

1 Department of Commerce
 2 Financial Examinations Division
 3
 4 Adopted Rules Relating to the Operation of Commercial Banks
 5
 6 Rules as Adopted

7 2675.0200 FINANCIAL STATEMENTS.

8 Signed, current financial statements of the borrowers,
 9 endorsers, or guarantors are required on loans which the
 10 commissioner or an examiner determines to be inadequately
 11 secured. Financial statements are considered current when
 12 renewed at least annually.

13 2675.0300 DELINQUENT LOANS.

14 Subpart 1. When delinquent. For the purposes of the
 15 report of examination of banks, loans, leases, and unplanned
 16 overdrafts are considered delinquent and are separated into two
 17 distinct groupings as follows:

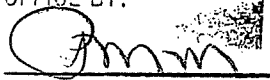
18 A. "A" paper consists of all loans and leases which
 19 are six months past their maturity, or on which interest or
 20 principal is due and unpaid for six months or more, including
 21 unplanned overdrafts.

22 B. "B" paper consists of all other loans and leases
 23 which are 30 days, but less than six months past their maturity,
 24 or on which interest or principal is due and unpaid for a period
 25 of 30 days, but less than six months including unplanned
 26 overdrafts. An installment loan will not be considered overdue
 27 until at least two monthly payments are due. The same will
 28 apply to real estate mortgage loans, term loans, or any other
 29 loans payable on regular monthly installments of principal
 30 and/or interest.

31 Subp. 2. Examples of "A" paper and "B" paper. The
 32 following examples will illustrate the applications to "A" paper
 33 and "B" paper:

34 A. Single payment notes: Note dated January 2, 1984,
 35 due July 2, 1984, with interest to be paid at maturity.

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1 unpaid, the note becomes "B" paper at close of business August
2 2, 1984, and "A" paper at close of business January 2, 1985.

3 B. Demand notes: Note dated January 2, 1984, written
4 "due on demand." Interest will be considered to be due every
5 six months, if not otherwise indicated in the body of the note.
6 If interest is unpaid, this note becomes "B" paper at the close
7 of business August 2, 1984, and "A" paper at the close of
8 business January 2, 1985.

9 C. Installment notes: Note dated January 2, 1984, to
10 be paid in monthly installments beginning February 2, 1984.
11 Allowing one month grace, if the installment due on February 2,
12 1984, is unpaid, the balance of this note will become "B" paper
13 at the close of business March 2, 1984, and "A" paper at the
14 close of business on August 2, 1984.

15 Subp. 3. Apportionment. The overdue figure shall include
16 the total dollar balance of the lease or loan that is not
17 current.

18 For examination purposes, past due loans that are in a
19 nonaccrual status or that are renegotiated troubled debt are to
20 be apportioned to "A" paper or "B" paper as appropriate.

21 2675.0901 REAL ESTATE LOANS-DOCUMENTATION.

22 Each real estate secured loan file shall include the
23 following documentation and evidence where the loan is in an
24 amount over \$7,500 or not otherwise exempt from the definition
25 of real estate in Minnesota Statutes, section 48.19, subdivision
26 4:

27 A. An attorney's opinion, or a title insurance
28 policy, or, in the case of Torrens title property, the
29 mortgagee's a duplicate certificate of title with memorial of
30 the bank's mortgage thereon is required on all real estate loans
31 which shall describe the status of fee title, the validity of
32 the bank's lien, and the position of the lien.

33 B. Evidence of adequate insurance coverage with loss
34 payable clause payable to the bank shall be required for
35 mortgages on improved property.

36 Written binders of insurance are acceptable evidence of

1 insurance. No bank shall refuse to accept a binder tendered at
2 the time of closing as evidence of any insurance coverage
3 required as a condition of a loan agreement if the binder
4 conforms with usual and customary conditions as to designation
5 of loss payee and mortgagor.

6 C. Real estate appraisal reports are required for
7 each mortgage. The appraisal and the reasonableness of its
8 accuracy is the responsibility of the appraisal committee. The
9 appraisal report and its acceptance by the appraisal committee
10 shall be made part of the mortgage file.

