

Minnesota Attorney General: Administrative Rules Proceedings

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Version 3
August 20, 2018

MINNESOTA STATE REGULATIONS

Notice of filing by the Commissioner of Administration

We have received on this date, stamped and filed 2 copies of Rules and Regulations pertaining to the Banking Division
(Agency or Board)

Regulation No. 1391

Subject: Loans

Department of Administration
Publication, Central Services Division
Documents Section
140 Centennial Office Building
St. Paul, Minnesota 55155
Telephone: (612) 296-2874

FILED
RICHARD L. BRUBACHER
Commissioner of Administration

DEC 26 1975

BY Edw Flandenmaier
AUTH. SIGNATURE

3:10 PM

R-S

Stamped and filed with the Secretary of State 12/26/75 2:45pm

Rev. 9-72

ADMIN 1000

STATE OF MINNESOTA

DEPARTMENT ATTORNEY GENERAL (Banking)

Office Memorandum

TO : MICHAEL B. MILLER, Special Assistant Administration Attorney General

DATE: Dec. 9, 1975

FROM : RODERICK I. MACKENZIE RIM
Special Assistant Attorney General
Banking Division

PHONE: 6524

SUBJECT: REGULATIONS GOVERNING CREDIT UNIONS

Enclosed you will find the required originals and copies of the various forms and records pertaining to regulations which the Banking Division has adopted governing liens credit unions are permitted to take upon real estate. I am forwarding these forms and records to you for your approval.

If you have any questions or if I have omitted something, please contact me at the above-mentioned telephone number.

Thank you!

aso
Enclosures

12/9 Rec'd.

ADOPTED AMENDMENTS AND ADDITIONS TO CREDIT UNION RULES AND REGULATIONS
(Changes or additions of wording are indicated by underline, deletions are indicated by ~~strike-out~~. All other language is the same as it was under prior rules and regulations.)

BD 139 Loans

(a) All cancelled notes and mortgages and all pledges must be returned to the borrower.

(b) Real estate mortgages.

~~(1)--Real-estate-mortgage-loans-shall-be-secured-by-a-first-lien.--No second-or-subsequent-mortgage-loans-are-permitted-except-when-the-credit-union owns-all-prior-mortgages-and-there-are-no-other-liens.~~

(1) A credit union may take only the following liens upon real estate as security for loans:

(aa) A first lien; or

(bb) A junior lien if:

(i) the credit union owns all prior liens on the real estate and there are no other intervening liens; or

(ii) the lien is taken to secure debts previously contracted; or

(iii) the loan is guaranteed or insured in whole or in part by the United States or any department, bureau, board, commission, or establishment of the United States, including any corporation wholly owned indirectly or directly by the United States, and shall not be subject to the restrictions or limitations imposed by BD 139 upon loans secured by real estate; or

(cc) A second lien not within the scope of (bb) above if:

(i) the amount of the loan plus the remaining balance on the loan secured by the first lien does not exceed 80% of the current appraised value of the mortgaged property, and

(ii) the credit union relies primarily on other security as collateral for the loan or looks for repayment by relying primarily on the borrower's general credit standing and forecast of income supported by the borrower's signed financial statement, and

(iii) the lien secures a non-automobile loan, and

(iv) except for home improvement loans, the lien is taken as security for a loan in a principal amount of $3,000 or more.

(2) Appraisal report. The credit committee with the approval of the board of directors may accept the appraisal report of any other person or persons qualified to appraise real estate which shows the estimated value of the land and building separately, and any other required information, but the credit committee must approve all such loans.

(3) Mortgage note. Any standard Minnesota form of real estate mortgage note is acceptable.

(4) Mortgage deed. Any standard Minnesota form is acceptable.

(5) Title. In the case of abstract title property, the loan file of all mortgagees should contain the ~~original~~ recorded mortgage and note, and in the case of the first mortgagee the abstract continued to and containing evidence of the usual searches dated at least one day after date of the recording of the mortgage.

In the case of torrens title property the loan file of all mortgagees should contain a copy of the mortgage and ~~original~~ note and either the owner's duplicate certificate of title or the mortgagee's duplicate with memorial of mortgage thereon, and in the case of the first mortgagee a registered property certificate (sometimes called certificate of condition of title) continued to at least one day after date of recording of the mortgage.

(6) Attorney's opinion. An attorney's opinion, as to the fee title and stating that the credit union mortgage is a ~~first and~~ valid lien on the property as specified in BD 139 (b) (1) or a Title Insurance Policy, is required.

(7) Evidence of adequate insurance to cover mortgage with loss payable clause payable to credit union shall be required for mortgages.

(c) Personal Loans.

(1) A record or index of co-signers' or guarantors' aggregate direct and indirect liability to the credit union shall be maintained, and financial statements are to be taken on the original loan or on any substantial increases.

(2) All applications on loans paid or refinanced, must be retained for a minimum period of 5 years as a part of the credit union's credit file containing the current loan note and supporting papers.

(3) All unsecured loans of $1,500 or more in a credit union of less than $1,000,000 in assets and unsecured loans of $3,000 or more in credit unions of $1,000,000 or more in assets, shall be supported by signed financial statements of the borrower, co-makers and/or guarantors. Such current financial information is also required on loans which the Commissioner or his examiners considers inadequately secured. The loan application shall show the estimated value of collateral offered at the time a loan is granted.

(4) If a board member or member of a committee has a loan delinquent or criticized, the Commissioner of Banks may require that such director or committee member be removed from his position.

FILED
RICHARD L. BRUBACHER
Commissioner of Administration
DEC 26 1975
BY Edna Standenmaier
AUTH. SIGNATURE 3:12 PM.

APPROVED AS TO FORM AND LEGALITY
DEC 24 1975 19
WARREN SPANNAUS, ATTORNEY GENERAL
BY /s/ Michael B. Miller
SPECIAL ASSISTANT ATTORNEY GENERAL

STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED
DEC 26 1975
Joan Anderson Growe
Secretary of State
2:45 P.M.

STATE OF MINNESOTA

COUNTY OF RAMSEY

BEFORE ROBERT A. MAMPEL

COMMISSIONER OF BANKS

IN THE MATTER OF THE PROPOSED ADOPTION OF RULES OF THE STATE BANKING DIVISION GOVERNING CREDIT UNIONS; KINDS OF LIENS CREDIT UNIONS MAY TAKE UPON REAL ESTATE AS SECURITY FOR LOANS.

TRANSCRIPT

The above-captioned matter came on for hearing before George A. Beck, Hearings Examiner, on Friday, October 24, 1975, at approximately 9:00 a.m. in the Commerce Department Hearings Room, Fifth Floor, Metro Square Building, City of St. Paul, County of Ramsey, State of Minnesota.

AGENCY PANEL MEMBERS:

Eugene Bloomquist, Supervisor of Savings and Loan Associations and Credit Unions, Banking Division, Department of Commerce

Rod Mackenzie, Special Assistant Attorney General assigned to the Banking Division of the Department of Commerce.

I N D E X

PUBLIC SPEAKERS:

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Dennis M. Anderson, Treasurer-Manager of the Minnesota Teamsters Credit Union..... 14

State's Exhibits 1 through 7 marked for identification on page 1, offered and received on page 4.

Public Exhibits A, B and C marked for identification on page 13, received on page 14.

(State's Exhibits 1 through 7 were marked for identification by the reporter).

