. § 47.10. The rule clarifies the elements in booking invest-

ments in property and improvements to carry out the intent of the law in practical language. The changes primarily deal with the increase in a bank's discretionary investment authority of from 40 to 50 percent under the statutory amendments and provides for consistent application of generally accepted accounting principles.

2675.2120 (BD 32) Banking Premises is an existing rule which prescribed the specific manner in which the investment in banking property was to be depreciated on its books. The 1982 statutory changes to Minn. Stat. § 47.10 referred to in the discussion of BD 31, also made generally accepted accounting principles the rule for accounting treatment of depreciating fixed property used as banking house. Therefore this rule is inconsistent with current law and should be repealed. Any reference to statutorily accepted principles is incorporated in the amended rule 2675.2110 and not deleted by the repeal of this rule.

2675.2130 (BD 33) Furniture and Fixtures, Personal Property, Automobiles and Equipment is an existing rule which had required a bank to write off assets in furniture and fixtures at a 10% per annum rate. This rigid standard for accounting for depreciation is revised to allow application of generally accepted accounting principles. This is consistent with accounting for fixed property cited in Minn. Stat. § 47.10, Subd. 2, rule 2675.2110 and 2675.2140 for leasehold improvements. In the event a greater amount or rate of write down is determined as appropriate, the exception must be approved in writing by the commissioner.

Also, a provision is added describing furniture, fixtures and other personal property acquired by a bank by purchase or lease as included in transactions not requiring written prior approval by the commissioner unless involving an insider seller or lessor. This is consistent with Minn. Stat. § 47.10, Subd. 3 and other leases of property and improvements and incorporates for simplification and consistency the provision relating to automobiles from rule 2675.2120, which will be repealed.

2675.2140 (BD 34) Leasehold Investment, Amortization is an existing rule which prescribes the rate of amortization of property and improvement leases. It is revised to be consistent with the 1982 amendments to Minn. Stat. § 47.10 and acknowledges generally accepted accounting practices. The rule is revised to clarify that the prior written approval requirement for such leases involving insider leasors will apply to subsequently renegotiated or amended leases unless the original approved lease contains an option to be unilaterally exercised by the bank.

2675.2150 (BD 35) Contracts for Deed is an existing rule which prescribed the specific documentation on existing contracts for deed taken to secure a loan. The variations experienced in such transactions made a rule impractical unless it is expanded to potentially address many combinations of prior interests. With the passage of Ch. 342, 1983 Session Laws, Minn. Stat. § 507.235 was enacted requiring filing of all contracts for deed on or after June 1, 1984. While the language does not specify assignments, this law makes subpart (a) of rule 2675.2150 unnecessary. As to the remainder of the rule, it is wise to remove the question of "eligibility" for a bank to make a loan secured by a contract for deed. Rather it is more pertinent that subject bank demonstrate that each loan is a safe, sound loan regardless of the nature of the security. The examination process is sufficient to make this quality determination and review documentation. The rule should be repealed.

2675.2120 (BD 36) Investment in Automobiles is an existing rule which prescribes the accounting treatment for bank autos. This rule is unnecessary as its provisions are incorporated in the amendments to rule 2675.2130.

2675.2250 (BD 37) Overdrafts is an existing rule prescribing the handling for checks when presented at a bank. With the exception of subpart (D) this procedure is a matter of law set out in Article 4 of the Uniform Commercial Code with adequate specificity to render this rule paragraphs (A) through (C) unnecessary. The

provisions of para. (D) are not addressed in the Uniform Commercial Code and remain a matter of concern by the commissioner and add clarity to the application of Minn. Stat. § 48.08. Para. (D) should be retained, the preceeding provisions should be deleted.

2675.2170 (BD 38) Other Real Estate is an existing rule which defines the asset "other real estate" and how it is to be carried on the records of a bank. The rule is amended to remove unnecessary language and provide consistency with the existing language in Minn. Stat. § 48.21. Specific reference is made to law and addresses specific situations occurring in connection with bank premises and detached facility relocations, which became available since the original promulgation of this long-standing rule. All of the property acquired or retained by a bank under the conditions described are considered to be "Other Real Estate" and require special accounting treatment consistent with the asset quality requirement of a bank asset.

