

2675.0400 PARTICIPATION LOANS.

Where a participation in a loan is sold to another bank the agreement may provide that repayment may first be applied to the share sold. Since one of the purposes of such a sale may be to reduce the bank's retention of loans which may exceed its lending limit, the agreement should, as a matter of prudent banking practice, also provide that in the event of default or a comparable event defined in the agreement, the participants shall share in all subsequent repayments and collections in proportion to the percentage of participation at the time of the happening of the event.

When a bank or trust company purchases a participation in a loan originated elsewhere, it must obtain copies of all essential papers necessary to determine the credit quality thereof.

Statutory Authority: *MS s 46.01*

Published Electronically: *September 14, 2007*