11 2675.1100 BOND INVESTMENT RECORDS.

12 During the period in which such investment is carried on a
13 bank's books, it shall be required that original invoices of
14 bond purchases and sales be retained as a part of the records of
15 a bank; a record be maintained of all securities bought and sold
16 showing date of purchase or sale, interest rate, maturity, par
17 value, description, from whom purchased, to whom sold, selling
18 price, and where pledged or deposited for safekeeping; all
19 municipal and corporation bonds owned by a bank be supported by
20 full credit information at the time of purchase; and every sale
21 and every purchase will be considered a separate transaction and
22 trades, switches and securities received under debt
23 readjustment, as well as new purchases, must meet the
24 requirements of these parts.

25 2675.1110 ELIGIBLE SECURITIES.

26 An obligation of indebtedness which may be purchased for
27 its own account by a state bank, in order to come within the
28 classification of eligible securities within the meaning of this
29 part, must be a marketable obligation. It must be salable under
30 ordinary circumstances with reasonable promptness at a fair
31 value; and with respect to the particular security, there must
32 be present one or more of the following characteristics:

33 A. a public distribution of the securities must have
34 been provided for or made in a manner to protect or insure the
35 marketability of the issue; or

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1 B. other existing securities of the obligor must have
2 such a public distribution as to protect or insure the
3 marketability of the issue under consideration; or

4 C. in the case of eligible securities for which a
5 public distribution as set forth in item A or B cannot be so
6 provided, or so made, and which are issued by established
7 commercial or industrial businesses or enterprises, that can
8 demonstrate the ability to service such securities, the debt
9 evidenced thereby must mature not later than 20 years after the
10 date of issuance of the security and must be of such sound value
11 or so secured as reasonably to assure its payments.

12 2675.1130 INVESTMENT QUALITIES.

13 Securities, in order to be eligible for purchase by state
14 banks, must be in the form of bonds, notes, and/or debentures,
15 and must be of recognized investment quality. Eligible
16 securities are those which are included among the four highest
17 ratings of the rating services, and nonrated securities of
18 equivalent value. With regard to the ratings, the following
19 items shall apply:

20 A. to C. [Unchanged.]

21 2675.1140 HOLDING BONDS ON PAR OR FACE VALUE.

22 The statutory limitation on the amount of the eligible
23 securities of any one obligor or maker which may be held by the
24 bank, not otherwise exempted by Minnesota Statutes, section
25 48.24, subdivision 6, is to be determined on the basis of the
26 par or face value of the securities, and not on their book value.

27 2675.1150 PURCHASE OF ASSET AT A PREMIUM OR DISCOUNT.

28 When assets are purchased at a premium or discount, a bank:

29 A. shall charge off the premium when the asset is
30 placed on the books; or, provide for the regular amortization of
31 the premium pursuant to generally accepted accounting
32 principles; and

33 B. may provide for the regular accretion of the
34 discount pursuant to generally accepted accounting principles.

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1 2675.1180 FOREIGN BORROWERS SECURITIES.

2 Purchase of securities of foreign borrowers, whether
3 private, corporate, or governmental, is prohibited with the
4 exception of:

5 A. [Unchanged.]

6 B. bonds of the International Bank for Reconstruction
7 and Development, which are payable in dollars of the United
8 States; provided, however, that the total par value of such
9 bonds held by any bank or trust company shall never exceed 20
10 percent of its capital and of its actual surplus fund; provided
11 further, that this part is intended to permit limited purchase
12 of the bonds of the International Bank for Reconstruction and
13 Development only by banks, trust companies, and savings banks;

14 C. bonds of the Inter-American Development Bank,
15 which are payable in dollars of the United States; provided,
16 however, that the total par value of such bonds held by any bank
17 or trust company shall never exceed 20 percent of its capital
18 and of its actual surplus fund; provided further, that this part
19 is intended to permit limited purchase of the bonds of the
20 Inter-American Development Bank only by banks, trust companies,
21 and savings banks;