(Whereupon the following proceedings were then had:)

EXAMINER BECK: This is a hearing in the matter of the proposed adoption of rules of the State Banking Division governing credit unions; kinds of liens credit unions may take upon real estate as security for loans. This hearing has been set pursuant to a Notice of Hearing signed by Robert A. Mampel, Commissioner of Banks. My name is George Beck, and I am a Hearings Examiner with the Department of Commerce, and I have been appointed by the Commissioner to preside over the hearing this morning. First thing I would like to do is to explain briefly the procedure that we will be following in the hearing. Everyone attending the hearing has been requested to sign the register this morning as you enter. If you have not, please do so later. The purpose of this hearing this morning is to allow interested parties to express their views and present facts bearing upon the proposed rules. All persons wishing to express their views will have an opportunity to do so. When we are ready for statements or questions by witnesses or interested parties, please step forward, and spell your name first, identify whatever firm or interest you represent, and please speak clearly. All witnesses making an oral statement subject themselves to questioning by a representative of the agency, and by the presiding officer. Additionally, individuals making oral statements may be questioned by others present today if they consent. If you have a written statement or other matter reduced to writing and you desire this to be entered in the record this morning, please present this to Mrs. Duehn, the court reporter, and she will mark it as an exhibit and you may offer it

into the record at any time, preferably when you make your statement. The right of the agency or the presiding officer to examine the individual presenting the written statement extends to the content of the written statement. This hearing obviously is being recorded by a court reporter. Subsequently a transcript of the proceedings will be made available. If you wish to have a copy of the transcript for which there will be a charge, kindly notify Mrs. Duehn. In order to aid in the construction of a proper record this morning, it is requested that witnesses observe the following rules. Only one person shall be allowed to address the hearing at a time. All answers must be verbalized. The court reporter cannot record a nodding of the head or other gestures. All technical terms and proper names should be spelled for the benefit of the court reporter. It is important, everyone should take note, that if you desire to submit a written statement or written brief or other relevant materials bearing upon the rules as proposed, you may within 20 days of the close of this hearing submit to the Commissioner of Banks for his consideration such materials. This right to submit written briefs or other materials is in addition to the right to make oral statements at the hearing this morning. Those present are advised that under Minnesota Statutes, Section 10A.01, Subdivision 11, any individual engaged for pay or other consideration for the purpose of representing persons or associations attempting to influence administrative action such as the promulgation of these rules must register with the State Ethics Commission as a lobbyist within five days of the commencement of such activity by the individual. Briefly the agenda we will be following

this morning is as follows: Following my remarks the agency panel will be introduced. The agency will then introduce written exhibits that it has this morning. The agency will then present a Statement of Need in support of the proposed rules. The agency will then make a statement or present whatever evidence it has in support of the rules. Following that, we will have statements or questions by anyone present, in regard to the proposed rules, and following that, we will adjourn the hearing. The members of the agency panel this morning include, closest to me, Mr. Eugene Bloomquist, who is the Supervisor of the State Savings and Loans and Credit Unions, and to his right, is Rod Mackenzie, who is the Special Assistant Attorney General assigned to the Banking Division. Mr. Mackenzie, do you want to introduce the exhibits?

MR. MACKENZIE: Thank you, Mr. Hearing Examiner. First I would like to briefly identify each exhibit. The State's Exhibit 1 is an Order for Hearing, signed by the Commissioner of Banks, and this basically orders that this hearing be held and that interested persons have an opportunity to present their views concerning these proposed rules. State's Exhibit 2 is the Appointment of the Hearings Officer signed by the Commissioner of Banks. State's Exhibit 3 is a Certificate signed by a representative of the Secretary of State certifying that the attached sheets, which a representative of this agency picked up from the Secretary of State, is the complete list of persons who have filed with the Secretary of State and requested to receive notice of all hearings on proposed rules. State's Exhibit 4 is an Affidavit signed by Eugene Bloomquist stating that he went to the Secretary of State's office and picked up the list of interested

persons that I referred to. State's Exhibit 5 is the Notice of Hearing which you all received and it is signed by the Commissioner of Banks. State's Exhibit 6 is the Affidavit of Mailing signed by Eugene Bloomquist and this is the mailing of the Notice of Hearing. State's Exhibit 7 is the Statement of Need signed by the Commissioner of Banks. This basically sets out the need for these proposed rules, and those are the seven exhibits which we would now like to offer into the record.

EXAMINER BECK: State's Exhibits 1 through 7 will be received and they will be available if anyone wishes to inspect them at any time during this hearing. All right, Mr. Bloomquist, you have a Statement of Need?

MR. BLOOMQUIST: Yes, I do, Mr. Hearing Examiner. The Statement of Need reads as follows: "The Banking Division of the Department of Commerce, State of Minnesota, proposes to adopt and amend rules to implement Minnesota Statutes, Chapter 52. The last time the credit union rules were amended was April 23rd, 1974. The need to adopt these proposed rules arises as follows: Minnesota Regulation BD 139 (b) Real Estate Mortgages, should be amended since it is recognized by the Banking Division that a credit union in addition to granting real estate loans secured by first mortgage liens could prudently take junior liens where the credit union owns all prior liens, where the junior lien secures debts previously contracted, or where the credit union holds an FHA Title I home improvement loan. A credit union could take a second lien where it exercises prudent evaluation of a borrower's financial condition and equity position, so that it is afforded adequate protection. The

above-captioned rules are necessary to implement and make effective the provisions and purposes of Chapter 52, to establish objective standards for the purpose of advising those subject to Chapter 52 of their rights and obligations thereunder, and to provide credit unions with needed flexibility in making needed real estate loans," and this Statement of Need is signed by Robert A. Mampel, Commissioner of Banks for the State of Minnesota.

EXAMINER BECK: Very well, I guess the next item is the statement by the agency in support of the rules.

MR. BLOOMQUIST: The statement in favor of amendment to Banking Division Rule and Regulation BD 139 (b) Real Estate Mortgages reads as follows: In order for state chartered credit unions to be on a more equal and competitive basis with banks the kinds of liens which credit unions may take as security for real estate loans are to be redefined as follows: 1(a) A first lien is preferred above other types of liens if obtainable as it would be the paramount lien. 1(b) A junior lien if: (i) The credit union owns all prior liens on the real estate and there are no other intervening liens. This type of lien when combined with a first lien is construed as an extension of that lien and would be paramount also. 1(b)(ii) A junior lien if the lien is taken to secure debts previously contracted. This type of lien would be needed so that a credit union could salvage a personal loan or another real estate loan of the borrower, wherein the equity has eroded. 1(b)(iii) A junior lien if the loan is guaranteed or insured in whole or in part by the United States Government or agencies. This generally is an FHA Title I home

Improvement Loan. This type of lien is needed so that the credit union may make FHA Title I home improvement loans for more than $7500 when a borrower's financial condition warrants this type of risk, and 1(c) The second lien if, the wordage set forth at (i)(aa), (bb) and (cc) which follows, is needed so as to set forth the ground rules for a credit union to evaluate the equity of a borrower's property and his ability to repay his new obligations. It is to be further noted that by permitting second liens under these circumstances a borrower could then retain a low interest rate first real estate mortgage and not have to forego it as is now the case by refinancing in order to obtain the needed funds for a provident and productive purpose, and on page 2 of the proposed amendments, you will notice -- you will note that 6, at line 13, 14 and 15, which covers 6, attorney's opinion, it is obvious to the Banking Division that this particular statement here of attorney's opinion should be reworded as if the proposed amendment for second real estate mortgages is allowed. It is obvious that the first valid lien wouldn't be appropriate any more, so it is proposed by the agency that the wording for BD 139(b)6 be reworded as follows: "Attorney's Opinion. An attorney's opinion as to the fee title and stating that the credit union mortgage is a valid lien on the property as specified in BD 139 (b)(1) or a title insurance policy is required, and then my statement in favor of changing these words would be as follows: BD 139 (b) part 6, Attorney's Opinion. It follows that the attorney's opinion as to the fee title and stating that the credit union mortgage is a valid lien on the property as prescribed in BD 139 (b)(1) or a title insurance policy is required in

order to maintain harmony in this regulation if the proposed change in wording is adopted, and that would conclude my statement in favor of the changes as proposed.

