

## 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.