CB101.64 Lending Limits [Section 11-105-303, C.R.S.]

A. Definitions

For the purposes of this Rule:

1. "Borrower" means a person who is named as a borrower or debtor in a loan or extension of credit~~,~~; a person to whom a bank has credit exposure arising from a derivative transaction or a securities financing transaction, entered by the bank; or any other person, including a drawer, endorser, or guarantor, who is deemed to be a borrower under the "direct benefit" or "common enterprise" tests set forth in Paragraph (H)(2) and (3) of this Rule.

2. "Capital and surplus" means a bank's Tier 1 and Tier 2 capital included in the institution's risk-based capital; plus the balance of a bank's allowance for loan and lease losses not included in the bank's Tier 2 capital, for the purposes of calculating risk-based capital.

3. "Close of business" means the time at which a bank closes its accounting records for the business day.

4. "Consumer" means the user of any products, commodities, goods, or services, whether leased or purchased, but does not include any person who purchases products or commodities for resale or fabrication into goods for sale.

5. "Consumer paper" means paper relating to automobiles, mobile homes, residences, office equipment, household items, tuition fees, insurance premium fees, and similar consumer items. Also included is paper covering the lease, where the bank is not the owner or lessor, or purchase of equipment for use in manufacturing, farming, construction, or excavation.

6. "Contractual commitment to advance funds" includes a bank's obligation to:

   a. Make payment, directly or indirectly, to a third person contingent upon default by the bank's customer in the performance of an obligation under the terms of that customer's contract with the third person or upon some other stated condition;

   b. Guarantee or act as a surety for the benefit of a person;

   c. Advance funds under a qualifying commitment to lend, as defined in Paragraph (A)(~~12~~18) of this Rule; and

   d. Advance funds under a standby letter of credit, as defined in Paragraph (A)(~~18~~26) of this Rule, a put, or other similar arrangement.

      This definition does not include commercial letters of credit and similar instruments where the issuing bank expects the beneficiary to draw on the issuer, that do not guarantee payment, and that do not provide for payment in the event of a default by a third party.

7. "Control" is presumed to exist when a person directly or indirectly, or acting through or together with one or more persons:

   a. Owns, controls, or has the power to vote 25 percent of more of any class of voting securities of another person;

b. Controls, in any manner, the election of a majority of the directors, trustees, or other persons exercising similar functions of another person; or

c. Has the power to exercise a controlling influence over the management or policies of another person.

8. "Credit derivative" means a financial contract executed under standard industry credit derivate documentation that allows one party (the protection purchaser) to transfer the credit risk of one or more exposures (reference exposure) to another party (the protection provider.

~~8~~9. "Current market value" means the bid or closing price listed for an item in a regularly published listing or an electronic reporting service.

10. "Derivative transaction" includes any transaction that is a contract, agreement, swap, warrant, note, or option that is based, in whole or in part, on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities, securities, currencies, interest or other rates, indices, or other assets.

11. "Effective margining arrangement" means a master legal agreement governing derivative transactions between a bank and a counterparty that requires the counterparty to post, on a daily basis, variation margin to fully collateralize that amount of the bank's net credit exposure to the counterparty that exceeds $1 million created by the derivative transactions covered by the agreement.

12. Eligible credit derivative means a single-name credit derivative or a standard, non-tranched index credit derivative provided that:

a. The derivative contract meets the requirements of an eligible guarantee and has been confirmed by the protection purchaser and the protection provider;

b. Any assignment of the derivative contract has been confirmed by all relevant parties;

c. If the credit derivative is a credit default swap; which is a financial swap agreement that the seller of the credit default swap will compensate the buyer in the event of a loan default or other credit event; the derivative contract includes the following credit events:

(1) Failure to pay any amount due under the terms of the reference exposure, subject to any applicable minimal payment threshold that is consistent with standard market practice and with a grace period that is closely in line with the grace period of the reference exposure; and

(2) Bankruptcy, insolvency, or inability of the obligor on the reference exposure to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due and similar events;

d. The terms and conditions dictating the manner in which the derivative contract is to be settled are incorporated into the contact;

e. If the derivative contract allows for cash settlement, the contract incorporates a robust valuation process to estimate loss with respect to the derivative reliably

and specifies a reasonable period for obtaining post-credit event valuations of the reference exposure;

f. If the derivative contract requires the protection purchaser to transfer an exposure to the protection provider at settlement, the terms of at least one of the exposures that is permitted to be transferred under the contract provides that any required consent to transfer may not be unreasonably withheld; and

g. If the credit derivative is a credit default swap, the derivative contract clearly identifies the parties responsible for determining whether a credit event has occurred, specifies that this determination is not the sole responsibility of the protection provider, and gives the protection purchaser the right to notify the protection provider of the occurrence of a credit event.

13. "Eligible guarantee" means a guarantee that:

a. Is written and unconditional;

b. Covers all or a pro rata portion of all contractual payments of the obligor on the reference exposure;

c. Gives the beneficiary a direct claim against the protection provider;

d. Is not unilaterally cancelable by the protection provider for reasons other than the breach of the contract by the beneficiary;

e. Is legally enforceable against the protection provider in a jurisdiction where the protection provider has sufficient assets against which a judgment may be attached and enforced;

f. Requires the protection provider to make payment to the beneficiary on the occurrence of a default (as defined in the guarantee) of the obligor on the reference exposure in a timely manner without the beneficiary first having to take legal actions to pursue the obligor for payment;

g. Does not increase the beneficiary's cost of credit protection on the guarantee in response to deterioration in the credit quality of the reference exposure; and

h. Is not provided by an affiliate of the bank, unless the affiliate is an insured depository institution, bank, securities broker or dealer, or insurance company that:

(1) Does not control the bank; and

(2) Is subject to consolidated supervision and regulation comparable to that imposed on U.S. depository institutions, securities broker-dealers, or insurance companies (as the case may be).

14. "Eligible protection provider" means:

a. A sovereign entity (a central government, including the U.S. government; an agency; department; ministry; or central bank);

b. The Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Commission, or a multilateral development bank;

c. A Federal Home Loan Bank;

d. The Federal Agricultural Mortgage Corporation;

e. A depository institution; which means any bank or savings association;

f. A bank holding company; which means any company which has control over any bank or over any company that is or becomes a bank holding company;

g. A savings and loan holding company; which means any company that directly or indirectly controls a savings association or that controls any other company that is a savings and loan holding company;

h. A securities broker or dealer registered with the SEC under the Securities Exchange Act of 1934, 15 U.S.C. 78o et seq.;

i. An insurance company that is subject to the supervision of a State insurance regulator;

j. A foreign banking organization;

k. A non-U.S.-based securities firm or a non-U.S.-based insurance company that is subject to consolidated supervision and regulation comparable to that imposed on U.S. depository institutions, securities broker-dealers, or insurance companies, and

l. A qualifying central counterparty.