EXAMINER BECK: Thank you, Mr. Bloomquist. If there is nothing further, then we can proceed to statements or questions by interested parties or anyone present this morning. Richard Young, do you wish to proceed first?

MR. YOUNG: Very well.

EXAMINER BECK: You may stand or sit or whatever is comfortable for you.

MR. YOUNG: Mr. Hearing Officer, my name is Richard F. Young, R-i-c-h-a-r-d, middle initial F, Y-o-u-n-g. I am the League Manager of the Minnesota League of Credit Unions, 575 University Avenue, St. Paul, Minnesota. The Minnesota League of Credit Unions is composed of approximately 300 credit unions which operate in the State of Minnesota. In total, there are approximately 360 credit unions in the State of Minnesota. Of the 360, approximately 300 credit unions are state chartered and approximately 60 are federally chartered credit unions. The state chartered credit unions have assets of $473,000,000 approximately and membership of about 408,000 people. The total number of personal loans and real estate loans outstanding as of 1974 was $346,000,000 roughly. The total number of borrowers of these approximately 360 credit unions as of 1974 was approximately 194,000 loans. I am stating these statistics for the benefit of the record for the purpose of showing to the Commissioner of Banks the scope of the membership and loan activity of the credit unions. We are very pleased to support the proposed amendment to Regulation 139

of the Banking Division. Regulation 139 known as BD 139 concerns loans. Previously BD 139(b) had stated that real estate mortgage loans made by credit unions must be secured by first liens. Therefore under the regulations in effect in the past, second or junior mortgage liens were not permitted unless the credit union owned all prior liens. Under former rules a great number of credit union members were not able to secure loans from the credit union even though those members may have had a substantial equity in their home or a substantial equity in their lake place or recreational home. If the credit union member had his first mortgage with some other financial institution, then, under the previous Banking Division Regulation, the credit union was prohibited from making a loan to such a member on the security of his real estate. Of course it would have been possible for the credit union to loan funds to the member so that the member could pay off the real estate mortgage at the other financial institution and take out a new mortgage with the credit union. During recent years such a course would have been unwise because often the existing mortgage on the property held a low interest rate. Therefore credit unions did not want their members to refinance at a higher rate. Under the previous regulations loans were denied to a great number of creditworthy members. Credit union members with good credit experience found themselves unable to receive loans which their real estate -- with their real estate as security, if that real estate involved second or junior liens. The proposed amendment will allow credit unions to take a second lien if the proposed loan and the balance of the first lien do not exceed 80 percent of the current appraised value. This of course would solve the problem that I mentioned

above dealing with the borrower's equity in his home as a mortgagable asset. We believe that the 80 percent rule is fair and reasonable, and will provide a credit source to qualified borrowers who have hitherto not been able to borrow funds because of the rule against second mortgages. The proposed rule provides that the second mortgage -- the second lien can be taken if the credit union complies with three other requirements. One, the credit union must rely primarily on other security. Two, the loan must be a nonautomobile loan. Three, the loan must be in a principal amount of $3,000 or more. However, this limitation does not apply to second mortgages for home improvement loans. In other words, home improvement loans of $3,000 or less can be made on the security of second mortgages. The proposed regulation also allow credit unions to take a junior lien, such as conceivably a third or fourth mortgage, in certain limited circumstances, the most important of which is that a credit union can take such a junior lien if the loan is guaranteed or insured in whole or in part by the United State's Government. The fact that home improvement loans even though less than 3,000 can be -- $3,000 can be secured by a second real estate mortgage, will make more funds available to credit union members for loans, and it will avoid the previous practice which has occurred of refinancing previous low interest loans in order to secure funds for home improvements. The fact that second mortgages can also be taken by the credit unions for loans in excess of $3,000 will also assist the borrowing needs of the credit union members especially when they own a substantial equity in their home or recreational home. The proviso regarding junior liens guaranteed or insured in whole or in part by the United

States Government will also make credit available to those who could not receive it under the former Banking Regulations. Credit unions should be able to make loans secured by third or fourth real estate mortgages, if that loan is guaranteed or insured by the United States Government. Credit union assets are not at risk, if the loan contains such a guarantee. There are some small changes which appeared to us to be typographical in nature, which might clarify the rules. These changes would be as follows: One, on lines 20 and 21 on page 1 should read as follows: (c) A second line not within the scope of (b) above if, and under (i), the amount of the loan plus the remaining balance on the first. Lines 17 through 19 on page 1 should read as follows: The United States including any corporation wholly owned indirectly or, and then follows with directly the United States. Such loans shall not be subject to the restrictions or, followed by limitations imposed by BD 139 upon loans secured by real estate or. On line 4, on page 2, should read as follows, under 5, Title, In the case of abstract title property, the loan file for the first mortgage should. Line 9 on page 2 should read as follows: In parentheses, And original note and either the owner's duplicate certificate of title or the. On line 14 on page 2 should read, and this one has already been changed in the one we picked up this morning, I noticed, but we had it stating -- in parentheses, stating that the credit union mortgage is a valid lien on the property. Credit unions need each and every item set forth in the proposed rule changes. In summary, we support the proposed regulations. Thank you, Mr. Hearing Officer.

EXAMINER BECK: Are there any questions for Mr. Young?

MR. BLOOMQUIST: I have none.

EXAMINER BECK: Thank you very much, Mr. Young. Do we have another speaker?

MR. SPOLAR: I am Wallace J. Spolar, that is like polar bear, put an S in front of it, S-p-o-l-a-r. I am Treasurer-Manager of Teacher Federations Credit Union, 1724 Douglas Drive, Golden Valley, Minnesota. I would like to give the following illustration of the need for the second liens as proposed, the junior liens as proposed this morning. We have at the present time a member with an application for a home improvement loan. At the present time he has a $15,000 mortgage balance at 6 percent on a home that is appraised at $40,000. He wishes to improve that home to the extent of approximately $15,000. We are unable to make that loan at the present time in view of the fact that we do not have what we consider to be adequate security for that loan. Further, he is reluctant to give up obviously his 6 percent mortgage loan, would rather have a 10 year $15,000 home improvement loan with us, that would stay well within the perimeters of the 80 percent as set forth in the proposed changes today. It would be advantageous for our member if we could have a second lien, on that particular property, because he now has a financial capacity, can amortize the loan over a 10 year period, and the 6 percent original mortgage and the 12 percent that we would charge on the $15,000 10 year loan would be to his economic advantage. Thank you.

EXAMINER BECK: Are there any questions of the witness?

MR. BLOOMQUIST: We have no questions.

EXAMINER BECK: Thank you very much. Do we have another speaker?

MR. LOUISMET: I am Albert J. Louismet. Treasurer-Manager of Sheet Metal Workers Local 76 Credit Union.

EXAMINER BECK: Could you spell your last name, please?