The book values allowed in the rule subpart (B) are more accurate and reasonably described to include the remaining book value if it is an abandoned former bank premises or detached facility. The amended rule provides for current appraisals to be made on each property and the adjustment of book value to an amount not greater than the current appraisal value.

With the current appraisal in file, the requirement in para. (C) to write off the other real estate asset at a fixed annual rate of 10% is eliminated as unnecessarily arbitrary and also inconsistent with national bank requirements. In its place, the rule requires a record of action by the bank to dispose of the property within 5 years when it would be completely written off and no longer carried as an asset in any amount.

The mandatory limitations in para. (D) regarding the convertion of other real estate sold on contract for deed to a loan asset are eliminated. The amended rule provides that the book value of the loan shall be the lesser of the balance on

the contract or the book value established under para. (C) and need no longer be carried as other real estate. Accounting for gains and losses based on this value are given specific reasonable alternatives consistent with generally acceptable accounting principles.

The file documentation requirements in para. (E) are amended to remove the necessity of an abstract as long as an attorney's opinion or other evidence of title is in file and available for examination.

Overall, the rule is rewritten to provide consistency with current law, to apply accounting treatment similar to national banks, to remove unnecessary requirements and to provide reasonable alternatives consistent with current banking practices.

2675.2190 (BD 40) FHA Premiums is an existing rule of very narrow scope requiring that premiums paid for FHA loan be written off as a current expense when the loan is closed. This rule should be repealed as it singles out a procedure no longer prevalent and in an area in which generally accepted accounting principles are sufficient.

2675.2200 (BD 41) Charged Off Assets; Dual Control is an existing rule prescribing the handling of assets removed from the bank's books due to charge off action by the board. A portion of the rule, subpart 3, has historically required that the listing of these non-ledger assets shall actually be maintained by the examiner. This is an inappropriate and often untimely involvement of the commissioner in record keeping. These records are also maintained by the bank under subpart 1. This will provide the necessary dual control integrity to these bank records and by repeal of subpart 3a removes the examiner from creating bank records.

2675.2220 (BD 43) Additional Common Stock Sales is an existing rule which only requires deletion of commissioner of "banks" to be consistent with the July 1983 reorganization.

2675.2230 (BD 44) Capital Debentures is an existing rule which restates Minn. Stat. § 48.62. It is an unnecessary duplication and contains an unconsistent statement of the inclusions of debentures in overall capital for capital adequacy purposes. Because such debt instruments do not provide a source of reserves for payment of losses, this rule is inconsistent with current capital adequacy policy and should be repealed.

2675.2240 (BD 45) Dividends is an existing rule which adds specifity to the procedures in Minn. Stat. § 48.09 in terms of the reporting and financial standards to qualify for a bank's discretionary dividend payment authority or application where prior written approval is required. The amendments are to bring terminology up to date with current report form language. It is also is amended to consolidate language for purposes of internal continuity, simplicity and consistency with the current policy on form submission deadlines. The requirement is clarified that once a dividend is declared, the notification form prescribed by the commissioner must be sent in, whether approval is necessary or not, within 10 days of the declaration to provide a minimum reasonable period of time for office review before the dividend is scheduled to be paid. For example, if a dividend is declared on January 10, 1984 from 1983 earnings, the notification form must be mailed (post marked) to the commissioner by January 21 and the dividend not scheduled to be paid until at least February 5. This affords time for the commissioner to review all notifications and respond in writing appropriately where written approval is necessary.

The consolidation language provides appropriate accounting entry directions for posting dividends when declared and segregation until paid or disapproved of the amount declared.

2675.2246 (BD 46) Certificate of Deposit of Other Financial Institutions is an existing rule prescribing the accounting treatment for time deposits issued to other banks. These directions are in conflict with the requirements of the Report of Condition now in use jointly with the Federal Deposit Insurance Corporation and should be repealed.

Subsequent remaining language also conflicts with current report of condition requirements and the accounting for time deposits in other banks as an "Other Asset" should be repealed.