~~9~~15. "Financial instrument" means stocks, notes, bonds, and debentures traded on a national securities exchange, OTC margin stocks ~~(as defined in Regulation U, 12 CFR part 221 of the Federal Reserve Board)~~, commercial paper, negotiable certificates of deposit, bankers' acceptances, and shares in money market and mutual funds of the type that issue shares in which banks may perfect a security interest. Financial instruments may be denominated in foreign currencies that are freely convertible to U.S. dollars. The term "financial instrument" does not include mortgages.

~~10~~16. "Loans and extensions of credit" means a bank's direct or indirect advance of funds to, or on behalf of, a borrower based on an obligation of the borrower to repay the funds, or repayable from specific property pledged by or on behalf of the borrower; and any credit exposure, as determined pursuant to Paragraph (L) of this Rule, arising from a derivative transaction or a securities financing transaction.

a. Loans and extensions of credit for the purposes of this Rule include:

(1) A contractual commitment to advance funds as that term is defined in Paragraph (A)(6)(a) of this Rule;

(2) A maker or endorser's obligation arising from a bank's discount of commercial paper;

(3) A bank's purchase of securities subject to an agreement that the seller will repurchase the securities at the end of a stated period, but not including a bank's purchase of Type I securities subject to a repurchase agreement where the purchasing bank has assured control over or has established its rights to the Type I securities as collateral;

(4) A bank's purchase of third-party paper subject to an agreement that the seller will repurchase the paper upon default or at the end of a stated period. The amount of the bank's loan is the total unpaid balance of the paper owned by the bank, less any applicable dealer reserves retained and held by the bank as collateral security. Where the seller's obligation to repurchase is limited, the bank's loan is measured by the total amount of paper the seller may ultimately be obligated to repurchase. A bank's purchase of third party paper without direct or indirect recourse to the seller is not a loan or extension of credit to the seller;

(5) An overdraft, whether or not prearranged, but not an intra-day overdraft for which payment is received before the close of business of the bank that makes the funds available;

(6) The sale of Federal funds with a maturity of more than one business day, but not Federal funds with a maturity of one day or less or Federal funds sold under a continuing contract; and

(7) Loans or extensions of credit that have been charged off on the books of the bank in whole or in part, unless the loan or extension of credit:

(a) Is unenforceable by reason of discharge in bankruptcy;

(b) Is no longer legally enforceable because of expiration of the statute of limitations or a judicial decision; or

(c) Is no longer legally enforceable for other reasons, provided that the bank maintains sufficient records to demonstrate that the loan is unenforceable.

b. The following items do not constitute loans or extensions of credit for the purposes of this Rule:

(1) Additional funds advanced for the benefit of a borrower by a bank for payment of taxes, insurance, utilities, security, and maintenance, and operating expenses necessary to preserve the value of real property securing the loan, consistent with safe and sound banking practices, but only if the advance is for the protection of the bank's interest. However, such amounts must be treated as an extension of credit if a new loan or extension of credit is made to the borrower;

(2) Accrued and discounted interest on an existing loan or extension of credit, including interest that has been capitalized from prior notes, and interest that has been advanced under terms and conditions of a loan agreement;

(3) Financed sales of a bank's own assets, including other real estate owned, if the financing does not put the bank in a worse position than when the bank held title to the assets;

(4) A renewal or restructuring of a loan as a new loan or extension of credit, following the exercise by a bank of reasonable efforts, consistent with safe and sound banking practices, to bring the loan into conformance with the lending limit, unless new funds are advanced by the bank to the borrower, except as permitted by Paragraph (C)(5) of this Rule, or a new borrower replaces the original borrower, or the Banking Board determines that a renewal or restructuring was undertaken as a means to evade the bank's lending limit;

(5) Amount paid against uncollected funds in the normal process of collection; and

(6) (a) The portion of a loan or extension of credit, sold as a participation by a bank on a nonrecourse basis, provided that the participation results in a pro rata sharing of credit risk proportionate to the respective interests of the originating and participating lenders. Where a participation agreement provides that repayment must be applied first to the portions sold, a pro rata sharing will be deemed to exist only if the agreement also provides that, in the event of a default or comparable event defined in the agreement, participants must share in all subsequent repayments and collections in proportion to their percentage participation at the time of the occurrence of the event.

(b) When an originating bank funds the entire loan, it must receive funding from the participants before the close of business of its next business day. If the participating portions are not received within that period, then the portions funded will be treated as a loan by the originating bank to the borrower. If the portions so attributed to the borrower exceed the originating bank's lending limit, the loan may be treated as nonconforming, subject to Paragraph (I) of this Rule, rather than a violation, if:

(i) The originating bank had a valid and unconditional participation agreement with a participating bank or banks that was sufficient to reduce the loan to within the originating bank's lending limit;

(ii) The participating bank reconfirmed its participation and the originating bank had no knowledge of any information that would permit the participant to withhold its participation; and

(iii) The participation was to be funded by the close of business of the originating bank's next business day.

~~11~~17. "Person" means an individual; sole proprietorship; partnership; joint venture; association; trust; estate; business trust; limited liability company; corporation; not-for-profit corporation; sovereign government or agency; instrumentality; or political subdivision thereof; or any similar entity or organization.

~~12~~18. "Qualifying commitment to lend" means a legally binding written commitment to lend that, when combined with all other outstanding loans and qualifying commitments to a borrower, was within the bank's lending limit when entered into, and has not been disqualified.

a. In determining whether a commitment is within the bank's lending limit when made, the bank may deduct from the amount of the commitment the amount of any legally binding loan participation commitments that are issued concurrent with the bank's commitment and that would be excluded from the definition of "loan or extension of credit" under Paragraph (A)(~~10~~16) of this Rule.

b. If the bank subsequently chooses to make an additional loan, and that subsequent loan, together with all outstanding loans and qualifying commitments to a borrower, exceeds the bank's applicable lending limit at that time, the bank's qualifying commitments to the borrower that exceed the bank's lending limit at that time are deemed to be permanently disqualified, beginning with the most recent qualifying commitment and proceeding in reverse chronological order. When a commitment is disqualified, the entire commitment is disqualified and the disqualified commitment is no longer considered a "loan or extension of credit." Advances of funds under a disqualified or non-qualifying commitment may only be made to the extent that the advance, together with all other outstanding loans to the borrower, do not exceed the bank's lending limit at the time of the advance, calculated pursuant to Paragraph (G) of this Rule.

