

Minnesota Attorney General: Administrative Rules Proceedings

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Version 3
August 20, 2018

Our File No. 1058

RULE REVIEW CHECKLIST

DATE RULE RECEIVED 8-16-84
DATE FOR REVIEW 8-25-84
DATE DUE 8-30-84

Adopted w/a hearing _____
Adopted w/o hearing ✓
Temporary rule _____

Approved _____ Disapproved 8-30-84 (205.) Returned to Agency _____

Resubmitted _____ Due _____
Approved _____ Disapproved _____ Returned to Agency _____

Date filed w/Secretary of State _____ Revisor approved 8/17/84 disapproved _____

✓ Rule as Adopted

✓ Rule as Proposed

✓ Order Adopting 8.9.84 Date ? cites authority for rule which appears inappropriate

_____ Notice of Intent to Solicit Outside Opinion

✓ Order for rulemaking
N/A date of Hearing

N/A Certificate of Board's Authorizing Resolution

✓ Notice of rulemaking
? Sufficiency misciites statutory authority for rule + other problem see Cert of Compliance

✓ Affidavit of Mailing Notice or rulemaking
5.31.84 At least 30 days prior to ~~hearing~~/adoption

✓ Mailing list Certificate

✓ Publication in State Register
6.4.84 At least 30/~~20~~ days prior to ~~hearing~~/adoption same misciitation as mailed notice

N/A Hearing Examiner's Report

_____ Chief Hearing Examiner's Report(s)
_____ Approving H.E.'s Report
_____ Approving agency action

_____ Agency's Findings of Fact

_____ LCRAR Report or agency Affidavit

_____ Certificate of Board's Resolution Adopting Rules

✓ Order Approving Incorporation by Reference

? Statement of Need and Reasonableness with respect to certain rules does not provide rationale. No small biz statement.

N/A Petition for Adoption of a Rule

✓ Record (includes transcript or tape, exhibits, comments received by agency, requests for a hearing, and other relevant materials)

✓ Certificate of Compliance w/Rulemaking Procedures notes exceptions to APA

? Affidavit of Mailing Notice of Submission to Attorney General

? Notice of Submission to the Attorney General
date of submission given is seven days prior to actual submission date

SF-00006-02

STATE OF MINNESOTA

DEPARTMENT ATTORNEY GENERAL

Office Memorandum

TO : MICHAEL A. HATCH
Commissioner of Commerce

DATE: August 31, 1984

ATTN: GREGORY P. HUWE
Special Assistant Attorney General

FROM : LARRY D. STARNS
Special Assistant Attorney General

PHONE: 297-3493

SUBJECT: Department of Commerce: Amendments of Rules Governing Credit Unions

The above-referenced rules have not been approved for the following reasons:

1. The Statement of Need and Reasonableness in large part merely recites the nature of the amendment to the rules without referencing why the rules need amending and why the proposed amendment is a reasonable method of accomplishing the purpose of the amendment. A new more comprehensive Statement of Need and Reasonableness must be prepared and made available to the public prior to adoption of the rules in order to comply with Minnesota Rules pt. 2000.0400, subp. 1.G (1983).

2. The Notice of Rulemaking violates Minnesota Rules pt. 2000.0400, subp. 1.I (1983) by failing to correctly cite the Agency's statutory authority for adopting these rules. The authority cited, Minnesota Stat. §14.22, is applicable only with respect to the notice of requirements for rulemaking. It does not, as does Minnesota Stat. §46.01, subd. 2, provide the direct delegation of authority to the Agency to promulgate these rules to carry out its Statutory function. Without the correct reference, the Notice is ineffectual in alerting the public to the authority which enables this Agency to promulgate these rules. A new Notice of Rulemaking, which refers the public to the correct statute authorizing these rules, must be drafted and disseminated prior to adoption of the rules.

After consideration of the above comments and agency action, if any, these rules may be resubmitted for our review. Upon resubmission, please include a new or supplemental Order Adopting and four copies of the new Rules as Adopted. Also, please include a memorandum specifying that the rules are being re-submitted so that we may obtain our initial file in this matter.

If you have any questions concerning the issues raised in this memorandum, please do not hesitate to call me.

LDS:cb

cc: Duane Harves
Kathy Burek
Paul Marinac

Department of Commerce

Adopted Rules Governing Credit Unions

Rules as Adopted

2675.6100 BOOKS, RECORDS, AND REPORTS.

Subpart 1. [See repealer.]

Subp. 2. **Data processing off premises.** Any credit union receiving recordkeeping services from another credit union or from a service corporation shall provide a certificate from the other credit union or service corporation, stating its agreement to perform the services in compliance with Minnesota Statutes, section 52.06. The certificate must acknowledge that it is subject to regulation and examination to the same extent as if the services were being performed by the credit union on its premises.

Subp. 2a. **Daily closing.** Credit unions that maintain in excess of $500,000 in accounts subject to draft withdrawal shall post all assets and liabilities daily.

Subp. 3. **Semiannual audit.** The supervisory committee shall file a report in duplicate on forms furnished by the Department of Commerce, within 30 days after the date of each semiannual audit.

Subp. 4. **Commingled funds.** All cash receipts and assets of the credit union must be kept intact and separate from other funds.

Subp. 5. [See repealer.]

Subp. 5a. **Statement of accounts.** A statement of account that itemizes all transactions must be issued at least monthly for sharedraft accounts. A statement must be issued at the end of a dividend period on all other accounts, except that a statement need not be issued more often than quarterly and must be issued at least annually.

Subp. 5b. **Inactive and segregated accounts.** If the board determines that an account is inactive and segregated, it must be issued a statement at least annually. Statements on inactive

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accounts must be issued under the control of the supervisory committee.

Subp. 5c. **Passbooks.** When issued, passbooks must show the current position of shares, deposits, and loans. The credit union shall annually notify members to bring passbooks into the credit union office for current posting. A credit union may not hold a passbook.

Subp. 6. **Issuing account numbers.** A number must be assigned to each member in sequence upon his election to membership, and that number may never be reissued to another member. Each member's assigned number must appear on his individual record of accounts for shares, deposits, and loans.

2675.6110 PURCHASE OF REAL ESTATE.

A credit union may not purchase real estate other than for credit union premises.

2675.6111 INVESTMENTS IN CREDIT UNION PREMISES.

Investments in credit union premises or leasehold investments may not exceed 50 percent of total reserves of the credit union unless the Department of Commerce grants a prior approval.

2675.6120 OTHER REAL ESTATE.

Subpart 1. **Transfers.** Whenever real estate is acquired by a credit union through foreclosure or by deed in lieu of foreclosure, it must be transferred from loans to an account titled "other real estate" on the date upon which the credit union actually acquired title.

Subp. 2. **Repair and restoration costs.** Costs of repairs and costs of restoration of the property may not be added to the real estate account, unless the expenditures are for permanent improvements. Taxes delinquent when title is acquired may, when paid by the credit union, be added to the book value of the property.

Subp. 3. **Additions to book value.** Additions to book value may not be made after the date of sale in cases of foreclosure except as noted in subpart 2. If a deed is taken in lieu of

foreclosure, real estate must be carried at a figure not exceeding the balance due on the mortgage, plus delinquent taxes and assessments paid by the credit union at the time of acquiring title.

Subp. 4. **Sale of other real estate.** A credit union may finance the sale of other real estate or credit union premises under the terms and conditions available to any seller or owner of real property. A profit on the sale of other real estate sold on contract is considered deferred profit and must be held in reserve to be realized after two consecutive years of contracted payments have been made.

Subp. 5. **Unsold other real estate.** Other real estate that is not sold must be charged off annually through earnings at the rate of at least ten percent of the original amount. The first charge off must be based on the number of full months in which other real estate was booked.

2675.6141 REAL ESTATE MORTGAGES.

Subpart 1. **Loans.** Credit unions may make loans upon the security of real estate if it is a first lien on the real estate. Additionally, credit unions may take a junior lien if the loan is made:

A. to secure debts previously contracted;

B. if at least 80 percent of the principal balance is guaranteed or insured by a governmental agency or nationally recognized insurer;

C. to secure a loan if the total unpaid aggregate of all outstanding liens against the same real estate, including the credit union's proposed lien, does not exceed 80 percent of its appraised value. A loan made under Minnesota Statutes, section 52.165 is deemed to comply with this rule if it was in compliance at the date of its origination.

Subp. 2. **Appraisal report.** Real estate appraisal reports are required for each mortgage. The appraisal and the reasonableness of its accuracy is the responsibility of the credit committee or, in the absence of a credit committee, the board of directors. The appraisal report and its acceptance by

the board or credit committee must be made part of the mortgage file.

Subp. 3. **Valid lien.** An attorney's opinion or a title insurance policy is required on all real estate loans and must describe the status of fee title, the validity of the credit union's lien, and the position of the lien.

Subp. 4. **Insurance.** Evidence of adequate insurance with loss payable clause payable to credit union is required for mortgages on improved property.

Written binders of insurance are acceptable evidence of insurance. A credit union may not refuse to accept a binder tendered at the time of closing as evidence of insurance coverage required as a condition of a loan agreement; provided that the binder conforms with usual and customary conditions as to designation of loss payee and mortgagor.

Subp. 5. **Fees.** As specified by board policy, a credit union may require members to pay fees in connection with the making, closing, disbursing, extending, readjusting, or renewing of real estate loans. Upon acceptance of an application for a real estate loan, the borrower shall be provided with an estimate of all costs other than interest authorized by law. Additionally, the applicant shall be provided with an estimate of costs to be refunded in the event the loan is not granted.

Subp. 6. **Exempt loans.** Real estate lending policies may exclude the title perfection requirements of part 2675.6141 on advances of $7,500 or less. These loans will not be considered real estate secured loans for examination purposes or for purposes of transferring or imposing fees as provided by part 2675.6141, subpart 5.

2675.6142 PERSONAL LOANS.

Subpart 1. **Fees.** Charges, other than interest authorized by law, may not be made for any non-real estate loan except that there may be charged to the borrower or included in the amount financed:

A. Fees paid or to be paid by the credit union to any public officer for filing, recording, or releasing in a public

office an instrument securing the loan.

B. Premiums or charge for insurance protecting the lender against the risk of loss from not filing or recording a security agreement or financing statement and in lieu of filing the agreement or statement. The premium or charge may not exceed the actual premium or charge made by the insurance company to the lender or the actual costs if the documents were filed, recorded, or released in any public office.

C. The premium on any life, accident and health, property, or other insurance written upon or in connection with a loan; provided notification is given in writing that the borrower has the option of furnishing this coverage through existing policies of insurance owned or controlled by him or of furnishing the coverage through any insurer authorized to transact business in this state. The premium may not be included as part of the loan and must be accounted for as a separate receivable unless advanced as part of the principal at the time of origination or payments are increased to provide amortization of the premium within the original maturity of the loan.

Subp. 2. **Financial statements.** An unsecured loan in an amount indicated below must be supported by a signed financial statement of the borrower, comaker, and guarantors that lists the assets and obligations and shows the net worth of the borrower, comaker, or guarantor:

A. an unsecured loan in excess of $1,500 in a credit union with assets of less than $1,000,000;

B. an unsecured loan in excess of $3,000 in a credit union with assets of $1,000,000 to $10,000,000; or

C. an unsecured loan in excess of $5,000 in a credit union with assets of $10,000,000 or more.

Current financial information is also required on loans which the commissioner or his examiners consider inadequately secured. The loan application must show the estimated value of any collateral offered at the time a loan is granted.