22 D. bonds of the Asian Development Bank, which are
23 payable in dollars of the United States; provided, however, that
24 the total par value of such bonds held by any bank or trust
25 company shall never exceed 20 percent of its capital and of its
26 actual surplus fund; provided further, that this part is
27 intended to permit limited purchase of the bonds of the Asian
28 Development Bank only by banks, trust companies, and savings
29 banks; and

30 E. bonds of the African Development Bank, which are
31 payable in dollars of the United States; provided however, that
32 the total par value of such bonds held by any bank or trust
33 company shall never exceed 20 percent of its capital and of its
34 actual surplus fund; provided further, that this part is
35 intended to permit limited purchase of the bonds of the African
36 Development Bank only by banks, trust companies, and savings

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1 banks.

2 2675.2000 BANKS SELLING WITH REPURCHASE AGREEMENT.

3 As to repurchase agreements accompanying sales of
4 securities, it is permissible for the bank selling securities to
5 another to agree that the bank shall have an option or right to
6 repurchase the securities from the buyer at a price stated or at
7 a price subject to determination under the terms of the
8 agreement, but in no case in excess of the market value at the
9 time of repurchase.

10 Except for securities which are the direct obligation of,
11 or obligations that are fully guaranteed as to principal and
12 interest by, the United States government or an agency thereof,
13 it is not permissible for the bank selling securities to another
14 to agree that the purchaser shall have the right or the option
15 to require the bank to repurchase said securities at a price
16 stated or at a price subject to determination under the terms of
17 the agreement, notwithstanding the fact that the bank may also,
18 under such agreement have the right or option to repurchase the
19 securities from the buyer at a price stated or at a price
20 subject to determination under the terms of the agreement.

21 2675.2050 PURCHASE OF NONELIGIBLE SECURITIES PROHIBITED;
22 DISPOSITION; EXCEPTIONS.

23 The purchase of securities other than eligible securities
24 as defined in part 2675.1110 is prohibited. Any such purchase
25 will be considered a violation of this part and the commissioner
26 will require that any noneligible security so purchased be
27 disposed of within a reasonable length of time. No bank shall
28 be permitted to purchase securities of business or municipal
29 corporations that shall have undergone debt readjustment until
30 12 months shall have elapsed since the effective date of the
31 readjustment. Such securities, if purchased, must also be
32 disposed of. However, the purchase of railroad equipment trust
33 obligations which are not in default either as to principal or
34 interest, or both, and which are considered to be of eligible
35 quality shall not be prohibited.

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1 2675.2100 CASH ITEMS.

2 A daily record shall be maintained of all cash items for
3 anything other than currency or coin being held over until the
4 following day's business and not in the process of being
5 forwarded for collection or being returned to endorsers. No
6 checks shall be held in a bank's cash account to avoid the
7 showing of overdrafts.

8 2675.2110 BANKING HOUSE.

9 A. Investment for banking house and premises requires
10 no prior written approval of the commissioner pursuant to
11 Minnesota Statutes, section 47.10, unless:

- 12 (1). the investment is in nonadjacent property, or
13 (2) the total investment exceeds 50 percent of
14 the banks's capital and paid-in surplus.

15 B. In determining the total investment in banking
16 premises, the net book value for land, buildings, real estate
17 for future use, leasehold improvements, and leases capitalized
18 according to financial accounting standard board practices are
19 to be aggregated.

20 C. A bank shall maintain documentation to reflect
21 that investments in banking premises are depreciated or
22 amortized pursuant to generally accepted accounting principles.
23 The documentation shall disclose the period of time the assets
24 are expected to remain on the books, and the accepted practice
25 used to consistently assign the cost and write down the value.

26 D. Investment in nonadjacent real estate to be used
27 for future banking premises not utilized as intended within five
28 years shall be considered other real estate unless definite
29 plans for utilization are in process and extended time is
30 approved by the commissioner.