19. "Qualifying master netting agreement" means any written, legally enforceable bilateral agreement, provided that:

a. The agreement creates a single legal obligation for all individual transactions covered by the agreement upon an event of default, including bankruptcy, insolvency, or similar proceeding, of the counterparty;

b. The agreement provides the bank the right to accelerate, terminate, and close-out on a net basis all transactions under the agreement and to liquidate or set off collateral promptly upon an event of default, including upon an event of bankruptcy, insolvency, or similar proceeding, of the counterparty, provided that, in any such case, any exercise of rights under the agreement will not be stayed or avoided under applicable law in the relevant jurisdictions;

c. The bank has conducted sufficient legal review to conclude with a well-founded basis (and maintains sufficient written documentation of that legal review) that:

(1) The agreement meets the requirements of paragraph (b) of this definition; and

(2) In the event of a legal challenge (including one resulting from default or from bankruptcy, insolvency, or similar proceeding) the relevant court and administrative authorities would find the agreement to be legal, valid, binding, and enforceable under the law of the relevant jurisdictions;

d. The bank established and maintains procedures to monitor possible changes in relevant law and to ensure that the agreement continues to satisfy the requirements of this definition; and

e. The agreement does not contain a walkaway clause (that is, a provision that permits a non-defaulting counterparty to make a lower payment than it would make otherwise under the agreement, or no payment at all, to a defaulter or the estate of a defaulter, even if the defaulter or the estate of the defaulter is a net creditor under the agreement).

~~13~~20. "Readily marketable collateral" means financial instruments and bullion that are salable under ordinary market conditions with reasonable promptness at a fair market value determined by quotations based on actual transactions on an auction or similarly available daily bid and ask price market.

~~14~~21. "Readily marketable staple" means an article of commerce, agriculture, or industry, such as wheat and other grains, cotton, wool, and basic metals such as tin, copper and lead, in the form of standardized interchangeable units, that is easy to sell in a market with sufficiently frequent price quotations.

a. An article comes within this definition if:

(1) The exact price is easy to determine, and

(2) The staple itself is easy to sell at any time at a price that would not be considerably less than the amount at which it is valued as collateral.

b. Whether an article qualifies as a readily marketable staple depends upon existing conditions at the time the loan or extension of credit that is secured by the staple is made.

~~15~~22. "Residential real estate loan" means a loan or extension of credit that is secured by 1-4 family residential real estate.

~~16~~23. "Sale of federal funds" means any transaction between depository institutions involving the transfer of immediately available funds resulting from credits to deposit balances at Federal Reserve Banks, or from credits to new or existing deposit balances due from a correspondent depository institution.

24. "Securities financing transaction" means a repurchase agreement, reverse repurchase agreement, securities lending transaction, or securities borrowing transaction.

~~17~~25. "Small business loan" means a loan or extension of credit secured by nonfarm nonresidential properties or a commercial or industrial loan as defined in the instructions for preparation of the Consolidated Report of Condition and Income.

~~18~~26. "Standby letter of credit" means any letter of credit, or similar arrangement, that represents an obligation to the beneficiary on the part of the issuer to:

a. Repay money borrowed by or advanced to or for the account of the account party;

b. Make payment on account of any indebtedness undertaken by the account party; or

c. Make payment on account of any default by the account party in the performance of an obligation.

27. "Type I security" means:

a. Obligations of the United States;

b. Obligations issued, insured, or guaranteed by a department or an agency of the United States Government, if the obligation, insurance, or guarantee commits the full faith and credit of the United States for the repayment of the obligation;

c. Obligations issued by a department or agency of the United States, or an agency or political subdivision of a State of the United States, that represent an interest in a loan or a pool of loans made to third parties, if the full faith and credit of the United States has been validly pledged for the full and timely payment of interest on, and principal of, the loans in the event of non-payment by the third party obligor(s); and

d. General obligations of a State of the United States or any political subdivision thereof; and municipal bonds if the bank is well capitalized as defined in CB101.52.

B. General Limitations

1. A bank's total outstanding loans and extensions of credit to one borrower may not exceed 15 percent of the bank's capital and surplus, plus an additional 10 percent of the bank's capital and surplus, if the amount that exceeds the bank's 15 percent general limit is fully secured by readily marketable collateral as defined in Paragraph (A)(~~13~~20) of this Rule. To qualify for the additional 10 percent limit, the bank must perfect a security interest in the collateral under applicable law and the collateral must have a current market value at all times of at least 100 percent of the amount of the loan or extension of credit that exceeds the bank's 15 percent general limit.

C. Additional Limitations

The following loans or extensions of credit are subject to the lending limits set forth below. When loans and extensions of credit qualify for more than one additional lending limit, the additional limits are cumulative, i.e., increasing by successive additions.

1. Loans secured by bills of lading or warehouse receipts covering readily marketable staples as defined in Paragraph (A)(~~14~~21) of this Rule.

a. A bank's loans or extensions of credit to one borrower secured by bills of lading, warehouse receipts, or similar documents transferring or securing title to readily marketable staples, may not exceed 35 percent of the bank's capital and surplus in addition to the amount allowed under the bank's general limit. The market value of the staples securing the loan must at all times equal at least 115 percent of the outstanding loan amount that exceeds the bank's general limit.

b. The staples must be nonperishable, may be refrigerated or frozen, and must be fully covered by insurance, if such insurance is customary. Whether a staple is non-perishable must be determined on a case-by-case basis because of differences in handling and storing commodities.

c. This additional limit applies to a loan or extension of credit arising from a single transaction or secured by the same staples, provided that the duration of the loan or extension of credit is:

(1) Not more than ten (10) months if secured by nonperishable staples; or

(2) Not more than six (6) months if secured by refrigerated or frozen staples.

d. The holder of the warehouse receipts, order bills of lading, documents qualifying as documents of title under the Uniform Commercial Code, or other similar documents, must have control and be able to obtain immediate possession of the staple so that the bank is able to sell the underlying staples and promptly transfer

title and possession to a purchaser if default should occur on a loan secured by such documents. The existence of a brief notice period, or similar procedural requirements under applicable law, for the disposal of the collateral will not affect the eligibility of instruments for this additional limit.

(1) Field warehouse receipts are an acceptable form of collateral when they are issued by a duly bonded and licensed grain elevator or warehouse having exclusive possession and control of the staples, even though the grain elevator or warehouse is maintained on the premises of the owner of the staples.