2675.6143 DELINQUENT LOANS.

Subpart 1. **Installment loans.** A note due on a monthly installment basis must be scheduled for delinquency. The whole principal balance is considered past due if any portion of an installment remains unpaid 60 days after the scheduled payment date. Delinquent loans must be shown by categories coded as follows:

A. 60 days to 180 days, code A;

B. 181 days to 364 days, code B; and

C. 365 days or more, code C.

Subp. 2. **Single payment loans.** A single payment loan is considered past due the next day after maturity and must be coded past due from that date according to the schedule in subpart 1.

Subp. 3. **Extensions.** A loan is not considered current by extension unless accrued interest has been paid to the date of extension. Special consideration for unusual circumstances affecting the general membership may be permitted by a detailed application to the Department of Commerce.

Subp. 4. **Delinquent loan report.** A detailed report on delinquent loans must be reviewed at each board meeting and made a part of the minutes. The report must include a summary of collection activity, the number of new additions to the delinquent loan list, and a review of loans on the prior month's delinquent loan list which have been extended or rewritten. The board shall verify by direct examination or otherwise that the record of delinquent loans is reasonably accurate.

Subp. 5. **Delinquent loan reserve requirement.** Before declaration of a dividend the board of directors shall ascertain that the statutory reserve as of the date of declaration exceeds the sum of:

A. ten percent of code A loans;

B. 25 percent of code B loans; and

C. 100 percent of code C loans.

No net earnings or undivided earnings may be used to pay dividends until the statutory reserve exceeds the above calculations or the commissioner of commerce has approved

payment.

Subp. 6. Interest earned not collected. Interest earned not collected reflected on a credit union's books under the accrual method of accounting may not be continued on a loan which is more than 90 days delinquent. Accrued interest must be reversed to earnings or undivided profits at the time a loan is charged off to the statutory reserve fund or at the time an allowance for loan losses is established.

2675.6180 BOARD OF DIRECTORS.

Subpart 1. Change. Notice of any change in officers, directors, or committee members between annual meetings must be forwarded to the Department of Commerce within ten days of the effective date of the change.

Subp. 2. Review of examiner's report. When the examiner's report is received by a credit union, it must be reviewed by the board of directors at a regular or special meeting and a reply must be submitted to the Department of Commerce within 60 days of the receipt of the report or as instructed in the transmittal letter. The letter from the Department of Commerce which accompanies the report must also be read at the directors' meeting.

Subp. 3. [See repealer.]

Subp. 4. Minute book. The minutes of any meeting must be written up as soon as practicable and signed by the secretary and the presiding officer at the next meeting upon approval. The minutes must be kept in a book and be available along with the credit union records for inspection by the commissioner of commerce or his representatives at all times with or without previous notice.

2675.6210 ASSET RECEIPT.

Whenever it becomes necessary to remove any asset from the files for any reason whatsoever, a properly executed receipt attached to a copy of the asset must replace it.

2675.6220 CHARGED OFF ASSETS.

A record of all assets charged off, either to the statutory

reserve fund or undivided earnings, along with recoveries thereto must be maintained. This record must be available to the examiners at each examination.

2675.6230 FURNITURE AND FIXTURES ACCOUNT.

Purchases capitalized to the furniture and fixtures account shall be amortized at the minimum rate of ten percent annually, unless exception is made by the commissioner of commerce. The charge off may be based on the number of full months in which the item was capitalized. Adequate records must be maintained to facilitate a determination of the unamortized amount of each capitalized item.

2675.6250 FIDELITY BONDS.

Subpart 1. **Minimum provisions.** A credit union operating under Minnesota law is required to be protected by a blanket bond with the following provisions: all officers, committee members, employees, bank messengers, and attorneys representing the credit union shall be covered by the bond. The credit union shall be protected against losses from a lack of honesty, burglary or robbery, forgery or alteration, and misplacement or mysterious and unexplainable disappearance. The amount of the bond must be not less than 100 percent of assets up to $2,000,000. The bond must be approved by the Department of Commerce. The bond must provide that the commissioner of commerce will be given notice of pending cancellation within 60 days of final termination.

Subp. 2. [See repealer.]

Subp. 3. **Table of maximum deductibles.** A bond may include a deductible provision for the following amounts:

Assets	Maximum Deductible
0 to $100,000	$ 0
$100,001 to $250,000	500
$250,001 to $500,000	750
$500,001 to $750,000	1,000
$750,001 to $1,000,000	1,500

$1,000,001 to $2,000,000	2,000
$2,000,001 to $3,000,000	3,000
$3,000,001 to $5,000,000	4,000
Over $5,000,000	5,000

2675.6270 INVESTMENTS.

Subpart 1. **Records required.** During the period in which investments are carried on a credit union's books, original invoices of bond purchases and sales must be retained as a part of the records of a credit union. A record must be maintained of all securities bought and sold showing date of purchase or sale, interest rate, maturity, par value, description, from whom purchased, to whom sold, selling price, and where deposited for safekeeping. Any investment, other than United States governments direct and/or guaranteed, must be supported by full credit information at the time of purchase (dealer's circular or prospectus).

Subp. 2. **Bond price exceeding par.** Purchase of a bond at a price exceeding par is prohibited, unless the credit union shall:

A. charge off the premium when the securities are placed on the books;

B. provide for the regular amortization of the premium paid so that the premium shall be entirely extinguished at or before the maturity of the security and the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security; or

C. set up a reserve account to amortize the premium, said account to be credited periodically with an amount not less than the amount required for amortization under item B.

Subp. 3. **Charges.** Accrued interest paid on securities must be charged to interest received under the cash basis of accounting. Bond commissions and all costs of sales or purchase must be charged to expense.

Subp. 4. **Security at price less than par.** Upon the purchase of a security at a price less than par, the credit

union shall place the security on its books at cost and may provide for the regular accretion of the discount, ratably over the period from purchase to maturity of the security.

2675.6290 INSURANCE.

Subpart 1. **Insurance agency.** A credit union may establish, operate, or maintain an insurance agency as a separate corporation or agency within its physical premises.

Subp. 2. **Policyholder.** A credit union may be the policyholder of either a group insurance plan or a subgroup under a master policy plan.

Subp. 3. **Remission of premiums.** Premiums may be remitted by the credit union to an insurer or the holder of a master policy on behalf of a credit union member provided that the credit union has obtained written authorization from the member.

Subp. 4. **Election by member.** Where a credit union is engaged in the facilitation of its members' voluntary purchase of insurance incidental to the borrowing of money, including but not limited to fire, theft, automobile, life, and temporary disability insurance, a member shall be given the elective of purchasing any required insurance from the vendor of his choice, and the members' file shall contain his signed written elective.

Subp. 5. **Canceled insurance.** If the insurance is canceled, the unearned premium shall be paid to the member or credited to the member's share or deposit or loan account.

2675.6301 CERTIFIED PUBLIC ACCOUNTANT REPORT IN LIEU OF EXAMINATION.

Subpart 1. **Request for approval.** A credit union may request prior approval by the Department of Commerce to submit a certified public accountant report in lieu of examination. If approval is given, the department retains the authority to reject the report if it is inadequate by the standards of the department.

Subp. 2. **Contents of report.** A report submitted in lieu of examinations must include a balance sheet examination and the classifying of assets in a manner consistent with Department of

Commerce credit union examinations. The report must be submitted on the same forms and in the same manner that Department of Commerce credit union examiners employ.

REPEALER. Parts 2675.6100, subparts 1 and 5; 2675.6130; 2675.6140; 2675.6150; 2675.6160; 2675.6170; 2675.6180, subpart 3; 2675.6190; 2675.6240; 2675.6250, subpart 2; 2675.6280; 2675.6300; and 2675.9910 of the Department of Commerce are repealed.

OFFICE OF THE REVISOR OF STATUTES

Certificate of Approval of Adopted Rules

AR0482

Agency: Department of Commerce

Division:

Agency Contact: Allyn Long 297-2750

Minnesota Rules: Parts 2675.6100, 2675.6110, 2675.6111, 2675.6120, 2675.6141, 2675.6142, 2675.6143, 2675.6180, 2675.6210, 2675.6220, 2675.6230, 2675.6250, 2675.6270, 2675.6290, and 2675.6301

Title: Adopted Rules Governing Credit Unions

Type of Rules: Permanent

Incorporations by Reference: None

Steven C. Cross
Revisor of Statutes

Maryanne Hruby
Assistant Revisor
Phone: 297-2948
Date: August 17, 1984

OFFICE OF THE REVISOR OF STATUTES

Proposed Rule

RD482

Agency: Department of Commerce

Division:

Agency Contact: Allyn Long 297-2750

Minnesota Rules: Parts 2675.6100, 2675.6110, 2675.6111, 2675.6120, 2675.6141, 2675.6142, 2675.6143, 2675.6180, 2675.6210, 2675.6220, 2675.6230, 2675.6250, 2675.6270, 2675.6290, and 2675.6301

Title: Proposed Rules Governing Credit Unions

Type of Rules: Permanent

Incorporations by Reference: None

Duplication of Statutory Language: None

Steven C. Cross
Revisor of Statutes

Maryanne Hruby
Assistant Revisor
Phone: 297-2948
Date: May 10, 1984

Rules as Proposed

2675.6100 BOOKS, RECORDS, AND REPORTS.

Subpart 1. [See repealer.]

Subp. 2. **~~Recordkeeping services~~** Data processing off premises. Any credit union receiving recordkeeping services from another credit union or from a service corporation shall provide ~~the following:~~

~~A.~~ a certificate from the other credit union ~~receiving such services~~ or service corporation, stating ~~that it will comply~~ its agreement to perform the services in compliance with ~~the provisions of~~ Minnesota Statutes, section 52.06 ~~and giving full assurance that the performance of such recordkeeping services by the other credit union, or the respective clerical service corporation (name of either to be given), will be subject to Banking Division rules in the same manner as if such services were being performed by the credit union itself and on its own premises;~~

~~B. a certificate to be furnished by the credit union furnishing such clerical services, or the clerical service corporation, agreeing as to performing such services as outlined in Minnesota Statutes, section 52.06 that its performance thereof will be subject to regulation and examination by the commissioner of banks to the same extent as if such services were being performed by the serviced credit union itself on its own premises.~~ The certificate must acknowledge that it is subject to regulation and examination to the same extent as if the services were being performed by the credit union on its premises.

Subp. 2a. Daily closing. Credit unions that maintain in excess of $500,000 in accounts subject to draft withdrawal shall post all assets and liabilities daily.

Subp. 3. Semiannual audit report. The supervisory committee shall file a report in duplicate on forms furnished by the ~~commissioner of banks~~ Department of Commerce, within 30 days after the date of each semiannual audit.

Subp. 4. ~~Cash receipts and assets~~ Commingled funds.