31 E. Prior to December 31, 1985, a bank may, without
32 obtaining approval, restate the net book value of its banking
33 premises to reflect the original cost less any prior write down
34 required under generally accepted accounting principles.

35 Adequate documentation shall be maintained to substantiate any

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1 restatement of banking premises. Alternatively, a bank not
2 restating the value of banking premises may write down the
3 remaining net book value pursuant to generally accepted
4 accounting principles.

5 2675.2130 FURNITURE AND FIXTURES, PERSONAL PROPERTY,
6 AUTOMOBILES, AND EQUIPMENT.

7 Purchases capitalized in this account shall be amortized as
8 required by generally accepted accounting principles, or a
9 greater amount as may be approved in writing by the commissioner.
10 Furniture and fixtures, personal property, automobiles, and
11 equipment used in the conduct of banking business may be
12 acquired by purchase or lease without obtaining prior approval
13 of the commissioner unless the seller or lessor has an existing
14 direct or indirect interest in the management or ownership of
15 the acquiring bank.

16 2675.2140 LEASEHOLD INVESTMENT AMORTIZATION.

17 Leasehold investments shall be amortized as required by
18 generally accepted accounting principles. Leasehold investments
19 receiving prior approval pursuant to Minnesota Statutes, section
20 47.10, subdivision 3, are subject to further prior approval of
21 renegotiated and amended terms. If there is an optional clause
22 in such lease for an additional period to be covered thereby,
23 this shall serve to extend the amortization period to such
24 extent.

25 2675.2170 OTHER REAL ESTATE.

26 Other real estate:

27 A. Any real estate acquired or owned by a bank (1)
28 pursuant to Minnesota Statutes, section 48.21, clauses (2) to
29 (5); (2) not used in the business resulting from relocation of
30 the principal office, or closing of a detached facility; or (3)
31 abandonment of plans to use real estate acquired for future
32 expansion, shall be designated as "other real estate." The
33 property acquired pursuant to (1) shall be so designated from
34 the date upon which the bank actually acquires title. Property
35 owned pursuant to subitems (2) and (3) shall be so designated

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1 from the date the determination is made to divert or abandon as
2 actual operating bank premises.

3 B. "Other real estate" shall not be entered upon the
4 books of a bank at an amount greater than the balance of the
5 principal amount of the indebtedness at the time of acquisition
6 or the remaining book value if owned. In any case, the book
7 value of other real estate shall never exceed the estimated fair
8 market value of the property. The fair market value shall be
9 determined by an appraisal prepared by an independent qualified
10 appraiser within 30 days of acquisition. The appraisal shall be
11 made part of the other real estate file.

12 C. Reasonable attempts shall be made to dispose of
13 other real estate by sale. The other real estate file shall be
14 documented with disposal attempts. In no case, is depreciation
15 required on other real estate, but it shall be removed from the
16 books within five years after acquisition.

17 D. "Other real estate" sold on contract for deed may
18 be carried as a loan at the lesser of the principal balance due
19 on the contract, or at its present book value. Loss on sale of
20 "other real estate" shall be recognized in the period the sale
21 occurs. Gains on sale of other real estate shall be either
22 accreted ratably on the same basis as repayment, or may be
23 deferred until title is transferred to the buyer.

24 E. "Other real estate" shall be documented with an
25 attorney's opinion or equivalent evidence to reflect title and
26 all encumbrances. ~~Adequate-property-and-liability-insurance~~
27 ~~shall-be-carried,-and-taxes-shall-be-kept-current~~ Insurance must
28 be maintained where necessary and taxes must be kept current if
29 the "other real estate" is carried as an asset.

30 2675.2200 CHARGED OFF ASSETS; DUAL CONTROL.

31 Subpart 1. Record. A complete record of charged off
32 assets shall be maintained on which all recoveries shall be
33 shown. This record shall also cite authority of directors with
34 regard to any debts that have been compromised, and include
35 signed compromise agreements, if it is possible to obtain them.

36 The original records of charged off assets shall be

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1 maintained under dual control to effect any entry subsequent to
2 the board's charge off resolution.