MR. LOUISMET: L-o-u-i-s-m-e-t. I would like to talk in support of the regulation change. In order for our credit union to fully give its members the benefit of the expanded limits set forth by the federal government pertaining to the FHA Title I loans, it is needed. In order for a credit union to give a member anything over $7500, a filing must be made on the particular piec e of property being improved which at this time we are unable to do unless we have a first mortgage on the said property. Because of the high cost of home repairs, it is easy to go over the $7500 limitation. In one case which I can site, a member came in needing a $9500 loan. In order to serve him, we had to give him a $7400 FHA Title I loan, plus a personal $2100 loan. This made him responsible for two loans and two loan payments, which in the future could work a burden on him. The only other alternative would have been to send this member to outside sources such as a bank that has the unfair advantage over credit unions of being able to make these loans at this time. But our members prefer to stay with their own credit union which has their best interests at heart. So with these few comments, I urge that the proposed changes be adopted.

EXAMINER BECK: Are there any questions?

MR. BLOOMQUIST: No questions.

EXAMINER BECK: Thank you very much. Do we have another speaker please?

MR. TSCHIRLEY: My name is Alvin W. Tschirley, A-l-v-i-n. Last name is spelled T-s-c-h-i-r-l-e-y, 1505 Highland Parkway, St. Paul, Minnesota, 55116. I am the General Manager of the St. Paul Postal Employees Credit Union. I am going to be repetitive, but I would like to address myself very briefly in support of the regulation with a statement which I intend to file. Presently the Federal Housing Administration allows lenders to lend up to $10,000 for approved home improvements on single family dwellings. However, to go beyond $7500 a second mortgage or other valid lien must be filed against the improved property. The present Banking Department regulations prohibit the granting of second mortgages unless we already hold the first mortgage. Also a complete title examination and appraisal and title insurance coverage is required on the second mortgages. These regulations place a serious restriction upon the ability of our credit union to grant desireable loans in excess of $7500. By being unable to lend in excess of $7500 we are compelled to either send the members to other lending institutions who are allowed to lend up to $10,000 or grant a personal loan for the amount in excess of $7500. Thank you. Is it all right to turn this in now, sir?

EXAMINER BECK: Certainly, would you put it on the court reporter's desk. Thank you.

(Public Exhibits A, B and C marked for identification by the reporter).

EXAMINER BECK: We have marked Mr. Tschirley's statement as Public Exhibit A, Mr. Louismet's statement as Public Exhibit B, Mr. Young's statement as Public Exhibit C and they will each be received into the record. Is there another speaker for the record? There is no one else who wishes to speak this morning, is that correct? Yes, sir?

MR. ANDERSON: My name is Dennis M. Anderson, D-e-n-n-i-s, middle initial M, A-n-d-e-r-s-o-n, Treasurer-Manager of the Minnesota Teamsters Credit Union, at 2021 East Hennepin Avenue, Minneapolis. On behalf of the members and directors of the Minnesota Teamsters Credit Union and particularly all credit unions of the smaller asset size and structure, I would like to briefly speak in general support of the proposed amendments and additions to the credit union rules and regulations. Perhaps of paramount importance, the smaller credit unions which have not in the past been of sufficient size to handle first real estate mortgages, is the fact that they can with the adoption of the proposed changes now be of service to their members in an area where they have the dollars to help, but have not in the past had a sound or legal basis for advancing money by using a second lien instrument as security for the loan. Time and again I feel managers and directors of credit unions have been confronted with the opportunity to provide a meaningful service to a longstanding financially sound member, but have been unable to do so because the alternative collateral has been insufficient or the credit union is not monetarily in a position to take over a first mortgage. In many cases the credit union member does not wish to lose a lower than market first mortgage interest rate to accomodate

some other pressing financial need. In these times of high inflation the working men and women of Minnesota need as much help and service as they can get from their credit union and I would urge the adoption of the proposed amendments and additions to credit union rules and regulations. Thank you. I will submit a typewritten copy at a later date.

EXAMINER BECK: Is there any further testimony this morning. If there are no further speakers, is there anything further on behalf of the agency this morning?

MR. BLOOMQUIST: No, I have no further comments.

EXAMINER BECK: All right, I want to re-emphasize that anyone who desires to make a written submission to the Commissioner of Banks has 20 days from the close of the hearing this morning to submit those written materials to the Commissioner of Banks. They may be sent to the Commissioner at 500 Metro Square Building, Seventh and Robert Streets, St. Paul, Minnesota. If there is no further business, this hearing is declared to be closed.

(Whereupon the hearing closed).

STATE OF MINNESOTA

COUNTY OF RAMSEY

BEFORE ROBERT A. MAMPEL

COMMISSIONER OF BANKS

IN THE MATTER OF THE PROPOSED ADOPTION OF RULES OF THE STATE BANKING DIVISION GOVERNING CREDIT UNIONS; KINDS OF LIENS CREDIT UNIONS MAY TAKE UPON REAL ESTATE AS SECURITY FOR LOANS.

REPORTER'S CERTIFICATE

I, Nancy J. Duehn, hereby certify that I am the official reporter who took the above-captioned hearing, and that the foregoing transcript is a true, accurate and correct transcript of my original stenotypy notes to the best of my ability.

Dated: October 27, 1975.

Nancy J. Duehn

Nancy J. Duehn
Hearings Reporter
500 Metro Square Building
St. Paul, Minnesota 55101

PROPOSED AMENDMENTS AND ADDITIONS TO CREDIT UNION RULES AND REGULATIONS
(Changes or additions of wording are indicated by underline, deletions are indicated by ~~strike-out~~. All other language is the same as it was under prior rules and regulations.

BD 139 Loans

(a) All cancelled notes and mortgages and all pledges must be returned to the borrower.

(b) Real estate mortgages.

~~(1) Real estate mortgage loans shall be secured by a first lien. No second or subsequent mortgage loans are permitted except when the credit union owns all prior mortgages and there are no other liens.~~

(1) A credit union may take only the following liens upon real estate as security for loans:

(a) A first lien; or

(b) A junior lien if:

(i) the credit union owns all prior liens on the real estate and there are no other intervening liens, or

(ii) the lien is taken to secure debts previously contracted; or

(iii) the loan is guaranteed or insured in whole or in part by the United States or any department, bureau, board, commission, or establishment of the United States, including any corporation wholly owned or indirectly or directly by the United States, and shall not be subject to the restriction or limitations imposed upon loans secured by real estate, or

(c) A second lien if:

(i) the sum of the loans plus the remaining balance on the first real estate lien does not exceed 80% of the current appraised value of the mortgaged property, and if

(aa) the credit union relies primarily on other security as collateral for the loan or looks for repayment by relying primarily on the borrowers general credit standing and forecast of income supported by the borrower's signed financial statement, and

(bb) the lien secures a non-automobile loan, and

(cc) except for home improvement loans, the lien is taken as security for a loan in a principal amount of $3,000 or more.

(2) Appraisal report. The credit committee with the approval of the board of directors may accept the appraisal report of any other person or persons qualified to appraise real estate which shows the estimated value of the land and building separately, and any other required imformation, but the credit committee must approve all such loans.

(3) Mortgage note. Any standard Minnesota form of real estate mortgage note is acceptable.

(4) Mortgage deed. Any standard Minnesota form is acceptable.

(5) Title. In the case of abstract title property, the loan file should contain the original recorded mortgage and note, the abstract continued to and containing evidence of the usual searches dated at least one day after date of recording mortgage.

In the case of torrens title property the file should contain copy of mortgage and original note either the owner's duplicate certificate of title or the mortgagee's duplicate with memorial or mortgage thereon and registered property certificate (sometimes called certificate of condition of title) continued to at least one day after date of recording of mortgage.

(6) Attorney's opinion. An attorney's opinion, as to the fee title and stating that the credit union mortgage is a ~~first and~~ valid lien on the property as specified in BD 139 (b) (1) or a Title Insurance Policy, is required.