APPROVED IN THE REVISOR OF STATUTES OFFICE BY:
MVH

Cash receipts and assets of the credit union must be kept intact and ~~not-commingled-with-any~~ separate from other funds ~~under-any circumstances~~.

Subp. 5. [See repealer.]

Subp. 5a. Statement of accounts. A statement of account that itemizes all transactions must be issued at least monthly for sharedraft accounts. A statement must be issued at the end of a dividend period on all other accounts, except that a statement need not be issued more often than quarterly and must be issued at least annually.

Subp. 5b. Inactive and segregated accounts. If the board determines that an account is inactive and segregated, it must be issued a statement at least annually. Statements on inactive accounts must be issued under the control of the supervisory committee.

Subp. 5c. Passbooks. When issued, passbooks must show the current position of shares, deposits, and loans. The credit union shall annually notify members to bring passbooks into the credit union office for current posting. A credit union may not hold a passbook.

Subp. 6. ~~Individual ledger cards~~ Issuing account numbers. A number ~~shall~~ must be assigned to each member in sequence upon his election to membership, and ~~no such~~ that number ~~shall ever~~ may never be reissued to ~~any other~~ another member. Each member's assigned number ~~shall~~ must appear on his ~~passbook and~~ individual ~~ledger card~~ record of accounts for shares, deposits, and loans. ~~All ledger cards must be kept so that the year can be readily ascertained.~~

2675.6110 PURCHASE OF REAL ESTATE.

No A credit union ~~shall~~ may not purchase real estate ~~unless approved by the commissioner of banks~~ other than for credit union premises.

2675.6111 INVESTMENTS IN CREDIT UNION PREMISES.

Investments in credit union premises or leasehold investments may not exceed 50 percent of total reserves of the

APPROVED IN THE REVISOR OF STATUTES OFFICE BY:

credit union unless the Department of Commerce grants a prior approval.

2675.6120 OTHER REAL ESTATE.

Subpart 1. Transfers. Whenever real estate is acquired by a credit union through foreclosure or by deed in lieu ~~thereof~~ of foreclosure, it ~~shall~~ must be transferred from loans to an account titled "other real estate" on the date upon which the credit union actually acquired title.

Subp. 2. Repair and restoration costs. ~~No~~ Costs of repairs ~~or~~ and costs of restoration of ~~such~~ the property may not be added to the real estate account, ~~except such~~ unless the expenditures ~~as represent~~ are for permanent improvements. Taxes delinquent when title is acquired may, when paid by the credit union, be added to the book value of the property.

Subp. 3. Additions to book value. ~~No~~ Additions to book value may not be made after the date of sale in cases of foreclosure except as noted in ~~the preceding paragraph~~ subpart 2. If a deed is taken in lieu of foreclosure, real estate must be carried at a figure not exceeding the balance due on the mortgage, plus delinquent taxes and assessments paid by the credit union at the time of acquiring title ~~thereto~~.

~~When sales are made on a contract for deed at a price exceeding the book value of the real estate, the profit involved shall be considered a deferred profit and held in a reserve account and only credited to actual profit after one third of the purchase price has been paid on the contract, excluding interest payments.~~

~~"Other real estate" must be charged off annually at the rate of at least ten percent of the original amount and the first charge off must be made not later than 12 months after the date of acquisition.~~

Subp. 4. Sale of other real estate. A credit union may finance the sale of other real estate or credit union premises under the terms and conditions available to any seller or owner of real property. A profit on the sale of other real estate sold on contract is considered deferred profit and must be held

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in reserve to be realized after two consecutive years of contracted payments have been made.

Subp. 5. **Unsold other real estate.** Other real estate that is not sold must be charged off annually through earnings at the rate of at least ten percent of the original amount. The first charge off must be based on the number of full months in which other real estate was booked.

2675.6141 REAL ESTATE MORTGAGES.

Subpart 1. **Loans.** Credit unions may make loans upon the security of real estate if it is a first lien on the real estate. Additionally, credit unions may take a junior lien if the loan is made:

A. to secure debts previously contracted;

B. if at least 80 percent of the principal balance is guaranteed or insured by a governmental agency or nationally recognized insurer;

C. to secure a loan if the total unpaid aggregate of all outstanding liens against the same real estate, including the credit union's proposed lien, does not exceed 80 percent of its appraised value. A loan made under Minnesota Statutes, section 52.165 is deemed to comply with this rule if it was in compliance at the date of its origination.

Subp. 2. **Appraisal report.** Real estate appraisal reports are required for each mortgage. The appraisal and the reasonableness of its accuracy is the responsibility of the credit committee or, in the absence of a credit committee, the board of directors. The appraisal report and its acceptance by the board or credit committee must be made part of the mortgage file.

Subp. 3. **Valid lien.** An attorney's opinion or a title insurance policy is required on all real estate loans and must describe the status of fee title, the validity of the credit union's lien, and the position of the lien.

Subp. 4. **Insurance.** Evidence of adequate insurance with loss payable clause payable to credit union is required for mortgages on improved property.

APPROVED BY THE
REVISOR OF STATUTES
OFFICE BY:

Written binders of insurance are acceptable evidence of insurance. A credit union may not refuse to accept a binder tendered at the time of closing as evidence of insurance coverage required as a condition of a loan agreement; provided that the binder conforms with usual and customary conditions as to designation of loss payee and mortgagor.

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Subpart 1. **Fees.** Charges, other than interest authorized by law, may not be made for any non-real estate loan except that there may be charged to the borrower or included in the amount financed:

A. Fees paid or to be paid by the credit union to any public officer for filing, recording, or releasing in a public office an instrument securing the loan.

B. Premiums or charge for insurance protecting the lender against the risk of loss from not filing or recording a security agreement or financing statement and in lieu of filing the agreement or statement. The premium or charge may not exceed the actual premium or charge made by the insurance company to the lender or the actual costs if the documents were filed, recorded, or released in any public office.

C. The premium on any life, accident and health

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property, or other insurance written upon or in connection with a loan; provided notification is given in writing that the borrower has the option of furnishing this coverage through existing policies of insurance owned or controlled by him or of furnishing the coverage through any insurer authorized to transact business in this state. The premium may not be included as part of the loan and must be accounted for as a separate receivable unless advanced as part of the principal at the time of origination or payments are increased to provide amortization of the premium within the original maturity of the loan.

Subp. 2. **Financial statements.** An unsecured loan in an amount indicated below must be supported by a signed financial statement of the borrower, comaker, and guarantors that lists the assets and obligations and shows the net worth of the borrower, comaker, or guarantor:

A. an unsecured loan in excess of $1,500 in a credit union with assets of less than $1,000,000;

B. an unsecured loan in excess of $3,000 in a credit union with assets of $1,000,000 to $10,000,000; or

C. an unsecured loan in excess of $5,000 in a credit union with assets of $10,000,000 or more.

Current financial information is also required on loans which the commissioner or his examiners consider inadequately secured. The loan application must show the estimated value of any collateral offered at the time a loan is granted.

2675.6143 DELINQUENT LOANS.

Subpart 1. **Installment loans.** A note due on a monthly installment basis must be scheduled for delinquency. The whole principal balance is considered past due if any portion of an installment remains unpaid 60 days after the scheduled payment date. Delinquent loans must be shown by categories coded as follows:

A. 60 days to 180 days, code A;

B. 181 days to 364 days, code B; and

C. 365 days or more, code C.

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Subp. 2. **Single payment loans.** A single payment loan is considered past due the next day after maturity and must be coded past due from that date according to the schedule in subpart 1.

Subp. 3. **Extensions.** A loan is not considered current by extension unless accrued interest has been paid to the date of extension. Special consideration for unusual circumstances affecting the general membership may be permitted by a detailed application to the Department of Commerce.

Subp. 4. **Delinquent loan report.** A detailed report on delinquent loans must be reviewed at each board meeting and made a part of the minutes. The report must include a summary of collection activity, the number of new additions to the delinquent loan list, and a review of loans on the prior month's delinquent loan list which have been extended or rewritten. The board shall verify by direct examination or otherwise that the record of delinquent loans is reasonably accurate.

Subp. 5. **Delinquent loan reserve requirement.** Before declaration of a dividend the board of directors shall ascertain that the statutory reserve as of the date of declaration exceeds the sum of:

A. ten percent of code A loans;

B. 25 percent of code B loans; and

C. 100 percent of code C loans.

No net earnings or undivided earnings may be used to pay dividends until the statutory reserve exceeds the above calculations or the commissioner of commerce has approved payment.

Subp. 6. **Interest earned not collected.** Interest earned not collected reflected on a credit union's books under the accrual method of accounting may not be continued on a loan which is more than 90 days delinquent. Accrued interest must be reversed to earnings or undivided profits at the time a loan is charged off to the statutory reserve fund or at the time an allowance for loan losses is established.

2675.6180 BOARD OF DIRECTORS.

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Subpart 1. **Change.** Notice of any change in officers, directors, or committee members between annual meetings must be forwarded to the ~~commissioner of banks~~ Department of Commerce within ten days ~~after such~~ of the effective date of the change.

Subp. 2. **Review of examiner's report.** When the examiner's report is received by a credit union, it must be reviewed by the board of directors at a regular or special meeting ~~within 30 days after its receipt~~ and a reply must be submitted to the Department of Commerce within 60 days of the receipt of the report or as instructed in the transmittal letter. The letter from ~~this~~ the Department of Commerce which accompanies the report must also be read at the directors' meeting. ~~The directors' reply must be on the form attached to the face of the examiner's report. The minutes must show the fact that the directors reviewed the report and also any action taken.~~

Subp. 3. [See repealer.]

Subp. 4. **Minute book.** The minutes of any meeting must be written up as soon as practicable and signed by the secretary and the presiding officer at the next meeting ~~as soon as approved~~ upon approval. ~~They should~~ The minutes must be kept in a book and be available along with the credit union records for inspection by the commissioner of ~~banks~~ commerce or his representatives at all times with or without previous notice.

2675.6210 ASSET RECEIPT.

Whenever it becomes necessary to remove any asset from the files for any reason whatsoever, ~~an authentic~~ a properly executed receipt attached to a copy of ~~such~~ the asset must replace it.

2675.6220 CHARGED OFF ASSETS.

A record of all assets charged off, either to the statutory reserve fund or undivided earnings, along with recoveries thereto must be maintained. This record ~~should be kept current~~ and must be available to the examiners at each examination.

2675.6230 FURNITURE AND FIXTURES ACCOUNT.

Purchases capitalized to the furniture and fixtures account

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shall be amortized at the minimum rate of ten percent annually, ~~with such exceptions as may be~~ unless exception is made by the commissioner of ~~banks~~ commerce. ~~Each such annual charge shall be based on the remaining book value at the end of each year~~ The charge off may be based on the number of full months in which the item was capitalized. Adequate records must be maintained to facilitate a determination of the unamortized amount of each capitalized item.

2675.6250 ~~SURETY~~ FIDELITY BONDS.