3 Subp. 2. and 3. [See repealer.]

4 2675.2220 ADDITIONAL COMMON STOCK SALES.

5 Any bank which increases its common capital account by
6 means of the sale of additional common stock need not carry such
7 funds in any other bank but may carry them on its own books
8 among demand liabilities and furnishing appropriate certificate
9 to the commissioner as to the total paid in.

10 2675.2240 DIVIDENDS.

11 The dividend period for the purpose of declaring dividends
12 in accordance with Minnesota Statutes, section 48.09 shall be
13 the period commencing on January 1 and ending as of the close of
14 business December 31 of each calendar year and the net income
15 for each such period shall be determined from the consolidated
16 report of income of each bank.

17 The Department of Commerce will supply each bank with forms
18 to be completed with information called for. The forms must be
19 mailed or delivered to the commissioner within ten days of the
20 date of declaration of any dividend and at least 15 days prior
21 to the proposed payment date of any dividend. The forms shall
22 contain a statement by the commissioner providing that if
23 certain requirements as set forth therein are met, the bank may
24 pay a cash dividend or dividends without specific approval of
25 the commissioner in the year succeeding the dividend period in
26 such amount or amounts as will not reduce the bank's capital,
27 surplus, undivided profits, and reserves below such
28 requirements. Except as provided in the preceding sentence, no
29 bank or trust company shall pay a cash dividend to its
30 stockholders until written approval for the dividend has been
31 obtained from the commissioner.

32 Declared dividends shall be deducted from undivided profits
33 and carried on the books as another liability entitled
34 "dividends payable." The other liability account shall be
35 reversed upon payment or nonapproval by the commissioner.

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1 2675.2246 CERTIFICATE OF DEPOSIT OF OTHER FINANCIAL INSTITUTIONS.

2 Where a bank makes a direct investment in a certificate of
3 deposit of another financial institution, such investment shall
4 not exceed its legal lending limit as provided in Minnesota
5 Statutes, section 48.24; however, this limitation shall apply
6 only to that portion, if any, of the investment which is not
7 insured by an agency of the United States.

8 2675.2250 OVERDRAFTS; OFFICERS OR EMPLOYEES.

9 No overdraft shall be permitted to an officer or employee
10 of a bank with the exception of those which occur in the
11 ordinary course of posting and are reimbursed during the same or
12 the following business day. Overdrafts originating and disposed
13 of in this manner shall not be construed as being in violation
14 of Minnesota Statutes, section 48.08.

15 2675.2420 OTHER BUSINESS; EXPENSE REIMBURSEMENT AGREEMENTS.

16 If an officer of a bank is acting as an insurance agent,
17 acting to effect transactions in securities or the business of
18 an insurance agency or securities broker-dealer not owned by the
19 bank is being conducted on the banking premises, there must be
20 an arrangement as to allocating overhead expenses or as to
21 distribution of net earnings and be included in an appropriate
22 board resolution. The allocations may include the credit
23 insurance income required to be turned over to the bank pursuant
24 to Minnesota Statutes, section 47.016, or commissions.

25 2675.2500 DISPLAY AND REPLACEMENT COPIES.

26 Every bank shall display its bank charter in a prominent
27 place in the lobby. In case of destruction or misplacement of
28 the charter, the commissioner will supply a duplicate, upon
29 application, at the cost set out in Minnesota Statutes, section
30 46.131, subdivision 10.

31
32 REPEALER. Minnesota Rules, parts 2675.0700; 2675.0800;
33 2675.0900; 2675.0910; 2675.0920; 2675.0930; 2675.0940; 2675.0950;
34 2675.1160; 2675.2010; 2675.2020; 2675.2030; 2675.2060;

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- 1 2675.2070; 2675.2080; 2675.2090; 2675.2120; 2675.2150;
- 2 2675.2160; 2675.2190; 2675.2200, subparts 2 and 3; 2675.2230;
- 3 2675.2290; and 2675.2410 are repealed.

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