In connection with such deposits in other banks, the lending limit in Minn. Stat. § 48.24 applies. It is reasonable to make an exception from this limit for the amounts invested in certificates of deposits of other institutions which are insured by an agency of the Federal government, usually the first $100,000. Such deposits are made notonly in banksinsured by the Federal Deposit Insurance Corporation but also in savings associations insured by the Federal Savings and Loan Insurance Corporation and in credit unions insured by the National Credit Union Administration.

2675.2290 (BD 50) Accounting by Service Corporations is an existing rule which repeats the requirements found in Minn. Stat. § 48.89, Subd. 5, and should be repealed as unnecessary and redundant.

2675.2410 (BD 53) Minimum Coverage is an existing rule developed from a concensus of banking industry experience many years ago. These industry guidelines are outdated and the subject of more recent surveys through 1982. The operations of banks have become exposed to various risks beyond blanket fidelity coverage, making any rigid rule impractical. Also, the surveys and examination results reveal the responsible position already inherent in bank directors bond determinations. The exhaustive scheduling of basic, blanket bond dollar limits in relation to a banks deposit size should be repealed and remanded to the board as stated in Minn. Stat. § 48.12 and BD 52. This action is consistent with the nature of the requirements for

national banks and by the Federal Deposit Insurance Corporation. The Bank Insurance Survey, 1982, by the Insurance and Protection Division of the American Bankers Association, contains several pertinent results regarding minimum amounts of Bankers Blanket Bond Coverage.

1) "The ABA does not recommend any specific amounts of underlying coverage (that is basic coverage to qualify for excess coverage). What constitutes adequate limits can best be determined by the bankers and underwriters."

2) The minimum amount of underlying bankers blanket bond coverage for banks with up to $7,500,000 in deposits is $250,000 in order to qualify for excess fidelity coverage.

3) The favored range of coverage for banks with less than $750,000 in deposits was $50,000 to $250,000. No banks surveyed within this group had less than $50,000 blanket bond coverage.

There is reasonable evidence to conclude and require as a minimum standard for a new and developing bank that $50,000 in blanket bond coverage be carried.

It is unnecessary to provide regulatory guidelines for minimum fidelity insurance coverage for newly organized banks as it is customary practice for the commissioner to prescribe minimum bond coverage in the order granting a charter or authorizing the opening of a new bank.

2675.2420 (BD 54) Other Business; Expense Reimbursement Agreements is an existing rule requiring the business being conducted on the bank premises by insurance agents pay their share of occupancy costs. Not only are officers acting as insurance agents, but full service insurance agencies and discount brokerage offices are operated on bank premises. This rule is amended to clarify standards for non-bank owned activity for sharing occupancy costs.

Minn. Stat. § 47.016 was enacted in 1983, requiring the payment of credit insurance commissions earned by agents offering bank loan related insurance to the bank. Any distribution of earnings or allocation of overhead expense may include this income in compliance with this rule. If an officer offers credit insurance as agent relative to a bank loan, the commission, while mandated to be paid over to the bank, still constitutes renumerations to the bank contemplated by this rule.

2675.2500 (BD 55) Display and Replacement Copies is an existing rule providing that a bank's charter document must be displayed in the bank's lobby area. In addition, a replacement charter is to be provided at no cost by the commissioner. Fiscal responsibility dictates that the cost of such replacement should not be borne by the general assessment on all banks but targeted to the individual bank. The fee enacted in Minn. Stat. § 46.131, Subd. 10, of $25 for miscellaneous administrative actions upon application, should reasonably apply in this case also.

CONCLUSION

For the reasons stated above, it is in the best interests of the commerical banks in Minnesota and those consumers utilizing their services to remove the confusion and conflicts with existing law and outdated provision in existing rule. Furthermore, these amendments are deemed noncontroversial and offers positive impact on small business constituting banks under our supervision and control. Time is of the essence as referenced amended laws and deregulation on Federal level has been in final effect in some instances for many months and years. It is believed to be clear that the proposed amendments reasonably effectuate the above stated need.

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