Subpart 1. **Minimum provisions.** A credit ~~unions~~ union operating under Minnesota law ~~shall be~~ is required to be protected by a blanket bond with the following provisions: all officers, committee members, employees, bank messengers, and attorneys representing the credit union shall be covered by the bond. The credit union shall be protected against losses from a lack of honesty ~~or a lack of faithful performance~~, burglary or robbery, forgery or alteration, and misplacement or mysterious and unexplainable disappearance. ~~The schedule of basic coverage required shall be as set forth in part 2675.9910~~ The amount of the bond must be not less than 100 percent of assets up to $2,000,000. The bond must be approved by the Department of Commerce. The bond must provide that the commissioner of commerce will be given notice of pending cancellation within 60 days of final termination.

Subp. 2. [See repealer.]

Subp. 3. **Table of maximum deductibles.** A bond may include a deductible provision for the following amounts:

Assets	Maximum Deductible
0 to $100,000	$ 0
$100,001 to $250,000	500
$250,001 to $500,000	750
$500,001 to $750,000	1,000
$750,001 to $1,000,000	1,500
$1,000,001 to $2,000,000	2,000
$2,000,001 to $3,000,000	3,000

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$3,000,001 to $5,000,000	4,000
Over $5,000,000	5,000

2675.6270 ~~INVESTMENT-RECORDS~~ INVESTMENTS.

Subpart 1. **Records required.** During the period in which investments are carried on a credit union's books, ~~it shall be required that:~~

~~A.~~ original invoices of bond purchases and sales must be retained as a part of the records of a credit union~~;~~.

~~B.~~ A record must be maintained of all securities bought and sold showing date of purchase or sale, interest rate, maturity, par value, description, from whom purchased, to whom sold, selling price, and where deposited for safekeeping~~;~~.

~~C.~~ Any investment, other than ~~U.S.~~ United States governments direct and/or guaranteed, ~~shall~~ must be supported by full credit information at the time of purchase (dealer's circular or prospectus)~~; and~~.

~~D.~~ Subp. 2. **Bond price exceeding par.** Purchase of a ~~security~~ bond at a price exceeding par is prohibited, unless the credit union shall:

~~(1)~~ A. charge off the premium when the securities are placed on the books; ~~or~~

~~(2)~~ B. provide for the regular amortization of the premium paid so that the premium shall be entirely extinguished at or before the maturity of the security and the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security; or

~~(3)~~ C. set up a reserve account to amortize the premium, said account to be credited periodically with an amount not less than the amount required for amortization under ~~subitem (2)~~ item B.

Subp. 3. **Charges.** Accrued interest paid on securities must be charged to interest received under the cash basis of accounting. Bond commissions and all costs of sales or purchase must be charged to expense.

Subp. 4. **Security at price less than par.** Upon the

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purchase of a security at a price less than par, the credit union shall place ~~such~~ the security on its books at cost and may provide for the regular accretion of the discount, ratably over the period from purchase to maturity of the security.

2675.6290 INSURANCE.

Subpart 1. Insurance agency. A credit union may establish, operate, or maintain an insurance agency as a separate corporation or agency within its physical premises.

Subp. 2. Policyholder. A credit union may be the policyholder of either a group insurance plan or a subgroup under a master policy plan.

Subp. 3. Remission of premiums. Premiums may be remitted by the credit union to an insurer or the holder of a master policy on behalf of a credit union member provided that ~~said~~ the credit union has obtained written authorization from ~~such~~ the member.

~~The credit union may accept reimbursement from the insurer for the actual cost of ministerial tasks performed pertaining to insurance. This reimbursement shall not exceed ten percent of gross premiums. The credit union may not accept a commission on the insurance sale.~~

Subp. 4. Election by member. Where a credit union is engaged in the facilitation of its members' voluntary purchase ~~of types~~ of insurance incidental to the borrowing of money ~~for provident and productive purposes~~, including but not limited to fire, theft, automobile, life, and temporary disability insurance, a member shall be given the elective of purchasing any required insurance from the vendor of his choice, and the members' file shall contain his signed written elective.

Subp. 5. Canceled insurance. If the insurance is canceled, the unearned premium shall be paid to the member or credited to the member's share or deposit or loan account ~~as the case may be~~.

2675.6301 CERTIFIED PUBLIC ACCOUNTANT REPORT IN LIEU OF EXAMINATION.

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Subpart 1. **Request for approval.** A credit union may request prior approval by the Department of Commerce to submit a certified public accountant report in lieu of examination. If approval is given, the department retains the authority to reject the report if it is inadequate by the standards of the department.

Subp. 2. **Contents of report.** A report submitted in lieu of examinations must include a balance sheet examination and the classifying of assets in a manner consistent with Department of Commerce credit union examinations. The report must be submitted on the same forms and in the same manner that Department of Commerce credit union examiners employ.

REPEALER. Parts 2675.6100, subparts 1 and 5; 2675.6130; 2675.6140; 2675.6150; 2675.6160; 2675.6170; 2675.6180, subpart 3; 2675.6190; 2675.6240; 2675.6250, subpart 2; 2675.6280; 2675.6300; and 2675.9910 of the Department of Commerce are repealed.

APPROVED BY THE
REVISOR OF STATUTES
OFFICE BY:

0006 02

STATE OF MINNESOTA

DEPARTMENT REVISOR OF STATUTES

Office Memorandum

TO Allyn Long
Department of Commerce
5th Floor, Metro Square Building
7th and Robert Streets

STATE OF MINNESOTA
MAY 15 1984
DEPARTMENT OF COMMERCE

DATE May 9, 1984

FROM : Maryanne V. Hruby MVH
Assistant Revisor

PHONE: 297-2948

SUBJECT: Proposed Rules Governing Credit Unions

We are enclosing six copies of your rule. The copies are ready for submission to the State Register.

If you want to make changes, please return a copy with your instructions for redrafting.

If you have any questions, do not hesitate to call.

State of Minnesota
Department of Commerce

In the Matter of the Proposed Adoption of
Amendments to Rules Relating to Credit Unions

Notice of Intent to Adopt Rules Without a Public Hearing

Notice is hereby given that the Department of Commerce proposes to adopt the above-entitled rules without a public hearing. The Commissioner of Commerce has determined that the proposed adoption of these rules will be noncontroversial in nature and has elected to follow the procedures set forth in Minnesota Statutes, section 14.21.

Persons interested in these rules shall have 30 days to submit comments in support of or in opposition to the rules. Each comment should identify the portion of the proposed rule addressed, the reason for the comment, and any change proposed. The proposed rules may be modified if the modifications are supported by the data and views submitted to the agency and do not result in a substantial change.

No public hearing will be held unless twenty-five (25) or more persons make a written request for a hearing within the 30-day comment period. In the event a public hearing is required, the agency will proceed according to the provisions of Minnesota Statutes, section 14.14, subd. 1.

Persons who wish to submit comments or a written request for a public hearing should submit them to Allyn R. Long, Assistant Commissioner, Department of Commerce, 500 Metro Square Building, St. Paul, MN 55101, (612) 297-2750. Any person requesting a public hearing should state her/his name and address, identify the portion of the proposed rule addressed, the reason for the request and any change proposed and send this information to the above address.

Authority for the adoption of these rules is contained in Minnesota Statutes, section 14.22. Additionally, a Statement of Need and Reasonableness describing the need for and reasonableness of each provision and identifying the data and information relied upon to support the proposed rules has been prepared and is available upon request.

Upon adoption of the final rules without a public hearing, the proposed rules, this Notice, the Statement of Need and Reasonableness, all written comments received, and the final Rules as Adopted will be delivered to the Attorney General for review as to form and legality, including the issue of substantial change. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the final rules as proposed for adoption, should submit a written statement of such request to Linda Phillips, Department of Commerce, 500 Metro Square Bldg., St. Paul, MN 55101.

A copy of the proposed rules is attached to this Notice.

Copies of this Notice and the proposed rules are available and may be obtained by contacting Linda Phillips at the above address.

Michael A. Hatch
Commissioner of Commerce

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed Adoption of Amendments to Rules Relating to Credit Unions

ORDER FOR NOTICE OF INTENT TO ADOPT RULES WITHOUT PUBLIC HEARING

IT IS ORDERED this 16th day of May, 1984 that Notice of Intent to Adopt Amendments to Rules Without Public Hearing in the above-entitled matter be given to all persons who have registered their names with the Department of Commerce for that purpose and be published in the State Register.

Michael A. Hatch
Commissioner of Commerce

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed Adoption of
Amendment to Rules Relating to Credit Unions

ORDER ADOPTING
RULES

Notice of the Commissioner's intent to adopt the above-entitled amendments to rules without a public hearing was published in the State Register on June 4, 1984 and was sent by the United States mail to all persons on the list maintained by the Department of Commerce pursuant to Minn. Stat. § 14.14, subd. 1a, on May 31, 1984.

After affording interested and affected persons an opportunity to submit comments for 30 days after Notice, receiving fewer than twenty-five (25) written requests for a public hearing within the 30-day comment period, reviewing and considering the comments, and determining the need for and reasonableness of the above-captioned rules,

NOW, THEREFORE, IT IS ORDERED that these rules identified as Minnesota Rules 2675.6100 through 2675.6301 are adopted this 9th day of August, 1984 pursuant to authority vested in me by Minn. Stat. § 14.22.

Michael A. Hatch
Commissioner of Commerce

In the Matter of the Proposed Adoption of Amendments to Rules Relating to Credit Unions

AFFIDAVIT OF MAILING NOTICE OF SUBMISSION TO THE ATTORNEY GENERAL

STATE OF MINNESOTA)
) ss.
COUNTY OF RAMSEY)

Linda J. Phillips, being first duly sworn, deposes and says:

That on the 9th day of August, 1984, in the City of St. Paul, County of Ramsey, State of Minnesota, he served the attached Notice of Submission to the Attorney General by depositing in the State of Minnesota Central Mail System for United States mailing at the City of St. Paul, a copy thereof, properly enveloped, with postage prepaid, to all persons and associations who requested notice that the rules in the above-entitled matter have been submitted to the Attorney General.

Linda J. Phillips

Subscribed and sworn to before me this 9th day of August, 1984.

Barbara Ahlberg

BARBARA AHLBERG
NOTARY PUBLIC-MINNESOTA
DAKOTA COUNTY
MY COMMISSION EXPIRES JULY 31, 1990

STATE OF MINNESOTA

COUNTY OF RAMSEY

CERTIFICATE

In the Matter of the Proposed Adoption of
Amendments to Rules Relating to Credit Unions

I hereby certify that the list of persons, associations, and other interested groups who have requested, pursuant to Minnesota Statutes, section 14.14, subd. 1a, that their names be placed on file with and maintained by the Department of Commerce for the purpose of receiving notice of the proposed adoption of rules is accurate and complete as of 12:00 Noon, this 31st day of May, 1984.

Linda J. Phillips

Linda J. Phillips

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St. Paul, Minnesota 55165

PROPOSED RULES

Pursuant to Minn. Stat. of 1980, §§ 14.21, an agency may propose to adopt, amend, suspend or repeal rules without first holding a public hearing, as long as the agency determines that the rules will be noncontroversial in nature. The agency must first publish a notice of intent to adopt rules without a public hearing, together with the proposed rules, in the *State Register*. The notice must advise the public:

1. that they have 30 days in which to submit comment on the proposed rules;
2. that no public hearing will be held unless 25 or more persons make a written request for a hearing within the 30-day comment period;
3. of the manner in which persons shall request a hearing on the proposed rules;

and

4. that the rule may be modified if modifications are supported by the data and views submitted.