(7) Evidence of adequate insurance to cover mortgage with loss payable clause payable to credit union shall be required for mortgages.

(c) Personal Loans.

(1) A record or index of co-signers' or guarantors' aggregate direct and indirect liability to the credit union shall be maintained, and financial statements are to be taken on the original loan or on any substantial increases.

(2) All applications on loans paid or refinanced, must be retained for a minimum period of 5 years as a part of the credit union's credit file containing the current loan note and supporting papers.

(3) All unsecured loans of $1,500 or more in a credit union of less than $1,000,000 in assets and unsecured loans of $3,000 or more in credit unions of $1,000,000 or more in assets, shall be supported by signed financial statements of the borrower, co-makers and/or guarantors. Such current financial information is also required on loans which the Commissioner or his examiners considers inadequately secured. The loan application shall show the estimated value of collateral offered at the time a loan is granted.

(4) If a board member or member of a committee has a loan delinquent or criticized, the Commissioner of Banks may require that such director or committee member be removed from his position.

Hall's Exhibit 1
P.D.

STATE OF MINNESOTA

COUNTY OF RAMSEY

BEFORE ROBERT A. MAMPEL

COMMISSIONER OF BANKS

In the matter of the Proposed Adoption of Rules of the State Banking Division Governing Credit Unions; kinds of liens credit unions may take upon real estate as security for loans.

ORDER FOR HEARING

To effectively implement Minn. Stat. Sec. 52.01 - 52.22 (1974), the Minnesota Commissioner of Banks deems it necessary to consider adoption of the proposed rules captioned above pursuant to the authority vested in me by Minn. Stat. Sec. 46.04, 46.05, 52.06 (1974), and Minn. Laws 1975, Chapter 380 Sec. 2.

NOW, THEREFORE, IT IS ORDERED this 18th day of September, 1975, that a public hearing on the proposed rules captioned above be held in the Hearings Room of the Department of Commerce, Fifth Floor, Metro Square Building, 7th and Robert Streets, St. Paul, Minnesota, on October 24, 1975, commencing at 9:00 A.M. and continuing until all representatives of associations or other interested groups or persons have had an opportunity to be heard.

IT IS FURTHER ORDERED, that notice of said hearing be given to all representatives of associations or other interested groups or persons who have registered their names with the Secretary of State for that purpose and all persons who are presently members of the Minnesota Legislature.

STATE OF MINNESOTA
BANKING DIVISION

Robert A. Mampel

ROBERT A. MAMPEL
COMMISSIONER OF BANKS

Stats Ch. 2
N.P.

STATE OF MINNESOTA

COUNTY OF RAMSEY

BEFORE ROBERT A. MAMPEL

COMMISSIONER OF BANKS

IN THE MATTER OF THE PROPOSED ADOPTION OF RULES OF THE STATE BANKING DIVISION GOVERNING CREDIT UNIONS; KINDS OF LIENS CREDIT UNIONS MAY TAKE UPON REAL ESTATE AS SECURITY FOR LOANS.

APPOINTMENT OF
HEARING OFFICER

Pursuant to the authority vested in me by Minn. Stat. Sec. 45.032, I, Robert A. Mampel, Commissioner of Banks for the State of Minnesota, do hereby appoint George A. Beck as hearing examiner for the above entitled matter at a public hearing scheduled for 9:00 A.M. on Friday, October 24, 1975.

This appointment authorizes and empowers George A. Beck to conduct such public hearings as are necessary to give all persons, associations, and groups interested in the above-entitled matter an opportunity to be heard.

For the sole purpose of compensation, George A. Beck is and shall be deemed an employee of the Department of Commerce. In all other aspects, he shall be independent of the Banking Division and the State of Minnesota.

Robert A. Mampel

ROBERT A. MAMPEL
COMMISSIONER OF BANKS

Statis Ch. 5
W.P.

STATE OF MINNESOTA

COUNTY OF RAMSEY

BEFORE ROBERT A. MAMPEL

COMMISSIONER OF BANKS

In the matter of the Proposed Adoption of Rules of the State Banking Division Governing Credit Unions; kinds of liens credit unions may take upon real estate as security for loans.

NOTICE OF HEARING

Notice is hereby given that a public hearing will be held pursuant to Laws of Minnesota, 1975, Chapter 380, Section 2, Subd. 4, in the above entitled matter in the Hearings Room of the Department of Commerce, Fifth Floor, Metro Square Building, 7th and Robert Streets, St. Paul, Minnesota on October 24, 1975, commencing at 9:00 A.M. and continuing until all representatives of associations or other interested groups or persons have had an opportunity to participate and be heard concerning adoption of the proposed rules captioned above by submitting either oral or written data, statements or arguments. Statements or briefs may be submitted without appearing at the hearing and will be accepted for a period of twenty (20) calendar days following the close of the hearing.

The commissioner proposes to adopt rules relating to the following matters:

> The kinds of liens credit unions may take upon real estate as security for loans.

Copies of the proposed rules, and copies of the rules which will govern the conduct of the public hearing, are now available and may be obtained by writing to the State Banking Division, Fifth Floor Metro Square Building, 7th and Robert Streets, St. Paul, Minnesota 55101.

Notice is also given that under Minn. Stat. Sec. 10A.01, Subd. 11 (1974) any individual engaged for pay or other consideration for the purpose of representing persons or associations attempting to influence administrative action, such as the promulgation of these rules, must register with the State Ethics Commission as a lobbyist within five days of the commencement of such activity by the individual. The State Ethics Commission is located at 410 State Office Building, St. Paul, Minnesota 55155.

STATE OF MINNESOTA
BANKING DIVISION

ROBERT A. MAMPEL
COMMISSIONER OF BANKS

Statis Ch. 3
N.P.

STATE OF MINNESOTA

COUNTY OF RAMSEY

CERTIFICATE

In the matter of the Proposed Adoption of Rules of the Banking Division Governing Credit Unions; kinds of liens credit unions may take upon real estate as security for loans.

I hereby certify that the attached 2 sheets & 437 labels constitute the complete list of persons, associations, and other interested groups who as of 3:45 o'clock P.M., this 18th day of September, 1975, have requested pursuant to Minn. Stat. Sec. 15.0412, Subd. 4, that their names be placed on file with the Secretary of State for the purpose of receiving notice of public hearing on proposed rules on the subject captioned above.

Secretary of State

Joan Anderson Growe

By Ceil Dieon

State's Exh. 4
N.P.

AFFIDAVIT

EUGENE BLOOMQUIST, being duly sworn on oath deposes and says:

1) That he is an employee of the Banking Division of the State of Minnesota.

2) That on the 18th day of September 1975 he went to the Secretary of State's office for the State of Minnesota and requested a current list of all representatives of associations or other interested groups or persons who had registered their names with the Secretary of State for the purpose of obtaining notices of public hearings relating to the promulgation of rules pursuant to Minn. Stat. Sec. 15.0412.

3) That on the 18th day of September 1975, in response to the above request, the Secretary of State provided him with such a list, a copy of which is attached hereto and incorporated by reference.

Further affiant sayeth not.

Eugene Bloomquist

Subscribed and sworn to before me
this 19th day of Sept 1975.

Samuel F. Johnson

Notary Public, County, Minnesota

My Commission expires

SAMUEL F. JOHNSON
Notary Public, Hennepin County, Minn.
My Commission Expires,
September 29, 1978

Statis Ch. 6
N.P.