(2) Warehouse receipts issued by the borrower-owner that is a grain elevator or warehouse company, duly-bonded and licensed and regularly inspected by state or Federal authorities, may be considered eligible collateral under this provision only when the receipts are registered with an independent registrar whose consent is required before the staples may be withdrawn from the warehouse.

2. Discount of installment consumer paper.

a. A bank's loans and extensions of credit to one borrower that arise from the discount of negotiable or nonnegotiable installment consumer paper, as defined in Paragraph (A)(5) of this Rule, that carry a full recourse endorsement or unconditional guarantee by the person selling the paper, may not exceed 10 percent of the bank's capital and surplus in addition to the amount allowed under the bank's general limit. An unconditional guarantee may be in the form of a repurchase agreement or separate guarantee agreement. A condition reasonably within the power of the bank to perform, such as the repossession of collateral, will not make conditional an otherwise unconditional guarantee.

b. Where the seller of the paper offers only partial recourse to the bank, the lending limits of this section apply to the obligation of the seller to the bank, which is measured by the total amount of paper the seller may be obligated to repurchase or has guaranteed.

c. Where the bank is relying primarily upon the maker of the paper for payment of the loans or extensions of credit and not upon any full or partial recourse endorsement or guarantee by the seller of the paper, the lending limits of this Rule apply only to the maker. The bank must substantiate its reliance on the maker with:

(1) Records supporting the bank's independent credit analysis of the maker's ability to repay the loan or extension of credit, such records being maintained by the bank or by a third party that is contractually obligated to make those records available for examination purposes; and

(2) A written certification by an officer of the bank, authorized by the board of directors or any designee of that officer, that the bank is relying primarily upon the maker to repay the loan or extension of credit.

d. Where paper is purchased in substantial quantities, the records, evaluation, and certification must be in a form appropriate for the class and quantity of the paper involved. The bank may use sampling techniques, or other appropriate methods, to independently verify the reliability of the credit information supplied by the seller.

3. Loans secured by documents covering livestock.

a. A bank's loans or extensions of credit to one borrower secured by shipping documents or instruments that transfer or secure title to, or give a first lien on livestock, may not exceed 10 percent of the bank's capital and surplus in addition to the amount allowed under the bank's general limit. The market value of the livestock securing the loan must at all times equal at least 115 percent of the amount of the outstanding loan that exceeds the bank's general limit. For the purposes of this Rule, the term "livestock" includes dairy and beef cattle, hogs, sheep, goats, horses, mules, poultry, and fish, whether or not held for resale.

b. The bank must maintain in its files an inspection and valuation for the livestock pledged that is reasonably current, taking into account the nature and frequency of turnover of livestock to which the documents relate, but in any case not more than twelve (12) months old.

c. Under the laws of this state, persons furnishing pasturage under a grazing contract may have a lien on the livestock for the amount due for pasturage. If a lien that is based on pasturage furnished by the lienor prior to the bank's loan or extension of credit is assigned to the bank by a recordable instrument and protected against being defeated by some other lien or claim, by payment to a person other than the bank, or otherwise, it will qualify under this additional limit provided the amount of the perfected lien is at least equal to the amount of the loan, and the value of the livestock is at no time less than 115 percent of the portion of the loan or extension of credit that exceeds the bank's general limit. When the amount due under the grazing contract is dependent upon future performance, the resulting lien does not meet the requirements of the additional limit.

4. Loans secured by dairy cattle. A bank's loans and extensions of credit to one borrower that arise from the discount by dealers in dairy cattle of paper given in payment for the cattle, may not exceed 10 percent of the bank's capital and surplus in addition to the amount allowed under the bank's general limit. To qualify, the paper must:

a. Carry the full recourse endorsement or unconditional guarantee of the seller; and

b. Be secured by the cattle being sold, pursuant to liens that allow the bank to maintain a perfected security interest in the cattle under applicable law.

5. Additional advances to complete project financing pursuant to renewal of a qualifying commitment to lend. A bank may renew a qualifying commitment to lend, as defined in Paragraph (A)(~~12~~18) of this Rule, and complete funding under that commitment if all of the following criteria are met:

a. The completion of funding is consistent with safe and sound banking practices and is made to protect the position of the bank;

b. The completion of funding will enable the borrower to complete the project for which the qualifying commitment to lend was made; and

c. The amount of the additional funding does not exceed the unfunded portion of the bank's qualifying commitment to lend.

D. Not Subject to Lending Limits

1. Loans arising from the discount of commercial or business paper.

   a. Loans or extensions of credit arising from the discount of negotiable commercial or business paper that evidences an obligation to the person negotiating the paper. The paper must:

      (1) Be given in payment of the purchase price of commodities purchased for resale, fabrication of a product, or any other business purpose that may reasonably be expected to provide funds for payment of the paper; and

      (2) Bear the full recourse endorsement of the owner of the paper, except that paper discounted in connection with export transactions, that is transferred without recourse, or with limited recourse, must be supported by an assignment of appropriate insurance covering the political, credit, and transfer risks applicable to the paper, such as insurance provided by the Export-Import Bank.

   b. A failure to pay principal or interest on commercial or business paper when due does not result in a loan or extension of credit to the maker or endorser of the paper; however, the amount of such paper must thereafter be counted in determining whether additional loans or extensions of credit to the same borrower may be made within the limits of this Rule.

2. Banker acceptances. A bank's acceptance of drafts eligible for rediscount ~~under 12 U.S.C. 372 and 373,~~ or a bank's purchase of acceptances created by other banks that are eligible for rediscount ~~under those sections;~~ but not including:

   a. A bank's acceptance of drafts ineligible for rediscount, which constitutes a loan by the bank to the customer for whom the acceptance was made, in the amount of the draft;

   b. A bank's purchase of ineligible acceptances created by other banks, which constitutes a loan from the purchasing bank to the accepting bank, in the amount of the purchase price; and

   c. A bank's purchase of its own acceptances, which constitutes a loan to the bank's customer for whom the acceptance was made, in the amount of the purchase price.

3. Loans secured by U.S. obligations. Loans or extensions of credit, or portions thereof, to the extent they are fully secured by the current market value of:

   a. Bonds, notes, certificates of indebtedness, or Treasury bills of the United States or by similar obligations fully guaranteed as to principal and interest by the United States;

   b. Loans to the extent they are guaranteed as to repayment of principal by the full faith and credit of the U.S. government, as set forth in Paragraph (D)(4)(b) of this Rule;

   c. To qualify under this Paragraph, the bank must perfect a security interest in the collateral under applicable law.