If, during the 30-day comment period, 25 or more persons submit to the agency a written request for a hearing of the proposed rules, the agency must proceed under the provisions of §§ 14.13-14.20 which state that if an agency decides to hold a public hearing, it must publish in the *State Register* a notice of its intent to do so. This notice must appear at least 30 days prior to the date set for the hearing, along with the full text of the proposed rules. (If the agency has followed the provisions of subd. 4h and has already published the proposed rules, a citation to the prior publication may be substituted for republication.)

Pursuant to Minn. Stat. § 14.29, when a statute, federal law or court order to adopt, suspend or repeal a rule does not allow time for the usual rulemaking process, temporary rules may be proposed. Proposed temporary rules are published in the *State Register*, and for at least 20 days thereafter, interested persons may submit data and views in writing to the proposing agency.

Department of Commerce

Proposed Rules Governing Credit Unions

Notice of Intent to Adopt Rules without a Public Hearing

Notice is hereby given that the Department of Commerce proposes to adopt the above-entitled rules without a public hearing. The Commissioner of Commerce has determined that the proposed adoption of these rules will be noncontroversial in nature and has elected to follow the procedures set forth in Minnesota Statutes, section 14.21.

Persons interested in these rules shall have 30 days to submit comments in support of or in opposition to the rules. Each comment should identify the portion of the proposed rule addressed, the reason for the comment, and any change proposed. The proposed rules may be modified if the modifications are supported by the data and views submitted to the agency and do not result in a substantial change.

No public hearing will be held unless twenty-five (25) or more persons make a written request for a hearing within the 30-day comment period. In the event a public hearing is required, the agency will proceed according to the provisions of Minnesota Statutes, section 14.14, subd. 1.

Persons who wish to submit comments or a written request for a public hearing should submit them to Allyn R. Long, Assistant Commissioner, Department of Commerce, 500 Metro Square Building, St. Paul, MN 55101, (612) 297-2750. Any person requesting a public hearing should state her/his name and address, identify the portion of the proposed rule addressed, the reason for the request and any change proposed and send this information to the above address.

Authority for the adoption of these rules is contained in Minnesota Statutes, section 14.22. Additionally, a Statement of Need and Reasonableness describing the need for and reasonableness of each provision and identifying the data and information relied upon to support the proposed rules has been prepared and is available upon request.

Upon adoption of the final rules without a public hearing, the proposed rules, this Notice, the Statement of Need and Reasonableness, all written comments received, and the final Rules as Adopted will be delivered to the Attorney General for review as to form and legality, including the issue of substantial change. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the final rules as proposed for adoption, should submit a written statement of such request to Linda Phillips, Department of Commerce, 500 Metro Square Bldg., St. Paul, MN 55101.

A copy of the proposed rules is attached to this Notice.

Copies of this Notice and the proposed rules are available and may be obtained by contacting Linda Phillips at the above address.

Michael A. Hatch
Commissioner of Commerce

Rules as Proposed

2675.6100 BOOKS, RECORDS, AND REPORTS.

Subpart 1. [See repealer.]

Subp. 2. ~~Recordkeeping services~~ Data processing off premises. Any credit union receiving recordkeeping services from another credit union or from a service corporation shall provide ~~the following:~~

~~A.~~ a certificate from the other credit union ~~receiving such services~~ or service corporation, stating ~~that it will comply~~ its agreement to perform the services in compliance with ~~the provisions of~~ Minnesota Statutes, section 52.06 ~~and giving full assurance that the performance of such recordkeeping services by the other credit union, or the respective clerical service corporation (name of either to be given), will be subject to Banking Division rules in the same manner as if such services were being performed by the credit union itself and on its own premises;~~

~~B. a certificate to be furnished by the credit union furnishing such clerical services, or the clerical service corporation, agreeing as to performing such services as outlined in Minnesota Statutes, section 52.06 that its performance thereof will be subject to regulation and examination by the commissioner of banks to the same extent as if such services were being performed by the serviced credit union itself on its own premises~~. The certificate must acknowledge that it is subject to regulation and examination to the same extent as if the services were being performed by the credit union on its premises.

Subp. 2a. Daily closing. Credit unions that maintain in excess of $500,000 in accounts subject to draft withdrawal shall post all assets and liabilities daily.

Subp. 3. Semiannual audit ~~report~~. The supervisory committee shall file a report in duplicate on forms furnished by the ~~commissioner of banks~~ Department of Commerce, within 30 days after the date of each semiannual audit.

Subp. 4. ~~Cash receipts and assets~~ Commingled funds. All of the credit union must be kept intact and ~~not commingled with any~~ separate from other funds ~~under any circumstances~~.

Subp. 5. [See repealer.]

Subp. 5a. Statement of accounts. A statement of account that itemizes all transactions must be issued at least monthly for sharedraft accounts. A statement must be issued at the end of a dividend period on all other accounts, except that a statement need not be issued more often than quarterly and must be issued at least annually.

Subp. 5b. Inactive and segregated accounts. If the board determines that an account is inactive and segregated, it must be issued a statement at least annually. Statements on inactive accounts must be issued under the control of the supervisory committee.

Subp. 5c. Passbooks. When issued, passbooks must show the current position of shares, deposits, and loans. The credit union shall annually notify members to bring passbooks into the credit union office for current posting. A credit union may not hold a passbook.

Subp. 6. ~~Individual ledger cards~~ Issuing account numbers. A number ~~shall~~ must be assigned to each member in sequence upon his election to membership, and ~~no such~~ that number ~~shall ever~~ may never be reissued to ~~any other~~ another member. Each member's assigned number ~~shall~~ must appear on his ~~passbook and~~ individual ~~ledger card~~ record of accounts for shares, deposits, and loans. ~~All ledger cards must be kept so that the year can be readily ascertained.~~

2675.6110 PURCHASE OF REAL ESTATE.

~~No~~ A credit union ~~shall~~ may not purchase real estate ~~unless approved by the commissioner of banks~~ other than for credit union premises.

2675.6111 INVESTMENTS IN CREDIT UNION PREMISES.

Investments in credit union premises or leasehold investments may not exceed 50 percent of total reserves of the credit union unless the Department of Commerce grants a prior approval.

2675.6120 OTHER REAL ESTATE.

Subpart 1. Transfers. Whenever real estate is acquired by a credit union through foreclosure or by deed in lieu ~~thereof~~ of foreclosure, it ~~shall~~ must be transferred from loans to an account titled "other real estate" on the date upon which the credit union actually acquired title.

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." ADOPTED RULES SECTION — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

Subp. 2. Repair and restoration costs. ~~No~~ Costs of repairs ~~or~~ and costs of restoration of ~~such~~ the property may not be added to the real estate account, ~~except such~~ unless the expenditures ~~as represent~~ are for permanent improvements. Taxes delinquent when title is acquired may, when paid by the credit union, be added to the book value of the property.

Subp. 3. Additions to book value. ~~No~~ Additions to book value may not be made after the date of sale in cases of foreclosure except as noted in ~~the preceding paragraph~~ subpart 2. If a deed is taken in lieu of foreclosure, real estate must be carried at a figure not exceeding the balance due on the mortgage, plus delinquent taxes and assessments paid by the credit union at the time of acquiring title ~~thereto~~.

~~When sales are made on a contract for deed at a price exceeding the book value of the real estate, the profit involved shall be considered a deferred profit and held in a reserve account and only credited to actual profit after one-third of the purchase price has been paid on the contract, excluding interest payments.~~

~~"Other real estate" must be charged off annually at the rate of at least ten percent of the original amount and the first charge off must be made not later than 12 months after the date of acquisition.~~

Subp. 4. Sale of other real estate. A credit union may finance the sale of other real estate or credit union premises under the terms and conditions available to any seller or owner of real property. A profit on the sale of other real estate sold on contract is considered deferred profit and must be held in reserve to be realized after two consecutive years of contracted payments have been made.

Subp. 5. Unsold other real estate. Other real estate that is not sold must be charged off annually through earnings at the rate of at least ten percent of the original amount. The first charge off must be based on the number of full months in which other real estate was booked.

2675.6141 REAL ESTATE MORTGAGES.

Subpart 1. Loans. Credit unions may make loans upon the security of real estate if it is a first lien on the real estate. Additionally, credit unions may take a junior lien if the loan is made:

A. to secure debts previously contracted;

B. if at least 80 percent of the principal balance is guaranteed or insured by a governmental agency or nationally recognized insurer;

C. to secure a loan if the total unpaid aggregate of all outstanding liens against the same real estate, including the credit union's proposed lien, does not exceed 80 percent of its appraised value. A loan made under Minnesota Statutes, section 52.165 is deemed to comply with this rule if it was in compliance at the date of its origination.

Subp. 2. Appriasal report. Real estate appraisal reports are required for each mortgage. The appraisal and the reasonableness of its accuracy is the responsibility of the credit committee or, in the absence of a credit committee, the board of directors. The appraisal report and its acceptance by the board or credit committee must be made part of the mortgage file.

Subp. 3. Valid lien. An attorney's opinion or a title insurance policy is required on all real estate loans and must describe the status of fee title, the validity of the credit union's lien, and the position of the lien.

Subp. 4. Insurance. Evidence of adequate insurance with loss payable clause payable to credit union is required for mortgages on improved property.

Written binders of insurance are acceptable evidence of insurance. A credit union may not refuse to accept a binder tendered at the time of closing as evidence of insurance coverage required as a condition of a loan agreement; provided that the binder conforms with usual and customary conditions as to designation of loss payee and mortgagor.

Subp. 5. Fees. As specified by board policy, a credit union may require members to pay fees in connection with the making, closing, disbursing, extending, readjusting, or renewing of real estate loans. Upon acceptance of an application for a real estate loan, the borrower shall be provided with an estimate of all costs other than interest authorized by law. Additionally, the applicant shall be provided with an estimate of costs to be refunded in the event the loan is not granted.

Subp. 6. Exempt loans. Real estate lending policies may exclude the title perfection requirements of part 2675.6141 on advances of $7,500 or less. These loans will not be considered real estate secured loans for examination purposes or for purposes of transferring or imposing fees as provided by part 2675.6141, subpart 5.

2675.6142 PERSONAL LOANS.

Subpart 1. Fees. Charges, other than interest authorized by law, may not be made for any non-real estate loan except that there may be charged to the borrower or included in the amount financed:

A. Fees paid or to be paid by the credit union to any public officer for filing, recording, or releasing in a public office in instrument securing the loan.

B. Premiums or charge for insurance protecting the lender against the risk of loss from not filing or recording a security agreement or financing statement and in lieu of filing the agreement or statement. The premium or charge may not exceed the actual premium or charge made by the insurance company to the lender or the actual costs if the documents were filed, recorded, or released in any public office.

C. The premium on any life, accident and health, property, or other insurance written upon or in connection with a loan; provided notification is given in writing that the borrower has the option of furnishing this coverage through existing policies of insurance owned or controlled by him or of furnishing the coverage through any insurer authorized to transact business in this state. The premium may not be included as part of the loan and must be accounted for as a separate receivable unless advanced as part of the principal at the time of origination or payments are increased to provide amortization of the premium within the original maturity of the loan.