STATE OF MINNESOTA
COUNTY OF RAMSEY

In the matter of the Proposed Adoption of Rules of the State Banking Division Governing Credit Unions

AFFIDAVIT OF MAILING

EUGENE BLOOMQUIST, being first duly sworn, deposes and says:

That on the 22nd day of September, 1975, at the City of St. Paul, County of Ramsey, State of Minnesota, he served the attached Notice of Hearing by depositing in the United States mail at said City of St. Paul, a true and correct copy thereof, properly enveloped, with postage prepaid, to all persons and associations at the addresses listed on the attached Certificate of the Secretary of State as well as to all persons listed on the attached sheet as presently being members of the Minnesota Legislature.

Eugene Bloomquist

Subscribed and sworn to before me
this 22nd day of Sept., 1975.
Lori Kirsch

LORI KIRSCH
Notary Public, Ramsey Co., Minn.
My Commission Expires
Sept. 1, 1982

Statis Ch. 7
N. D.

STATE OF MINNESOTA
COUNTY OF RAMSEY

BEFORE ROBERT A. MAMPEL
COMMISSIONER OF BANKS

In the matter of the Proposed Adoption of Rules of the State Banking Division Governing Credit Unions; kinds of liens credit unions may take upon real estate as security for loans.

STATEMENT OF NEED

The Banking Division of the Department of Commerce, State of Minnesota, proposes to adopt and amend rules to implement Minnesota Statutes, Chapter 52. The last time the credit union rules were amended was April 23, 1974.

THE NEED TO ADOPT THESE PROPOSED RULES ARISES AS FOLLOWS:

Minnesota Regulation BD 139 (b), Real estate mortgages, should be amended since it is recognized by the banking division that a credit union in addition to granting real estate loans secured by first mortgage liens could prudently take junior liens where the credit union owns all prior liens, where the junior lien secures debts previously contracted, or where the credit union holds an FHA-Title I home improvement loan. A credit union could take a second lien where it exercises prudent evaluation of a borrower's financial condition and equity position so that it is afforded adequate protection.

The above captioned rules are necessary to implement and make effective the provisions and purposes of Chapter 52, to establish objective standards for the purpose of advising those subject to Chapter 52 of their rights and obligations thereunder, and to provide credit unions with needed flexibility in making real estate loans.

STATE OF MINNESOTA
BANKING DIVISION

Robert A. Mampel

ROBERT A. MAMPEL
Commissioner of Banks

October 16, 1975

STATE OF MINNESOTA
COUNTY OF RAMSEY

BEFORE ROBERT A. MAMPEL
COMMISSIONER OF BANKS

In the matter of the proposed Adoption of Rules of the State Banking Division Governing Credit Union; kinds of liens credit union may take upon real estate as security for loans.

FINDINGS OF FACT

The above entitled matter came on for hearing before the Hearing Examiner, duly appointed by the Commissioner of Banks for the State of Minnesota, on the 24th day of October, 1975, at 9:00 a.m. in the Department of Commerce Hearing Room, 5th Floor, Metro Square Building, 7th and Robert Streets, Saint Paul, Minnesota after proper notice required by Laws of Minn. 1975, ch. 380, §§ 2, subd. 4, was served upon all persons, associations, and other interested groups registered with the Secretary of State for that purpose.

After affording interested persons an opportunity to present written and oral data, statements, and arguments, having reviewed all the testimony, and having considered all the evidence adduced, and upon all the records, files and proceedings herein, I find the following:

1. Proposed Minn. Reg. BD 139, which permits credit unions to take second liens and other junior liens as security for loans, will benefit credit unions and their members and provide them with needed flexibility in making real estate loans.

   No evidence contrary to this finding was presented at the hearing.

2. The ability to take second or other junior liens as security for loans will place credit unions on a more competitive basis with state banks which presently have the authority to take second liens under certain circumstances.

   No evidence contrary to this finding was presented at the hearing.

3. In its present form BD 139 often prevents members from receiving loans from their credit unions even though the members might have substantial equity in their homes which could be used to secure loans if second or other junior liens were permitted.

   No evidence contrary to this finding was presented at the hearing.

4. Proposed Minn. Reg. BD 139 will enable members to retain existing low interest, first real estate mortgages when they borrow home improvement funds from credit unions since the credit unions will no longer be required to take first liens to secure these loans. Under the existing rule credit union members must often refinance low interest, first mortgage loans with credit unions in order to borrow funds from them since credit unions are required to secure the loans with first liens.

   No evidence contrary to this finding was presented at the hearing.

5. Proposed Minn. Reg. BD 139 will enable credit unions to loan members between $7,500 and $10,000 for home improvements and have the full amount insured by the Federal Housing Administration. Under the present rule credit unions do not have this authority.

   No evidence contrary to this finding was presented at the hearing.

6. Credit unions can prudently take junior liens where they own all senior liens.

   No evidence contrary to this finding was presented at the hearing.

7. Credit unions can prudently take junior liens to secure debts previously contracted since this will salvage loans on which credit unions might otherwise lose money.

   No evidence contrary to this finding was presented at the hearing.

8. Credit unions can prudently take junior liens to secure loans guaranteed by the United States government or its agencies since credit union funds are not at risk.

   No evidence contrary to this finding was presented at the hearing.

9. Credit unions can prudently take second liens where (a) the amount of the loan secured by the second lien plus the remaining balance of the loan secured by the first lien does not exceed eighty percent of the appraised value of the property, (b) the credit union relies primarily on either other security or the general credit standing of the borrower as collateral, (c) the lien does not secure an automobile loan, and (d) except for home improvement loans, the amount of the loan is $3,000 or more.

No evidence contrary to this finding was presented at the hearing.

10. Minor amendments to Minn. Reg. BD 139(b)(5) are necessary to conform that part of the regulation to BD 139(b)(1) which is to be amended to permit credit unions to take second and other junior liens as security for loans. It is a sound banking practice for a credit union to retain a copy of the note, mortgage, and in the case of torrens property, either the owner's duplicate certificate of title or a mortgagee's duplicate certificate, in its loan file whether the loan is secured by a first lien or a junior lien. However, because of the added expense, and in light of the protection given a credit union by BD 139(b)(6) which requires an attorney's title opinion, it is unnecessary for a credit union holding a second or other junior lien to obtain and include an abstract of title or a registered property certificate in its loan file.

On page ten of the transcript Richard Young gave evidence which might conflict with this finding.

11. A minor amendment to Minn. Reg. BD 139(b)(6) is necessary to conform that part of the regulation to BD 139(b)(1) which is to be amended to permit credit unions to take second and other junior liens as security

for loans.

No evidence contrary to this finding was presented at the hearing.

The Banking Division has taken notice of all comments received at, and subsequent to, the hearing.

STATE OF MINNESOTA
BANKING DIVISION

ROBERT A. MAMPEL
State Commissioner of Banks

Date 12-9-75

STATE OF MINNESOTA

COUNTY OF RAMSEY

BEFORE ROBERT A. MAMPEL
COMMISSIONER OF BANKS

In the matter of the Proposed Adoption of Rules of the State Banking Division Governing Credit Unions; kinds of liens credit unions may take upon real estate as security for loans.