4. Loans to or guaranteed by a federal agency.

a. Loans or extensions of credit to any department, agency, bureau, board, commission, or establishment of the United States, or any corporation wholly owned directly or indirectly by the United States.

b. Loans or extensions of credit, including portions thereof, to the extent they are secured by unconditional takeout commitments or guarantees of any of the foregoing governmental entities. The commitment or guarantee must:

(1) Be payable in cash or its equivalent within sixty (60) days after demand for payment is made:

(2) Be considered unconditional if the protection afforded the bank is not substantially diminished or impaired if loss should result from factors beyond the bank's control. Protection against loss is not materially diminished or impaired by procedural requirements, such as an agreement to pay on the obligation only in the event of default, including default over a specific period of time, a requirement that notification of default be given within a specified period after its occurrence, or a requirement of good faith on the part of the bank.

5. Loans to or guaranteed by general obligations of a state or political subdivision.

a. A loan or extension of credit to a state or political subdivision that constitutes a general obligation of the state or political subdivision, and for which the lending bank has an opinion of counsel or the opinion of the state Attorney General, or other state legal official with authority to opine on the obligation in question, that the loan or extension of credit is a valid and enforceable general obligation of the borrower; and

b. A loan or extension of credit, including portions thereof, to the extent they are guaranteed or secured by a general obligation of the state or political subdivision and for which the lending bank has an opinion of counsel or the opinion of the state Attorney General, or other state legal official with authority to opine on the guarantee or collateral in question, that the guarantee or collateral is a valid and enforceable general obligation of that public body.

6. Loans secured by segregated deposit accounts. Loans or extensions of credit, including portions thereof, to the extent secured by a segregated deposit account in the lending bank, provided a security interest in the deposit has been perfected under applicable law.

a. Where the deposit is eligible for withdrawal before the secured loan matures, the bank must establish internal procedures to prevent release of the security without the lending bank's prior consent.

b. A deposit that is denominated and payable in a currency other than that of the loan or extension of credit that it secures may be eligible for this exception if the currency is freely convertible to U.S. dollars.

(1) This exception applies to only that portion of the loan or extension of credit that is covered by the U.S. dollar value of the deposit.

(2) The lending bank must establish procedures to periodically revalue foreign currency deposits to ensure that the loan or extension of credit remains fully secured at all times.

7. Loans to financial institutions with the approval of the Banking Board.

   a. Loans or extensions of credit to any financial institution or to any receiver, conservator, or other agent in charge of the business and property of a financial institution when an emergency situation exists and a bank is asked to provide assistance to another financial institution and the loan is approved by the Banking Board.

8. Loans to the Student Loan Marketing Association. Loans or extensions of credit to the Student Loan Marketing Association.

9. Loans to industrial development authorities. A loan or extension of credit to an industrial development authority or similar public entity created to construct and lease a plant facility, including a health care facility, to an industrial occupant will be deemed a loan to the lessee, provided that:

   a. The bank evaluates the creditworthiness of the industrial occupant before the loan is extended to the authority;

   b. The authority's liability with respect to the loan is limited solely to whatever interest it has in the particular facility;

   c. The authority's interest is assigned to the bank as security for the loan, or the industrial occupant issues a promissory note to the bank that provides a higher order of security than the assignment of a lease; and

   d. The industrial occupant's lease rentals are assigned and paid directly to the bank.

10. Loans to leasing companies. A loan or extension of credit to a leasing company for the purpose of purchasing equipment for lease will be deemed a loan to the lessee, provided that:

   a. The bank evaluates the creditworthiness of the lessee before the loan is extended to the leasing corporation;

   b. The loan is without recourse to the leasing corporation;

   c. The bank is given a security interest in the equipment and in the event of default may proceed directly against the equipment and the lessee for any deficiency resulting from the sale of the equipment;

   d. The leasing corporation assigns all of its rights under the lease to the bank;

   e. The lessee's lease payments are assigned and paid to the bank; and

   f. The lease terms are subject to the same limitations that would apply to a bank acting as a lessor.

11. Credit Exposures arising from transactions financing certain government securities. Credit exposures arising from securities financing transactions in which the securities financed are Type I securities, as defined in Paragraph (A)(27).

12. Intraday credit exposures. Intraday credit exposures arising from a derivative transaction or securities financing transaction.

E. Special Lending Authority

1. In addition to the general limitations set forth in Paragraph (B) of this Rule, a bank that has applied to the Division of Banking, and received approval from the Commissioner, to exercise special lending authority may make loans or extensions of credit in an amount up to 10 percent of its capital and surplus.

2. The total amount of a bank's loans and extensions of credit made pursuant to Paragraphs (B) and (E) of this rule shall not exceed 25 percent of the bank's capital and surplus.

3. The total outstanding amount of a bank's loans and extension of credit to all of its borrowers made pursuant to Paragraphs (B) and (E) shall not exceed 250 percent of the bank's capital and surplus.

4. The special lending authority provided in this Paragraph (E) may not be used to increase the general limits for loans made to executive officers, directors, and principal shareholders as defined in Banking Board Rule CB101.37(C).

F. Application Process

1. A bank must submit an application to the Division of Banking and receive written approval from the Commissioner prior to using the special lending authority authorized in Paragraph (E) of this Rule.

2. The Commissioner will approve such requests for special lending authority upon receipt of a completed application and finding that such approval is consistent with safe and sound banking practices.

3. To be deemed complete, an application for special lending authority must include:

   a. A copy of a written resolution by a majority of the bank's board of directors approving the use of the special lending limit in Paragraph (E) of this Rule and confirming the terms and conditions for use of the special lending authority;

   b. A description of how the board will exercise its continuing responsibility to oversee the use of this special lending authority; and

   c. Confirmation that the bank is in compliance with the minimum capital standards set forth in Banking Board Rule CB101.51; that the bank is not operating under a formal or informal enforcement or corrective action based on safety and soundness concerns; and that the bank's composite CAMELS rating, and the Capital, Asset Quality, and Management subcomponent ratings assigned at the most recent safety and soundness examination conducted by the Division of Banking, or the bank's primary federal regulator, are either "1" or "2."

4. The Commissioner may rescind a bank's authority to use the special lending limits in Paragraph (E) of this Rule at any time, based upon concerns about the bank's overall credit risk management systems and controls, a decline in capital, or deterioration in the bank's composite or component ratings. The bank must cease making new loans or extensions of credit in reliance on the special limits upon receipt of such notice.

G. Calculation of Lending Limits

1. Calculation date. For purposes of determining compliance with this Rule, a bank shall calculate its lending limit as of the most recent of the following dates:

    a. The last day of the preceding calendar quarter; or

    b. The date on which there is a change in the bank's capital category.