Subp. 2. Financial statements. An unsecured loan in an amount indicated below must be supported by a signed financial statement of the borrower, comaker, and guarantors that lists the assets and obligations and shows the net worth of the borrower, comaker, or guarantor:

A. an unsecured loan in excess of $1,500 in a credit union with assets of less than $1,000,000;

B. an unsecured loan in excess of $3,000 in a credit union with assets of $1,000,000 to $10,000,000; or

C. an unsecured loan in excess of $5,000 in a credit union with assets of $10,000,000 or more.

Current financial information is also required on loans which the commissioner or his examiners consider inadequately secured. The loan application must show the estimated value of any collateral offered at the time a loan is granted.

2675.6143 DELINQUENT LOANS.

Subpart 1. Installment loans. A note due on a monthly installment basis must be scheduled for delinquency. The whole principal balance is considered past due if any portion of an installment remains unpaid 60 days after the scheduled payment date. Delinquent loans must be shown by categories coded as follows:

A. 60 days to 180 days, code A;

B. 181 days to 364 days, code B; and

C. 365 days or more, code C.

Subp. 2. Single payment loans. A single payment loan is considered past due the next day after maturity and must be coded past due from that date according to the schedule in subpart 1.

Subp. 3. Extensions. A loan is not considered current by extension unless accrued interest has been paid to the date of extension. Special consideration for unusual circumstances affecting the general membership may be permitted by a detailed application to the Department of Commerce.

Subp. 4. Delinquent loan report. A detailed report on delinquent loans must be reviewed at each board meeting and made a part of the minutes. The report must include a summary of collection activity, the number of new additions to the delinquent loan list, and a review of loans on the prior month's delinquent loan list which have been extended or rewritten. The board shall verify by direct examination or otherwise that the record of delinquent loans is reasonably accurate.

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Subp. 5. Delinquent loan reserve requirement. Before declaration of a dividend the board of directors shall ascertain that the statutory reserve as of the date of declaration exceeds the sum of:

A. ten percent of code A loans;

B. 25 percent of code B loans; and

C. 100 percent of code C loans.

No net earnings or undivided earnings may be used to pay dividends until the statutory reserve exceeds the above calculations or the commissioner of commerce has approved payment.

Subp. 6. Interest earned not collected. Interest earned not collected reflected on a credit union's books under the accrual method of accounting may not be continued on a loan which is more than 90 days delinquent. Accrued interest must be reversed to earnings or undivided profits at the time a loan is charged off to the statutory reserve fund or at the time an allowance for loan losses is established.

2675.6180 BOARD OF DIRECTORS.

Subpart 1. Change. Notice of any change in officers, directors, or committee members between annual meetings must be forwarded to the ~~commissioner of banks~~ Department of Commerce within ten days ~~after such~~ of the effective date of the change.

Subp. 2. Review of examiner's report. When the examiner's report is received by a credit union, it must be reviewed by the board of directors at a regular or special meeting ~~within 30 days after its receipt~~ and a reply must be submitted to the Department of Commerce within 60 days of the receipt of the report or as instructed in the transmittal letter. The letter from ~~this~~ the Department of Commerce which accompanies the report must also be read at the directors' meeting. ~~The directors' reply must be on the form attached to the face of the examiner's report. The minutes must show the fact that the directors reviewed the report and also any action taken.~~

Subp. 3. [See repealer.]

Subp. 4. Minute book. The minutes of any meeting must be written up as soon as practicable and signed by the secretary and the presiding officer at the next meeting ~~as soon as approved~~ upon approval. ~~They should~~ The minutes must be kept in a book and be available along with the credit union records for inspection by the commissioner of ~~banks~~ commerce or his representatives at all times with or without previous notice.

2675.6210 ASSET RECEIPT.

Whenever it becomes necessary to remove any asset from the files for any reason whatsoever, ~~an authentic~~ a properly executed receipt attached to a copy of ~~such~~ the asset must replace it.

2675.6220 CHARGED OFF ASSETS.

A record of all assets charged off, either to the statutory reserve fund or undivided earnings, along with recoveries thereto must be maintained. This record ~~should be kept current and~~ must be available to the examiners at each examination.

2675.6230 FURNITURE AND FIXTURES ACCOUNT.

Purchases capitalized to the furniture and fixtures account shall be amortized at the minimum rate of ten percent annually, ~~with such exceptions as may be~~ unless exception is made by the commissioner of ~~banks~~ commerce. ~~Each such annual charge shall be based on the remaining book value at the end of each year~~ The charge off may be based on the number of full months in which the item was capitalized. Adequate records must be maintained to facilitate a determination of the unamortized amount of each capitalized item.

2675.6250 ~~SURETY~~ FIDELITY BONDS.

Subpart 1. Minimum provisions. A credit ~~unions~~ union operating under Minnesota law ~~shall be~~ is required to be protected by a blanket bond with the following provisions: all officers, committee members, employees, bank messengers, and attorneys representing the credit union shall be covered by the bond. The credit union shall be protected against losses from a lack of honesty ~~or a lack of faithful performance~~, burglary or robbery, forgery or alteration, and misplacement or mysterious and unexplainable disappearance. ~~The schedule of basic coverage required shall be as set forth in part 2675.9910~~ The amount of the bond must be not less than 100 percent of assets up to $2,000,000. The bond must be approved by the Department of Commerce. The bond must provide that the commissioner of commerce will be given notice of pending cancellation within 60 days of final termination.

Subp. 2. [See repealer.]

Subp. 3. Table of maximum deductibles. A bond may include a deductible provision for the following amounts:

Assets	Maximum Deductible
0 to $100,000	$ 0
$100,001 to $250,000	500
250,001 to $500,000	750
$500,001 to $750,000	1,000
$750,001 to $1,000,000	1,500
$1,000,001 to $2,000,000	2,000
$2,000,001 to $3,000,000	3,000
$3,000,001 to $5,000,000	4,000
Over $5,000,000	5,000

2675.6270 ~~INVESTMENT RECORDS~~ INVESTMENTS.

Subpart 1. Records required. During the period in which investments are carried on a credit union's books, ~~it shall be required that:~~

~~A.~~ original invoices of bond purchases and sales must be retained as a part of the records of a credit union~~;~~.

~~B.~~ A record must be maintained of all securities bought and sold showing date of purchase or sale, interest rate, maturity, par value, description, from whom purchased, to whom sold, selling price, and where deposited for safekeeping~~;~~.

~~C.~~ Any investment, other than ~~U.S.~~ United States governments direct and/or guaranteed, ~~shall~~ must be supported by full credit information at the time of purchase (dealer's circular or prospectus)~~;~~ ~~and~~.

~~D.~~ Subp. 2. Bond price exceeding par. Purchase of a ~~security~~ bond at a price exceeding par is prohibited, unless the credit union shall:

~~(1)~~ A. charge off the premium when the securities are placed on the books; ~~or~~

~~(2)~~ B. provide for the regular amortization of the premium paid so that the premium shall be entirely extinguished at or before the maturity of the security and the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security; or

~~(3)~~ C. set up a reserve account to amortize the premium, said account to be credited periodically with an amount not less than the amount required for amortization under ~~subitem (2)~~ item B.

Subp. 3. Charges. Accrued interest paid on securities must be charged to interest received under the cash basis of accounting. Bond commissions and all costs of sales or purchase must be charged to expense.

Subp. 4. Security at price less than par. Upon the purchase of a security at a price less than par, the credit union shall place ~~such~~ the security on its books at cost and may provide for the regular accretion of the discount, ratably over the period from purchase to maturity of the security.

2675.6290 INSURANCE.

Subpart 1. Insurance agency. A credit union may establish, operate, or maintain an insurance agency as a separate corporation or agency within its physical premises.

Subp. 2. Policyholder. A credit union may be the policyholder of either a group insurance plan or a subgroup under a master policy plan.

Subp. 3. Remission of premiums. Premiums may be remitted by the credit union to an insurer or the holder of a master policy on behalf of a credit union member provided that ~~said~~ the credit union has obtained written authorization from ~~such~~ the member.

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~~The credit union may accept reimbursement from the insurer for the actual cost of ministerial tasks performed pertaining to insurance. This reimbursement shall not exceed ten percent of gross premiums. The credit union may not accept a commission on the insurance sales.~~

Subp. 4. Election by member. Where a credit union is engaged in the facilitation of its members' voluntary purchase ~~of types~~ of insurance incidental to the borrowing of money ~~for provident and productive purposes~~, including but not limited to fire, theft, automobile, life, and temporary disability insurance, a member shall be given the elective of purchasing any required insurance from the vendor of his choice, and the members' file shall contain his signed written elective.

Subp. 5. Canceled insurance. If the insurance is canceled, the unearned premium shall be paid to the member or credited to the member's share or deposit or loan account ~~as the case may be.~~

2675.6301 CERTIFIED PUBLIC ACCOUNTANT REPORT IN LIEU OF EXAMINATION.

Subpart 1. Request for approval. A credit union may request prior approval by the Department of Commerce to submit a certified public accountant report in lieu of examination. If approval is given, the department retains the authority to reject the report if it is inadequate by the standards of the department.

Subp. 2. Contents of report. A report submitted in lieu of examinations must include a balance sheet examination and the classifying of assets in a manner consistent with Department of Commerce credit union examinations. The report must be submitted on the same forms and in the same manner that Department of Commerce credit union examiners employ.

REPEALER. Parts 2675.6100, subparts 1 and 5; 2675.6130; 2675.6140; 2675.6150; 2675.6160; 2675.6170; 2675.6180, subpart 3; 2675.6190; 2675.6240; 2675.6250, subpart 2; 2675.6280; 2675.6300; and 2675.9910 of the Department of Commerce as repealed.

ADOPTED RULES

The adoption of a rule becomes effective after the requirements of Minn. Stat. § 14.13-14.28 have been met and five working days after the rule is published in the *State Register*, unless a later date is required by statutes or specified in the rule.

If an adopted rule is identical to its proposed form as previously published, a notice of adoption and a citation to its previous *State Register* publication will be printed.

If an adopted rule differs from its proposed form, language which has been deleted will be printed with strike outs and new language will be underlined, and the rule's previous *State Register* publication will be cited.

A temporary rule becomes effective upon the approval of the Attorney General as specified in Minn. Stat. § 14.33 and upon the approval of the Revisor of Statutes as specified in § 14.36. Notice of approval by the Attorney General will be published as soon as practicable, and the adopted temporary rule will be published in the manner provided for adopted rules under § 14.18.

Department of Human Services
Health Care Programs Division

Extension of Temporary Rules Governing Reimbursement for Inpatient Hospitalization

Notice is hereby given that the temporary rules governing reimbursement for inpatient hospitalization under the Medical Assistance and General Assistance Medical Care programs (12 MCAR §§ 2.05401-2.05403) are continued in effect until August 1, 1985 as authorized by the Minnesota Legislature in House File 1966 signed by the Governor on April 25, 1984, and effective on April 26, 1984. These rules became effective upon the approval of the Attorney General on October 1, 1983.