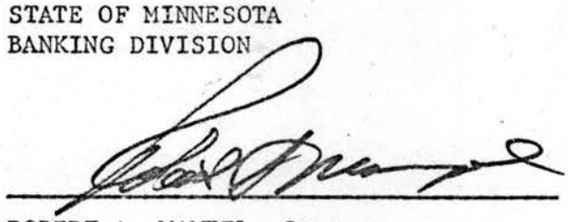
ORDER ADOPTING RULES

The above-entitled matter came on for hearing before the Hearing Examiner, duly appointed by the Commissioner of Banks of the State of Minnesota, on the 24th day of October, 1975, at 9:00 A.M. in the Department of Commerce Hearing Room, Fifth Floor, Metro Square Building, 7th and Robert Streets, Saint Paul, Minnesota, after proper notice required by Laws of Minnesota, 1975, Chapter 380, Section 2, Subd. 4, was served upon all persons, associations and other interested groups registered with the Secretary of State for that purpose.

After affording interested persons an opportunity to present written and oral data, statements and arguments, having reviewed all the testimony, having considered all the evidence adduced and upon the records, files and proceedings herein, and applicable statutory standards or criteria, and having confirmed the need for the above-captioned rules,

NOW, THEREFORE, IT IS ORDERED that these rules identified as Minnesota Regulations BD 139 are adopted this 12-9-75 day of December, 1975, pursuant to authority vested in me by Minnesota Statutes, Sections 46.04, 46.05, 52.06 (1974) and Minn. Laws 1975, Chapter 380, Sec. 2.

STATE OF MINNESOTA
BANKING DIVISION



ROBERT A. MAMPEL, State
Commissioner of Banks

Date 12-9-75

STATE OF MINNESOTA

COUNTY OF RAMSEY

BEFORE BERTON W. HEATON
CHAIRMAN OF COMMERCE COMMISSION

In the Matter of Proposed Rules of the State Banking Division Governing Credit Unions; Kinds of Liens Credit Unions May Take Upon Real Estate as Security for Loans.

CERTIFICATE
OF
APPROVAL

I, Berton W. Heaton, Chairman of the Commerce Commission of the State of Minnesota, pursuant to the authority granted by Minnesota Statutes, Section 45.021 (1974), hereby certify my approval of the above-entitled proposed rules and regulations of the State Banking Division governing Credit Unions, as ordered adopted by Commissioner Robert A. Mampel on December 9, 1975.

STATE OF MINNESOTA
COMMERCE COMMISSION

Berton W. Heaton

BERTON W. HEATON
Chairman of Commerce Commission

STATEMENT OF COMPLIANCE WITH

MANUAL OF RULE MAKING PROCEDURES

I, Special Assistant Attorney General Roderick I. MacKenzie, do hereby declare that I have examined the proposed rules and all related documents and that, based on them and my personal familiarity with the applicable procedures, the Manual of Rule Making Procedures has been followed. Any exceptions are noted below.

Roderick I. MacKenzie

SPECIAL ASSISTANT ATTORNEY GENERAL

Dated: December 9, 1975

IBM Mid America EMPLOYEES CREDIT UNION
3605 Highway 52 North
ROCHESTER, MINNESOTA 55901

BANKING DIV
OCT 24 12 41 PM '75

October 23, 1975

Mr. Robert Mampel
Banking Commissioner
State of Minnesota
St. Paul, MN 55155

Dear Commissioner Mampel:

This Credit Union is vitally interested in obtaining permission to secure loans with real estate on a second mortgage basis.

You are well award we are located in a rural area where land is very valuable; and if we were able to use real estate on a second mortgage basis, we could be of great help to our members, and the Credit Union would have much better security.

Very truly yours,

W. R. Utecht

W. R. Utecht
Treasurer-General Manager

jh

MINNESOTA TEAMSTERS
CREDIT UNION
2021 HENNEPIN AVENUE EAST
MINNEAPOLIS, MINNESOTA 55413
(612) 331-1686

BANKING DIV
OCT 27 10 AM '75

October 24, 1975

Hearing Examiner
c/o Supervisor of Credit Unions
5th Floor
Metro Square Building
St. Paul, MN 55101

Dear Sir:

We are enclosing herewith written testimony, which was delivered verbatim before the Hearing Examiner concerning the Proposed Amendments and Additions to Credit Union Rules and Regulations BD139, on October 24, 1975, with only one ( ) exception.

On behalf of the Members and Directors of the Minnesota Teamsters Credit Union and particularly all credit unions of smaller asset size and structure (without the benefit of an FHA Insured Program), I would like to briefly speak in general support of the proposed amendments and additions to the credit union rules and regulations.

Perhaps of paramount importance to smaller credit unions which have not in the past been of sufficient size to handle first real estate mortgages is the fact that they can, with the adoption of the proposed changes, now be of service to their members in an area where they have the dollars to help but have not, in the past, had a sound or legal basis for advancing monies by using a second lien instrument as security for the loan.

Time and again I feel managers and directors of credit unions have been confronted with the opportunity to provide a meaningful service to a long-established financially sound member but have been unable to do so because the alternative collateral has been insufficient or the credit union is not monetarily in a position to take over a first mortgage!

In many cases the credit union member does not wish to lose a lower than market first mortgage interest rate to accomodate some other pressing financial need. In these times of high inflation the working men and women of Minnesota need as much help and service as they can get from their credit union, and I would urge the adoption of the proposed amendments and additions to credit union rules and regulations!

Respectfully submitted,

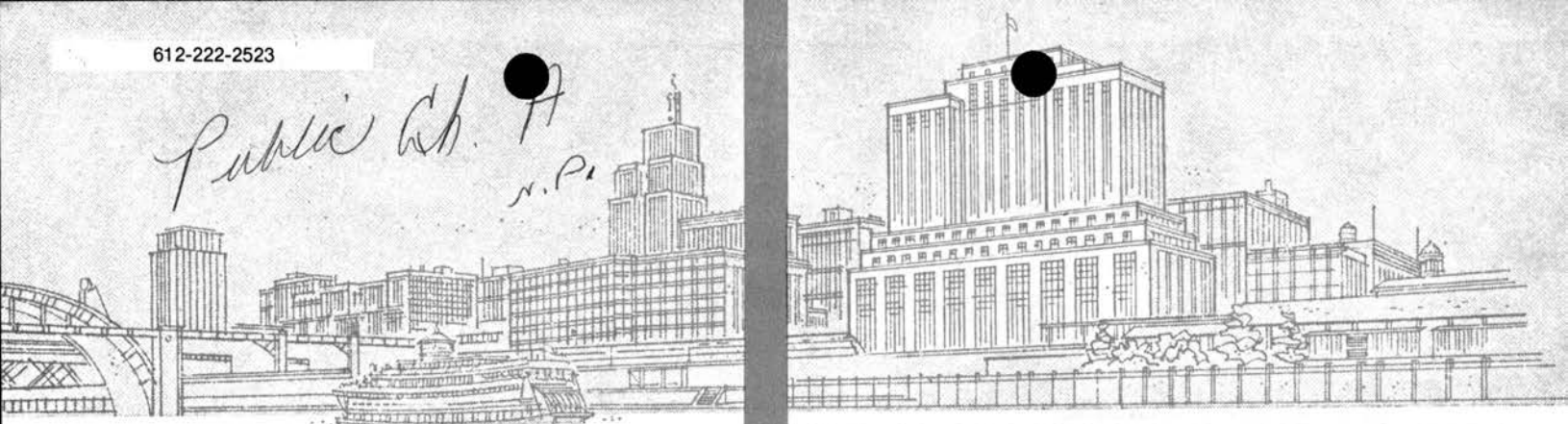
Dennis M. Anderson

Dennis M. Anderson
Treasurer-Manager

DMA/sg

612-222-2523

Public Ch. 7 N.P.



ST. PAUL POSTAL EMPLOYEES
CREDIT UNION

600 MAIN POST OFFICE BLDG. - 180 E. KELLOGG BLVD.
ST. PAUL, MINNESOTA 55101

October 24,1975

Presently the Federal Housing Administration allows lenders to lend up to $10,000 for approved home improvements on single family dwellings. However, to go beyond $7,500 a second mortgage or other valid lien must be filed against the improved property.