2. Effective date.

    a. A bank's lending limit calculated in accordance with Paragraph (G)(1)(a) of this Rule will be effective as of the earlier of the following dates:

        (1) The date on which the bank's Call Report is submitted; or

        (2) The date on which the bank's Call Report is required to be submitted.

    b. A bank's lending limit calculated in accordance with Paragraph (G)(1)(b) of this Rule will be effective on the date that the limit is to be calculated.

3. More frequent calculations. If the Banking Board determines for safety and soundness reasons that a bank should calculate its lending limit more frequently than required by Paragraph (G)(1) of this Rule, the Banking Board may provide written notice to the bank directing the bank to calculate its lending limit at a more frequent interval, and the bank will thereafter calculate its lending limit at that interval until further notice.

H. Combination Rules Combining Loans to Separate Borrowers

1. General rule. Loans or extensions of credit to one borrower will be attributed to another person and each person will be deemed a borrower when:

    a. The proceeds of the loan or extension of credit are to be used for the direct benefit of the other person, to the extent of the proceeds so used; or

    b. A common enterprise is deemed to exist between the persons.

2. Direct benefit. The proceeds of a loan or extension of credit to a borrower will be deemed to be used for the direct benefit of another person and will be attributed to the other person when the proceeds, or assets purchased with the proceeds, are transferred to another person, other than in a bona fide arm's length transaction where the proceeds are used to acquire property, goods, or services.

3. Common enterprise. A common enterprise will be deemed to exist and loans to separate borrowers will be aggregated when:

    a. The expected source of repayment for each loan or extension of credit is the same for each borrower and neither borrower has another source of income from which the loan, together with the borrower's other obligations, may be fully repaid. An employer will not be treated as a source of repayment under this Paragraph because of wages and salaries paid to an employee, unless the standards of Paragraph (H)(3)(b) of this Rule are met.

    b. Loans or extensions of credit are made:

(1) To borrowers who are related directly or indirectly through common control, including where one borrower is directly or indirectly controlled by another borrower; and

(2) Substantial financial interdependence exists between or among the borrowers. Substantial financial interdependence is deemed to exist when 50 percent or more of one borrower's gross receipts or gross expenditures, on an annual basis, are derived from transactions with the other borrower. Gross receipts and expenditures include gross revenues/expenses, intercompany loans, dividends, capital contributions, and similar receipts or payments;

c. Separate persons borrow from a bank to acquire a business enterprise of which those borrowers will own more than 50 percent of the voting securities or voting interests, in which case a common enterprise is deemed to exist between the borrowers for purposes of combining the acquisition loan.

d. The Banking Board determines, based upon an evaluation of the facts and circumstances of particular transactions, that a common enterprise exists.

4. Special rules for loans to a corporate group.

a. Loans or extensions of credit by a bank to a corporate group may not exceed 50 percent of the bank's capital and surplus. This limitation applies only to loans subject to the combined general limit. A corporate group includes a person and all of its subsidiaries. For purposes of this Paragraph, a corporation or limited liability company is a subsidiary of a person if the person owns or beneficially owns, directly or indirectly, more than 50 percent of the voting securities or voting interests of the corporation or company.

b. Except as provided in Paragraph (H)(4)(a) of this Rule, loans or extensions of credit to a person and its subsidiary, or to different subsidiaries of a person, are not combined unless either the common enterprise or direct benefit test is met.

5. Special rules for loans to partnerships, joint ventures, and associations.

a. Partnership loans. Loans or extensions of credit to a partnership, joint venture, or association are deemed to be loans or extensions of credit to each member of the partnership, joint venture, or association. This Rule is not applicable to limited partners in limited partnerships or to members of joint ventures or associations if the partners or members, by the terms of the partnership or membership agreement, are not held generally liable for the debts or actions of the partnership, joint venture, or association, and those provisions are valid under applicable law.

b. Loans to partners.

(1) Loans or extensions of credit to members of a partnership, joint venture, or association are not attributed to the partnership, joint venture, or association unless either the direct benefit or common enterprise tests are met as defined in Paragraphs (H)(2) and (3) of this Rule. Both the direct benefit and common enterprise tests are met between a member of a partnership, joint venture, or association and such partnership, joint venture, or association, when loans or extensions of credit are made to

the member to purchase an interest in the partnership, joint venture, or association.

(2) Loans or extensions of credit to members of a partnership, joint venture, or association are not attributed to other members of the partnership, joint venture, or association unless either the direct benefit or common enterprise test is met.

6. Loans to foreign governments, their agencies, and instrumentalities.

a. Aggregation. Loans and extensions of credit to foreign governments, their agencies, and instrumentalities will be aggregated with one another only if the loans or extension of credit fail to meet either the means test or the purpose test at the time the loan or extension of credit is made:

(1) The means test is satisfied if the borrower has resources or revenue of its own sufficient to service its debt obligations. If the government's support, excluding guarantees by a central government of the borrower's debt, exceeds the borrower's annual revenues from other sources, it will be presumed that the means test has not been satisfied.

(2) The purpose test is satisfied if the purpose of the loan or extension of credit is consistent with the purposes of the borrower's general business.

b. Documentation. In order to show that the means and purpose tests have been satisfied, a bank must, at a minimum, retain in its files the following items:

(1) A statement, accompanied by supporting documentation, describing the legal status and the degree of financial and operational autonomy of the borrowing entity;

(2) Financial statements for the borrowing entity for a minimum of three years prior to the date the loan or extension of credit was made, or for each year that the borrowing entity has been in existence, if less than three;

(3) Financial statements for each year the loan or extension of credit is outstanding;

(4) The bank's assessment of the borrower's means of servicing the loan or extension of credit, including specific reasons in support of that assessment. The assessment shall include an analysis of the borrower's financial history, its present and projected economic and financial performance, and the significance of any financial support provided to the borrower by third parties, including the borrower's central government; and

(5) A loan agreement or other written statement from the borrower that clearly describes the purpose of the loan or extension of credit. The written representation will ordinarily constitute sufficient evidence that the purpose test has been satisfied. However, when, at the time the funds are disbursed, the bank knows or has reason to know of other information suggesting that the borrower will use the proceeds in a manner inconsistent with the written representation, it may not, without further inquiry, accept the representation.