These temporary rules as proposed appeared in the August 1, 1983 issue of the *State Register* (8 S.R. 150-158). Modifications to the rule as proposed appeared in the October 24, 1983, issue of the *State Register* (8 S.R. 959-961). Notice of extension to September 24, 1984, appeared in the February 6, 1984, issue of the *State Register* (8 S.R. 1822).

STATEMENT OF NEED AND REASONABLENESS

The Minnesota Code of Agency Rules concerning the operation of credit unions are being modified, deleted and promulgated to facilitate changes in the industry.

DAILY CLOSING

Added to Rule 135 Books, Records and Report is a section which requires credit unions that maintain in excess of $500,000 in accounts subject to draft withdrawal to post all assets and liabilities on a daily basis. Credit unions now prepare a monthly financial statement which is required by the standard bylaws to be posted in a conspicuous place in the credit union office by the 10th of the following month. Many credit unions are unable to prepare the monthly statement within 10 days of the following month due to a delay in obtaining data from the data processing servicer.

Accumulation of data until month end has caused difficulty in reconciling accounts, planning cash flow, general management of the credit unions affairs and violation of credit unions bylaws when preparation of the monthly statement is delayed beyond the prescribed period of time. Large credit unions and credit unions with sharedrafts are especially vulnerable from the failure to prepare a daily statement of the credit union's assets and liabilities.

On-line data processing and an integrated general ledger package is available and used by some credit unions. Due to the need and the availability it is reasonable to require the daily posting of accounts.

STATEMENT OF ACCOUNTS

Reference to passbooks has been deleted from Rule 135. This section allows accounts considered to be inactive to be segregated and statements issued on an annual basis rather than quarterly. Such statements are to be issued under the control of the supervisory committee. This reduces expense and assures control of inactive accounts statements. This satisfies a need and is reasonable.

CREDIT UNION PREMISES

The requirement in Rule 136 for approval to purchase real estate continues. Additionally, an investment in credit union premises or leasehold investments is limited to 40% of total reserves without obtaining specific approval from the Department of Commerce. This approval process is necessary as an investment in fixed assets may have an adverse effect on earnings.

OTHER REAL ESTATE

Rule 137 (5) has been rewritten to state that the required 10% charge off should be made at the end of each calendar year and based on the number of full months in which other real estate was booked.

LOANS TO ORGANIZATIONS

Rule 138 has been deleted as Minnesota Statutes, Section 52.05 allows qualifying organizations to become members of the credit union. As members they could apply for a loan as governed by the credit union's loan policy.

LOANS

The rule concerning loans has been renumbered 138 and contains a section dealing with real estate loans, personal loans and delinquent loans. The rule permits junior liens as long as the credit union retains at least a 20% equity margin in the property.

A definition as to when delinquent loans are to be scheduled has been provided along with the requirement that the Board be presented with the schedule prior to board meeting and that a schedule will be provided to the Department of Commerce upon request.

The minimum statutory reserve needs to be determined before dividends can be paid has been changed from 10% of "A" loans plus 25% of "B" loans plus 80% of "C" loans. One hundred percent of "C" loans are now included in the calculation. This is in keeping with emphasis on the charge off of loans over 12 months past due.

A section has been added to the rule on loans to require accrued interest on loans under the accrual method of accounting to be discontinued when a loan becomes 89 days delinquent. The accrued interest is required to be reversed when the loan is charged off.

The surety bond section is numbered 141 and was formerly numbered 144. The minimum schedule is based on 100% of assets up to $2,000,000 and a maximum deductible amount has been provided.

Former Rule 147 concerning the employment of relatives of a board or committee member has been deleted.

MILTON GRAY
MICHAEL J. SHEAHAN
WARREN E. PETERSON
DANIEL WITT FRAM
RICHARD H. BEND
MICHAEL P. WAGNER*
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AREA CODE 612
291-8955

EVERETT L. PETERSON
(1903-1982)

*ALSO ADMITTED
IN WISCONSIN

June 25, 1984

STATE OF MINNESOTA
JUN 27 1984
DEPARTMENT OF COMMERCE

Linda Phillips
Department of Commerce
500 Metro Square Building
St. Paul, MN 55101

RE: Rules Relating to Credit Unions

Dear Ms. Phillips:

Please be advised that our office represents Minnesota Association of Credit Unions and requests that you provide us with a copy of the final rules affecting Credit Unions upon adoption. Thank you.

Very truly yours,

PETERSON, GRAY & SHEAHAN, LTD.

Daniel W. Fram

DWF:sjl

Local No. 455

PIPEFITTERS STEAMFITTERS CREDIT UNION

411 Main Street, Suite 102 • Phone: 227-0771 • St. Paul, Minnesota 55102

STATE OF MINNESOTA
JUN 28 1984
DEPARTMENT OF COMMERCE

June 27, 1984

Linda Phillips
Department of Commerce
500 Metro Square Building
St. Paul, MN 55101

Ms. Phillips:

I request to be advised of the submission of the Proposed adoption of Amendments to Rules Relating to Credit Unions to the Attorney General office.

Also I wish to receive a copy of the final rules as proposed for adoption.

Thank you.

Eugene W. Carroll

Eugene W. Carroll
President/Treasurer
Pipefitters Steamfitters Credit Union
411 Main Street; Suite 102
St Paul, MN 55012

State of Minnesota
Department of Commerce

6/4/84

In the Matter of the Proposed Adoption of
Amendments to Rules Relating to Credit Unions

Notice of Intent to Adopt Rules Without a Public Hearing

Notice is hereby given that the Department of Commerce proposes to adopt the above-entitled rules without a public hearing. The Commissioner of Commerce has determined that the proposed adoption of these rules will be noncontroversial in nature and has elected to follow the procedures set forth in Minnesota Statutes, section 14.21.

Persons interested in these rules shall have 30 days to submit comments in support of or in opposition to the rules. Each comment should identify the portion of the proposed rule addressed, the reason for the comment, and any change proposed. The proposed rules may be modified if the modifications are supported by the data and views submitted to the agency and do not result in a substantial change.

No public hearing will be held unless twenty-five (25) or more persons make a written request for a hearing within the 30-day comment period. In the event a public hearing is required, the agency will proceed according to the provisions of Minnesota Statutes, section 14.14, subd. 1.

Persons who wish to submit comments or a written request for a public hearing should submit them to Allyn R. Long, Assistant Commissioner, Department of Commerce, 500 Metro Square Building, St. Paul, MN 55101, (612) 297-2750. Any person requesting a public hearing should state her/his name and address, identify the portion of the proposed rule addressed, the reason for the request and any change proposed and send this information to the above address.

Authority for the adoption of these rules is contained in Minnesota Statutes, section 14.22. Additionally, a Statement of Need and Reasonableness describing the need for and reasonableness of each provision and identifying the data and information relied upon to support the proposed rules has been prepared and is available upon request.

Upon adoption of the final rules without a public hearing, the proposed rules, this Notice, the Statement of Need and Reasonableness, all written comments received, and the final Rules as Adopted will be delivered to the Attorney General for review as to form and legality, including the issue of substantial change. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the final rules as proposed for adoption, should submit a written statement of such request to Linda Phillips, Department of Commerce, 500 Metro Square Bldg., St. Paul, MN 55101.

A copy of the proposed rules is attached to this Notice.

Copies of this Notice and the proposed rules are available and may be obtained by contacting Linda Phillips at the above address.

Michael A. Hatch
Commissioner of Commerce

Local No. 455

PIPEFITTERS STEAMFITTERS CREDIT UNION

411 Main Street, Suite 102 • **Phone: 227-0771** • St. Paul, Minnesota 55102

July 11, 1984

STATE OF MINNESOTA

JUL 12 1984

DEPARTMENT OF COMMERCE

Mr. Allyn R. Long
Assistant Commissioner
Department of Commerce
500 Metro Square Building
St Paul, MN 55101

Dear Mr. Long, RE: Your letter of July 10, 1984

Please note in my letter of June 27th that I stated the cost of the bond would increase from 35% to 42% for the additional $1 million coverage in the bond. The amounts of $1,133 to $1,360 are the increases of 35% to 42% in additional costs. Our current cost of a $1 million dollar bond is $3,237 per year.

I am sorry that you understood it to read that our bond cost would go from $1,133 to $1,360. If that were the case I would not be concerned. But a increase of over one thousand dollars is a concern.

Thank you for your time.

Yours truly,

Eugene W. Carroll
President

EWC:ec

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL 55101

500 METRO SQUARE BUILDING
ST. PAUL, MN 55101

OFFICE OF THE COMMISSIONER

July 10, 1984

Eugene W. Carroll, President
Pipefitters Steamfitters Credit Union
411 Main Street, Suite 102
St. Paul, Minnesota 55102

Dear Mr. Carroll:

Thank you for submitting comments regarding the proposed amendments to rules relating to credit unions. Your comment is directed to Rule 2675.6250 requiring that a fidelity bond in an amount not less than 100 percent of assets up to $2,000,000 is required. Specifically your concern is directed at the cost of the bond. It is indicated that to increase your present $1 million coverage to $2 million it will cost your credit union $227.

It is anticipated that elimination of the "faithful performance" clause and inclusion of deductible provisions will offset the increase due to the higher minimum required. It appears that the "million dollar blanket bond" was initiated by the credit union industry for marketing purposes. I note that Robert Curry, President of the CUNA Mutual Insurance Group, recently announced formation of a committee to study various risk dimensions of the CUMIS 581 bond. The committee is to include representatives from the CUMIS board, CUNA, the Association of Credit Union League executives, credit union management, federal and state regulators and state share insurance corporations. Perhaps something will come out of this study to provide adequate bond coverage at a reasonable cost. I would suggest amending Rule 2675.6250 if the results of the study indicate such a need.

Sincerely,

Allyn R. Long

Allyn R. Long
Assistant Commissioner

ARL:lp

Local No. 455

PIPEFITTERS STEAMFITTERS CREDIT UNION

411 Main Street, Suite 102 • **Phone: 227-0771** • St. Paul, Minnesota 55102

June 27, 1984

STATE OF MINNESOTA
JUN 28 1984
DEPARTMENT OF COMMERCE

Mr. Allyn R. Long
Assistant Commissioner
Department of Commerce
500 Metro Square Building
St Paul, MN 55101

Dear Mr. Long,

RE: Proposed adoption of Amendments to rules relating to Credit Unions

Page 9 ~~SURETY~~ FIDELITY BONDS line 19 thru 24

Regarding the above section the cost to a credit union to increase the coverage on the bond from $1,000,000 to $2,000,000 would be somewhere from 35% to 42% according to CUNA Mutual Insurance Society. The cost for our credit union would be from $1,133 to $1,360 per year. Under the current rules their is a statement that "larger bonds may be required according to the size of the credit union" This statement should allow the Department the ability to ask a credit union to increase its coverage if the need does exist.

If the Department feels that credit unions should increase the Bond, then perhaps some scale should be included so that for each $1 million of assets above $1 million the amount of the bond would increase till it reached a certain point.

Please review this section of the proposed rules.