Present Banking Department regulations prohibit the granting of second mortgages unless we already hold the first mortgage. Also, a complete title examination, and appraisal and title insurance coverage is required on the second mortgages. These regulations place a serious restriction upon the ability of our Credit Union to grant desireable loans in excess of $7,500.

By being unable to lend in excess of $7,500 we are compelled to either send the members to other lending institutions who are allowed to lend up to $10,000 or grant a personal loan for the amount over $7,500.

Alvin W. Tschirley

Alvin W. Tschirley
General Manager
St.Paul Postal Employees Credit Union

Public Ex. B N.S.

TESTIMONY OFFERED IN BEHALF OF THE PROPOSED ADOPTION OF RULES OF THE STATE BANKING DIVISION GOVERNING CREDIT UNIONS, IN THE MATTER OF KINDS OF LIENS CREDIT UNIONS MAY TAKE UPON REAL ESTATE AS SECURITY FOR LOANS.

I am Albert J. Louismet, representing the Sheet Metal Workers Local 76 Credit Union of St. Paul.

I would like to talk in support of the regulation change. In order for our Credit Union to fully give its members the benefit of the expanded limits set forth by the Federal Government pertaining to the F H A Title 1 loans, it is needed. In order for a Credit Union to give a member anything over $7,500.00 a filing must be made on the particular piece of property being improved, which at this time we are unable to do unless we have a first mortgage on the said property.

Because of the high cost of home repairs it is very easy to go over the $7,500.00 limitation.

In one case which I can cite, a member came in needing a $9500.00 loan. In order to serve him we had to give him a $7400.00 FHA Title 1 Loan plus a personal $2100.00 loan. This made him responsible for two loans and two loan payments, which in the future could work a burden on him. The only other alternative would have been to send this member to outside sources such as a bank that has the unfair advantage over Credit Unions of being able to make these loans at this time. But our members prefer to stay with their own Credit Union, which has their best interests at heart.

So with these few comments, I will urge that the proposed changes be adopted.

Albert J. Louismet
Sheet Metal Workers Local 76 Credit Union

Albert J. Louismet

Public Hearing

Friday, October 24, 1975

STATEMENT OF RICHARD YOUNG, LEAGUE MANAGER OF THE MINNESOTA LEAGUE OF CREDIT UNIONS, CONCERNING THE PROPOSED ADOPTION OF RULES OF THE STATE BANKING DIVISION GOVERNING CREDIT UNIONS IN REGARD TO THE KINDS OF LIENS THAT CREDIT UNIONS MAY TAKE UPON REAL ESTATE AS SECURITY FOR LOANS.

My name is Richard Young. I am the League Manager of the Minnesota League of Credit Unions, 575 University Avenue, St. Paul, Minnesota.

The Minnesota League of Credit Unions is composed of approximately 300 credit unions which operate in the State of Minnesota.

In total, there are approximately 360 credit unions in the State of Minnesota. Of the 360, approximately 300 credit unions are state chartered, and approximately 60 are federally chartered credit unions.

The state chartered credit unions have assets of $ 473,240,766 , and a membership of 408,344 . The total number of personal loans and real estate loans outstanding, as of 1974, was $ 346,083,191 . The total number of borrowers from all of these approximately 360 credit unions, as of 1974, was approximately 194,054 .

I am stating these statistics for the benefit of the record for the purpose of showing to the Commissioner of Banks the scope of the membership and loan activity of credit unions.

We are very pleased to support the proposed amendment to Regulation 139 of the Banking Division. Regulation 139--known as BD 139--concerns loans.

Previously, BD 139 (b) had stated that real estate mortgage loans made by credit unions must be secured by a first lien. Therefore, under the regulations in effect in the past, second or junior mortgage liens were not permitted unless the credit union owned all prior liens.

Under the former rules, a great number of credit union members were not able to secure loans from the credit union, even

though those members may have had a substantial equity in their home, or a substantial equity in their lakeplace or recreational home. If the credit union member had his first mortgage with some other financial institution, then, under the previous Banking Division Regulation, the credit union was prohibited from making a loan to such a member on the security of his real estate.

Of course, it would have been possible for the credit union to loan funds to the member so that the member could pay off the real estate mortgage at the other financial institution and take out a new mortgage with the credit union. During recent years, such a course would have been unwise because often the existing mortgage on the property held a low interest rate. Therefore, credit unions did not want their members to re-finance at a higher rate.

Under the previous regulations, loans were denied to a great number of credit worthy members. Credit union members, with good credit experience, found themselves unable to receive loans which their real estate as security, if that real estate involved a second or junior lien.

The proposed amendments will allow credit unions to take a second lien if the proposed loan and the balance of the first lien do not exceed 80% of the current appraised value. This, of course, would solve the problem that I mentioned above dealing with the borrower's equity in his home as a mortgagable asset. We believe that the 80% rule is fair and reasonable, and will provide a credit source to qualified borrowers who have hitherto not been able to borrow funds because of the rule against second mortgages.

The proposed rule provides that the second lien can be taken if the credit union complies with three other requirements, i.e.:

1. The credit union must rely primarily on other security.

2. The loan must be a "non-automobile" loan.

3. The loan must be in a principal amount of $3,000.00 or more; however, this limitation does not apply to second mortgages for home improvement loans. In other words, home improvement loans of $3,000.00 or less can be made on the security of second mortgages.

The proposed regulations also allow credit unions to take a junior lien--i.e., conceivably, a third or fourth mortgage--in certain limited circumstances, the most important of which is that a credit union can take such a junior lien if the loan is guaranteed or insured, in whole or in part, by the United States Government.

The fact that home improvement loans, even though less than $3,000.00, can be secured by a second real estate mortgage will make more funds available to credit union members for loans; and it will avoid the previous practice which has occurred of re-financing previous low interest loans in order to secure funds for home improvements.

The fact that second mortgages can also be taken by the credit union for loans in excess of $3,000.00 will also assist the borrowing needs of credit union members, especially when they own a substantial equity in their home or recreational home.

The proviso regarding junior liens guaranteed or insured, in whole or in part, by the United States Government will also make credit available to those who could not receive it under the former banking regulations. Credit unions should be able to make loans secured by third of fourth real estate mortgages, if that loan is guaranteed or insured by the United States Government. Credit union assets are not at risk if the loan contains such a guarantee.

There are some small changes which appear to us to be typographical in nature, which might clarify the rules. These changes would be as follows:

1. Lines 20 and 21 on Page 1 should read as follows:

"(c) A second lien ~~if:~~, not within the scope of (b) above, if:

(i) the ~~sum~~ amount of the loans plus the remaining balance on the first"

2. Lines 17 through 19 on Page 1 should read as follows:

"The United States, including any corporation wholly owned ~~or~~ indirectly or

directly the the United States. ~~and~~ Such loans shall not be subject to the restrictions or

limitations imposed by BD 139 upon loans secured by real estate, or"

3. Line 4 on Page 2 should read as follows:

"(5) Title. In the case of abstract title property, the loan file for the first mortgage should"

4. Line 9 on Page 2 should read as follows:

"and original note and either the owner's duplicate certificate of title or the"

5. Line 14 on Page 2 should read as follows:

"stating that the credit union mortgage is a ~~first and~~ valid lien on the property"

Credit unions need each and every item set forth in the proposed rule changes.

In summary, we support the proposed regulations. Thank you for your courtesies.