7. Restructured loans.

a. Non-combination rule. Notwithstanding Paragraphs (H)(1) through (5) of this Rule, when previously outstanding loans and other extensions of credit to a foreign government, its agencies, and instrumentalities (i.e., public-sector obligors) that qualified for a separate lending limit under Paragraph (H)(6)(a) of this Rule are consolidated under a central obligor in a qualifying restructuring, such loans will not be combined and attributed to the central obligor. This includes any substitution in named obligors, solely because of the restructuring. Such loans, other than loans originally attributed to the central obligor in their own right, will not be considered obligations of the central obligor and will continue to be attributed to the original public-sector obligor for the purposes of the lending limit.

b. Qualifying restructuring. Loans and other extensions of credit to a foreign government, its agencies, and instrumentalities will qualify for the non-combination process under Paragraph (H)(7)(a) of this Rule only if they are restructured in a sovereign debt restructuring approved by the Banking Board, upon request by a bank, for application of the non-combination rule. The factors that the Banking Board will use in making this determination include, but are not limited to, the following:

(1) Whether the restructuring involves a substantial portion of the total commercial bank loans outstanding to the foreign government, its agencies, and instrumentalities;

(2) Whether the restructuring involves a substantial number of the foreign country's external commercial bank creditors;

(3) Whether the restructuring and consolidation under a central obligor is being done primarily to facilitate external debt management; and

(4) Whether the restructuring includes features of debt or debt-service reduction.

c. Fifty percent aggregate limit. With respect to any case in which the non-combination process under Paragraph (H)(7)(a) of this Rule applies, a bank's loans and other extensions of credit to a foreign government, its agencies, and instrumentalities, including restructured debt, shall not exceed, in the aggregate, 50 percent of the bank's capital and surplus.

I. Nonconforming Loans.

1. A loan or extension of credit, within a bank's legal limit when made, will not be deemed a violation but will be treated as nonconforming if the loan or extension of credit is no longer in conformity with the bank's lending limit because:

a. The bank's capital has declined, borrowers have subsequently merged or formed a common enterprise, lenders have merged, the lending limit or capital rules have changed; or

b. Collateral securing the loan to satisfy the requirements of a lending limit exception has declined in value; or~~.~~

c. In the case of a credit exposure arising from a derivative transaction or securities financing transaction and as measured by the Internal Model Method specified in this Rule, the credit exposure subject to the lending limits of Paragraph (G) or the increases after execution of the transaction.

2. A bank must use reasonable efforts to bring a loan that is nonconforming as a result of Paragraph (I)(1)(a) of this Rule into conformity with the bank's lending limit, unless to do so would be inconsistent with safe and sound banking practices.

3. A bank must bring a loan that is nonconforming as a result of circumstances described in Paragraph (I)(1)(b) of this Rule into conformity with the bank's lending limit within thirty (30) calendar days, except when judicial proceedings, regulatory actions, or other extraordinary circumstances beyond the bank's control prevent the bank from taking action.

J. Separate Limitations for Investment Securities.

1. A bank may make loans or extensions of credit to one borrower up to the full amount permitted by this Rule and also hold eligible investment securities of the same obligor up to the full amount permitted by Banking Board Rule CB101.59. In order for a security to be an "investment security" it must be eligible for investment by a bank in accordance with the standards set forth in Banking Board Rule CB101.59.

K. Approval by Banking Board.

1. Upon application by an institution to the Banking Board, the Banking Board may allow an institution to exceed the lending limit for a specific loan or extension of credit if the institution proves that the loan or extension of credit will not adversely impact the safe and sound operations of the institution or the protection of the depositors. In making its decision, the Banking Board shall consider the quality of the loan or extension of credit and the benefit to the community of the loan or extension of credit.

2. The Banking Board shall also have the authority to determine when a loan putatively made to a person shall, for purposes of Paragraph (H) of this Rule, be attributed to another person.

L. Credit Exposure Arising from Derivative and Securities Financing Transactions

1. Scope. This section sets forth the rules for calculating the credit exposure arising from a derivative transaction or a securities financing transaction entered into by a bank for purposes of determining the bank's lending limit.

2. Derivative transactions.

a. Non-Credit Derivatives. Subject to paragraphs (2)(b) and (2)(c) of this section, a bank shall calculate the credit exposure to a counterparty arising from a derivative transaction by one of the following methods. Subject to paragraph (2)(c) of this section, a bank shall use the same method for calculating counterparty credit exposure arising from all of is derivative transactions.

(1) Internal Model Method.

(a) Credit exposure. The credit exposure of a derivative transaction under the Internal Model Method shall equal the sum of the

current credit exposure of the derivative transaction and the potential future credit exposure of the derivative transaction.

(b) Calculation of current credit exposure. A bank shall determine its current credit exposure by the mark-to-market value of the derivative contract. If the mark-to-market value is positive, then the current credit exposure equals that mark-to-market value. If the mark-to-market value is zero or negative, then the current credit exposure is zero.

(c) Calculation of potential future credit exposure. A bank shall calculate its potential future credit exposure by using an internal model that has been approved by the Division and the appropriate Federal banking agency for purposes of Paragraph L or any other appropriate model approved by the appropriate Federal banking agency.

(d) Net credit exposure. A bank that calculates its credit exposure by using the Internal Model Method pursuant to this paragraph may net credit exposure of derivative transactions arising under the same qualifying master netting agreement.

(2) Conversion Factor Matrix Method. The credit exposure arising from a derivative transaction under the Conversion Factor Matrix Method shall equal and remain fixed at the potential future credit exposure of the derivative transaction as determined at the execution of the transaction by reference to Table 1 below.

Table 1 – Conversion Factor Matrix for Calculating Potential Future Credit Exposure.[1]

Original maturity[2]	Interest Rate	Foreign exchange rate and gold	Equity	Other[3] (includes commodities and precious metals except gold)
1 year or less	0.015	0.015	0.20	0.06
Over 1 to 3 years	0.03	0.03	0.20	0.18
Over 3 to 5 years	0.06	0.06	0.20	0.30
Over 5 to 10 years	0.12	0.12	0.20	0.60
Over ten years	0.30	0.30	0.20	1.0

(3) Remaining Maturity Method. The credit exposure arising from a derivative transaction under the Remaining Maturity Method shall equal the greater of zero or the sum of the current mark-to-market value of the derivative transaction added to the product of the notional amount of the transaction, the remaining maturity in years of the transaction, and fixed multiplicative factor determined by reference to Table 2 below.

[1] For an OTC derivative contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the derivative contract.
[2] For an OTC derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the market value of the contract is zero, the remaining maturity equals the time until the next reset date. For an interest rate derivative contract with a remaining maturity of greater than one year that meets these criteria, the minimum conversion factor is 0.005.
[3] Transactions not explicitly covered by any other column in the Table are to be treated as "Other".

Table 2 – Remaining Maturity Factor for Calculating Credit Exposure.

	Interest Rate	Foreign exchange rate and gold	Equity	Other[4] (includes commodities and precious metals except gold)
Multiplicative Factor	1.5%	1.5%	6%	6%

b. Credit Derivatives.