Yours truly,

Eugene W. Carroll
President

EWC:ec

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL 55101

500 METRO SQUARE BUILDING
ST. PAUL, MN 55101

OFFICE OF THE COMMISSIONER

July 10, 1984

Daniel E. Christiansen, Treasurer/Manager
Canco Employees Credit Union
755 North Prior Avenue
St. Paul, Minnesota 55104

Dear Mr. Christiansen:

Thank you for submitting comments regarding the proposed amendments to rules relating to credit unions. Your comments are directed at the fidelity bond amounts proposed in Rule 2675.6250. It appears that the "million dollar blanket bond" was initiated by the credit union industry for marketing purposes and may no longer be economically feasible.

I note that Robert Curry, President of CUNA Mutual Insurance Group, recently announced formation of a committee to study various risk dimensions of the CUMIS 581 bond. The committee is to include representatives from the CUMIS board, CUNA, the Association of Credit Union executives, credit union management, federal and state regulators and state share insurance corporations. Perhaps something will come out of this study to provide adequate bond coverage at a reasonable cost. I would support amending Rule 2675.6250 if the results of the study indicate such a need.

Sincerely,

Allyn R. Long

Allyn R. Long
Assistant Commissioner

ARL:lp

Phone: 645-9104

June 28, 1984

CANCO EMPLOYEES CREDIT UNION

STATE OF MINNESOTA
JUN 29 1984
DEPARTMENT OF COMMERCE

Mr. Allyn R. Long
Minnesota Dept. of Commerce
500 Metro Square Building
St. Paul, MN 55101

Dear Mr. Long;

I am writing you regarding the proposed $2 million bond requirement for Credit Unions. I do not believe that no changes should be made from the current rules in force. It apoears that some credit unions could operate with unnecessary risk because they are not required to have a bond in proportion to their asset size or more importantly their risks. However, to arbitrarily require all credit unions to have a bond equal to their asset size up to $2 million is not equitable and I do not believe that it would uniformly reduce credit unions risks.

When rules are made, every effort should be made to assure all those affected are treated equitably. An example is probably the best way to illustrate this. Under the current proposal, a credit union with $2 million in assets with strong or even average risk management could be paying nearly the same bond premium as a credit union with $10 million in assets and is marginally run. If the larger credit union fails or has a bond claim, the smaller credit unions premium necessarily increases. Taking a deeper look, the smaller credit union doesn't have a $2 million exposure but would be paying premiums as if it did have the exposure and would incur premium increases as those with the risk file claims. In fact, this proposal if inacted would increase the risks of the smaller credit union because it would be paying a much higher premium in proportion to its assets than the larger credit union and would be forced to share the larger credit unions risks. This is neither reasonable nor equitable. It penalizes the smaller credit union and the ones which spread its risks.

The spirit of the rules change should be to spread risk in proportion to existing risk. Therefore, a ratio or formula should be devised to assess this risk and then provide insurance for it. The most basic example of this would be to require a bond in direct proportion to each credit unions assets. A second example is NCUA's current proposal. For credit unions $1 - $50 million in assets, require $100,000 plus $50,000 per million in assets or fraction thereof. This ratio would accomplish the needed change without causing credit unions to carry a bond approaching or equal to their assets.

Sincerely,

Daniel E. Christiansen

Daniel E. Christiansen, Tresurer/Manager

755 NORTH PRIOR AVENUE • ST. PAUL, MINNESOTA 55104

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL 55101

500 METRO SQUARE BUILDING
ST. PAUL, MN 55101

OFFICE OF THE COMMISSIONER

July 9, 1984

Timothy L. Tucker, Assistant Counsel
Consumer Credit Insurance Association
307 North Michigan Avenue
Chicago, Illinois 60601

Dear Mr. Tucker:

Thank you for taking the time to comment on proposed amendments to Minnesota Rules relating to credit unions. You have expressed concern with Rule 2675.6142, Subpart 1 (c). This subpart provides a condition under which the credit union may charge the borrower for insurance written upon or in connection with a loan. The condition being the required notification.

Your concern is that the notification requirement may confuse the borrower into thinking that elective or optional insurance is required. To lessen the potential for this confusion, I would suggest that applications for elective or optional insurance clearly indicate that the insurance is being purchased voluntarily.

In regard to accounting for premiums where open-end transactions are involved, Rule 2675.6142 should not present a problem. Premiums are advanced according to the loan agreement and an advance for an insurance premium would be treated the same as any other advance.

If you have further questions, please do not hesitate to call me at (612) 297-2750.

Sincerely,

Allyn R. Long

Allyn R. Long
Assistant Commissioner

ARL:ls

AN EQUAL OPPORTUNITY EMPLOYER

CONSUMER CREDIT INSURANCE ASSOCIATION
307 North Michigan Avenue Chicago, Illinois 60601 (312) 726-9895

STATE OF MINNESOTA
JUL 05 1984
DEPARTMENT OF COMMERCE

July 3, 1984

Mr. Allyn R. Long
Assistant Commissioner
Department of Commerce
500 Metro Square Building
St. Paul, Minnesota 55101

Re: Proposed Adoption of Amendments
to Rules Relating to Credit Unions

Dear Assistant Commissioner Long:

I am writing to you in my capacity as Assistant General Counsel of the Consumer Credit Insurance Association (CCIA). The CCIA is a national trade association representing more than 170 member insurance companies engaged in the business of insurance written in connection with credit transactions. Many of our member companies are currently doing business in Minnesota; and some of those companies are engaged in writing credit insurance in the credit union context. Accordingly, the CCIA has a real and substantial interest in the proposed amendments to rules relating to credit unions, and specifically, those having an impact upon credit insurance.

We are specifically concerned with the possible impact of §2675.6142, Subpart 1(C). Our initial concern is that this provision appears to require that written notification be given the borrower that he has the option of furnishing his own insurance coverage through existing policies of insurance or through any insurer authorized to transact business in Minnesota. While we recognize the need for notification to the borrower, written notification is generally required only when the insurance is required as a condition of the extension of credit. To give the written notification with every credit transaction may serve only to confuse the borrower and suggest to him that insurance is indeed required. Since we do not believe that this is your intention, we would suggest that this provision be clarified.

Our other concern regarding §2675.6142(C) regards the requirement that "the premium may not be included as part of the loan and must be accounted for as a separate receivable unless advanced as part of the principal at the time of origination or payments are increased to provide amortization of the premium within the original maturity of the loan". This requirement could impose a considerable hardship for open-ended credit transactions. In those situations, the

original maturity of the loan is typically extended. This provision, if so applied, would require reformation of all existing open-end agreements. Accordingly, we would suggest that this paragraph be modified to remove the requirement that the premium must be advanced as part of the principal at the time of origination or payments increased to provide amortization of the premium within the original maturity of the loan.

We suggest that these changes suggested herein would clarify the proposed regulation so that it further enhances the interest of not only the industry but the public as well.

We thank the Commissioner for this opportunity to comment on the proposed regulation and commend the Department for taking affirmitive steps to improve the credit union environment in Minnesota. If we can be of any assistance to the Department in this regard, please contact us.

Most sincerely,

Timothy L. Tucker
Assistant Counsel

TLT/pc

In the Matter of the Proposed Adoption of Amendments of Rules Governing Credit Unions

STATEMENT OF COMPLIANCE WITH RULEMAKING PROCEDURES

I, GREGORY P. HUWE, do hereby declare that I have examined the rules and all related documents and that, based on my examination and my personal familiarity with the applicable procedures, the Administrative Procedure Act, the rules of the Office of Administrative Hearings, and the rules of the Attorney General have been followed. Any exceptions are noted below.*

/s/ Gregory P. Huwe
Special Assistant Attorney General

Dated:

*Exceptions:

(1) The Notice of Intent to Adopt Rules without a Public Hearing does not state that comment is encouraged, as required by the 1984 Amendments to Minn. Stat. § 14.22;

(2) The Notice of Intent cites as authority for adoption of the rules Minn. Stat. § 14.22. The Commissioner's authority is found at Minn. Stat. § 46.01, subd. 2;

(3) The Statement of Need and Reasonableness may not comply with Minn. Rules pt. 2000.0400, subp. 1.G (1983);

(4) The agency may not have complied with Minn. Stat. § 14.115, although these rules are arguably exempt pursuant to § 14.115, subd. 7. Credit unions are non-profit organizations which may constitute "service businesses regulated by government bodies, for standards and costs...."

(5) Minn. Stat. § 326.223 may modify the application of proposed Rule 2675.6301, although the statute does not necessarily invalidate the rule.

In the Matter of the Proposed Adoption of
Amendment of Rules Relating to Credit Unions

AFFIDAVIT OF
MAILING

STATE OF MINNESOTA)
) ss.
COUNTY OF RAMSEY)

Linda Phillips, being first duly sworn, deposes and says:

That on the 31st day of May, 1984, at the City of St. Paul, County of Ramsey, State of Minnesota, she served the attached Notice of Intent to Adopt Rules Without Public Hearing by depositing in the State of Minnesota Central Mail System for United States mailing at said City of St. Paul, a copy properly enveloped, with postage prepaid, on all persons and associations who have requested that their names be placed on file with the Department of Commerce for the purpose of receiving notice of the proposed adoption of rules.

A copy of the proposed rules is attached.

Linda J. Phillips
Linda J. Phillips

Subscribed and sworn to before me this
31st day of May, 1984.

Barbara Ahlberg

BARBARA AHLBERG
NOTARY PUBLIC-MINNESOTA
DAKOTA COUNTY
MY COMMISSION EXPIRES JULY 31, 1990

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed Adoption of Amendments to Rules Relating to Credit Unions

NOTICE OF SUBMISSION TO THE ATTORNEY GENERAL

Pursuant to your request and in accordance with Minn. Stat. § 14.26:

PLEASE TAKE NOTICE that the above-captioned rules have been submitted to the Office of the Attorney General on this date, August 9, 1984, for review as to form and legality. Pursuant to Minn. Stat. § 14.26, the Attorney General will approve or disapprove the rules within 14 calendar days after receipt. If you desire to comment on the legality of the above-captioned rules, you should direct your comments to the Office of the Attorney General, G-25 State Administration Building, 50 Sherburne Avenue, St. Paul, Minnesota 55155, (612) 296-7030.

If you are interested in determining what changes, if any, were made in the proposed rules after publication in the State Register and before submission to the Attorney General, you may contact Linda Phillips, Department of Commerce, 500 Metro Square Building, St. Paul, Minnesota 55101.

Michael A. Hatch
Commissioner of Commerce

SF-00006-03

STATE OF MINNESOTA

DEPARTMENT ATTORNEY GENERAL - Bremer Tower

Office Memorandum

TO: LARRY STARNS
Special Assistant
Attorney General

DATE: Aug. 10, 1984

FROM: GREGORY P. HUWE
Special Assistant
Attorney General

PHONE: 6-9412

SUBJECT: Amendments to Rules Governing Credit Unions

Enclosed herewith for your review pursuant to Minn. Stat. § 14.26 are Commerce Department amendments of rules governing credit unions and supporting documents as required by Minn. Rules part 2000.0400 (1983).

Please be aware that I have noted certain exceptions in the Statement Of Compliance With Rulemaking Procedures.

If you have any questions regarding the proposed amendments, please contact me at your convenience.

GPH:sab
Enclosures

RECEIVED
AUG 16 1984
ATTORNEY GENERAL
ADMINISTRATIVE AGENCIES