(1) Notwithstanding paragraph (2)(a) of this section, a bank that uses the Conversion Factor Matrix Method or Remaining Maturity Method, or that uses the Internal Model Method without entering an effective margining arrangement as defined in Paragraph (A)(11) shall calculate the counterparty credit exposure arising from credit derivatives entered by the bank by adding the net notional value of all protection purchased from the counterparty on each reference entity.

(2) A bank shall calculate the credit exposure to a reference entity arising from credit derivatives entered by the bank by adding the notional value of all protections sold on the reference entity. However, the bank may reduce its exposure to a reference entity by the amount of any eligible credit derivative purchased on that reference entity from an eligible protection provider.

c. Mandatory use of a certain method. The Division may require a bank to use the Internal Model Method set forth in paragraph (2)(a)(1), the Conversion Factor Matrix Method set forth in paragraph (2)(a)(2), or the Remaining Maturity Method set forth in paragraph (2)(a)(3) to calculate the credit exposure of derivative transactions if it finds that such method is necessary to promote the safety and soundness of the bank.

3. Securities Financing Transactions.

a. In general. Except as provided by paragraph (3)(b) of this section, a bank shall calculate the credit exposure arising from a securities financing transaction by one of the following methods. A bank shall use the same method for calculating credit exposure arising from all of its securities financing transactions.

(1) Internal Model Method. A bank may calculate the credit exposure of a securities financing transaction by using an internal model approved by the Division and the appropriate Federal banking agency for purposes of Paragraph (L)(2)(a)(1) or any other appropriate model approved by the appropriate Federal banking agency.

(2) Non-Model Method. A bank may calculate the credit exposure of a securities financing transaction as follows:

(a) Repurchase agreement. The credit exposure arising from a repurchase agreement shall equal and remain fixed at the

[4] Transactions not explicitly covered by any other column in the Table are to be treated as "Other".

market value at execution of the transaction of the securities transferred to the other party less cash received.

(b) Securities lending.

(i) Cash collateral transactions. The credit exposure arising from a securities lending transaction where the collateral is cash shall equal and remain fixed at the market value at execution of the transaction of securities transferred less cash received.

(ii) Non-cash collateral transactions. The credit exposure arising from a securities lending transaction where the collateral is other securities shall equal and remain fixed as the product of the higher of the two haircuts associated with the two securities, as determined in Table below, and the higher of the two par values of the securities.

(c) Reverse repurchase agreements. The credit exposure arising from a reverse repurchase agreement shall equal and remain fixed as the product of the haircut associated with the collateral received, as determined in Table 3 below, and the amount of cash transferred.

(d) Securities borrowing.

(i) Cash collateral transactions. The credit exposure arising from a securities borrowed transaction where the collateral is cash shall equal and remain fixed as the product of the haircut on the collateral received, as determined in Table 3 below, and the amount of cash transferred to the other party.

(ii) Non-cash collateral transactions. The credit exposure arising from a securities borrowed transaction where the collateral is other securities shall equal and remain fixed as the product of the higher of the two haircuts associated with the two securities, as determined in Table 3 below, and the higher of the two par values of the securities.

Table 3 – Collateral Haircuts

	Residual maturity	Haircut without currency mismatch[5]
SOVEREIGN ENTITIES		
OECD Country Risk Classification 0-1	<= 1 year >1 year, <= 5 years >5 years	0.005 0.02 0.04
OECD Country Risk Classification 2-3	<= 1 year >1 year, <= 5 years >5 years	0.01 0.03 0.06
CORPORATE AND MUNICIPAL BONDS THAT ARE BANK-ELIGIBLE INVESTMENTS		
	Residual maturity for debt securities	Haircut without currency mismatch
All All All	<= 1 year >1 year, <= 5 years >5 years	0.02 0.06 0.12
OTHER ELIGIBLE COLLATERAL		
Main index[6] equities (including convertible bonds) Other publicly traded equities (including convertible bonds) Mutual funds Cash collateral held		0.15 0.25 Highest haircut applicable to any security in which the fund can invest 0

b. Mandatory use of a certain method. A bank may be required to use either the Internal Model Method set forth in Paragraph (L)(2)(a)(1) or the Non-Model Method set for in Paragraph (L)(3)(a)(2) to calculate the credit exposure of securities financing transactions if Division or the appropriate Federal banking agency finds that such method is necessary to promote the safety and soundness of the bank.

[5] In cases where the currency denomination of the collateral differs from the currency denomination of the credit transaction, an additional 8 percent haircut will apply.

[6] Main index means the Standard & Poor's 500 Index, the FTSE All-World Index, and any other index for which the covered company can demonstrate to the satisfaction of the Federal Reserve that the equities represented in the index have comparable liquidity, depth of market, and size of bid-ask spreads as equities in the Standard & Poor's 500 Index and FTSE All-World Index.

~~L~~M. ~~Reference~~ Effective Date and Implementation Date

~~1. Regulation U, also known as 12 U.S.C. 221, is a law enacted by the United States Congress and administered by the Board of Governors of the Federal Reserve System. This Rule does not include amendments to or editions of the referenced material later than the effective date of the Rule, March 30, 2006.~~

~~12 U.S.C. 372 is a law enacted by the United States Congress and administered by the Board of Governors of the Federal Reserve System. This Rule does not include amendments to or editions of the referenced material later than the effective date of the Rule, March 30, 2006.~~

~~12 U.S.C. 373 is a law enacted by the United States Congress and administered by the Board of Governors of the Federal Reserve System. This Rule does not include amendments to or editions of the referenced material later than the effective date of the Rule, March 30, 2006.~~

~~12 C.F.R. 1.3 is a regulation issued and administered by the Comptroller of the Currency under the general authority of the national banking laws, 12 U.S.C. 1 et seq. and under specific authority contained in paragraph Seventh of 12 U.S.C. 24. This Rule does not include amendments to or editions of the referenced material later than the effective date of the Rule, March 30, 2006.~~

~~2. Copies of the above referenced laws and regulations may be examined at any State Publications Depository.~~

~~3. For more detailed information pertaining to these provisions, please contact the Secretary to the Colorado State Banking Board at 1560 Broadway, Suite 1175, Denver, Colorado 80202, (303) 894-7584.~~

This rule shall be effective January 17, 2013. Between January 17, 2013 and July1, 2013, every bank shall make reasonable and diligent efforts to comply. Every bank shall ensure that full and complete compliance is achieved no later than July 1, 2013. Notwithstanding this extension of time for full and complete compliance, the Division of Banking retains full authority to address excessive exposure or undue concentrations through its safety and soundness authority.