

CHAPTER 7

SAFE AND SOUND METHODS OF BANKING

Authority

N.J.S.A. 17:1-15(e), 17:9A-256, 17:9A-260, 17:12B-73, 17:12B-171, 17:12B-172, 17:12B-176 and 17:12B-319.

Source and Effective Date

R.2000 d.481, effective November 6, 2000.
See: 32 N.J.R. 3358(a), 32 N.J.R. 4253(a).

Executive Order No. 66(1978) Expiration Date

Chapter 7, Safe and Sound Methods of Banking, expires on November 6, 2005.

Chapter Historical Note

Chapter 7, Safe and Sound Methods of Banking, was adopted and became effective prior to September 1, 1969.

Subchapter 3, Examination of Banks and Savings Banks Under Direction of Board of Directors, Board of Managers or Board of Trustees, was adopted and Subchapter 4, Examination of Savings Banks Under Direction of Board of Managers, was repealed by R.1975 d.71, effective March 19, 1975. See: 6 N.J.R. 422(b), 7 N.J.R. 128(d).

Subchapter 4, Notice of Maturity on Long-Term Time Deposits, was adopted as new rules by R.1975 d.165, effective August 1, 1975. See: 6 N.J.R. 387(a), 7 N.J.R. 292(b).

Subchapter 5, Statement of Interest of Directors of Banks, Trustees or Managers of Savings Banks and Principal Officers of Banks and Savings Banks, was adopted as R.1975 d.185, effective August 1, 1975. See: 7 N.J.R. 42(b), 7 N.J.R. 293(c).

Pursuant to Executive Order No. 66(1978), Subchapter 4, Notice of Maturity on Long-Term Time Deposits, was readopted as R.1983 d.363, effective August 17, 1983. See: 15 N.J.R. 1053(a), 15 N.J.R. 1467(b).

Pursuant to Executive Order No. 66(1978), Chapter 7, Safe and Sound Methods of Banking, was readopted as R.1990 d.497, effective September 12, 1990. See: 22 N.J.R. 2205(a), 22 N.J.R. 3213(a).

Subchapter 4, Notice of Maturity on Long-Term Time Deposits, was repealed by R.1995 d.244, effective August 7, 1995. See: 27 N.J.R. 793(a), 27 N.J.R. 2883(b).

Pursuant to Executive Order No. 66(1978), Chapter 7, Safe and Sound Methods of Banking, expired on September 12, 1995.

Chapter 7, Safe and Sound Methods of Banking, was adopted as new rules by R.1995 d.571, effective November 6, 1995. See: 27 N.J.R. 3254(a), 27 N.J.R. 4281(a).

Pursuant to Executive Order No. 66(1978), Chapter 7, Safe and Sound Methods of Banking, was readopted as R.2000 d.481, effective November 6, 2000. See: Source and Effective Date. See, also, section annotations.

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SUBCHAPTER 1. FIDELITY BONDS

3:7-1.1 Required fidelity coverage of counsel

(a) When a bank, savings bank or State association permits counsel to handle funds, either for distribution at the time of settlement of a mortgage loan or for any other reason, the bank, savings bank or State association shall procure an endorsement rider to its fidelity bond, procured pursuant to N.J.S.A. 17:9A-115 or 17:12B-73, which will cover counsel and all employees of his or her office concerned with such transactions.

(b) In lieu of procuring a rider to its fidelity bond, a bank, savings bank or State association may supply a letter obtained from its insurance company, certifying that attorneys and their employees who perform the services described in (a) above are covered by insurance as employees of the bank, savings bank or State associations.

Amended by R.1990 d.497, effective October 15, 1990.
See: 22 N.J.R. 2205(a), 22 N.J.R. 3213(a).

Editorial changes including gender neutral language.
Amended by R.1995 d.571, effective November 6, 1995.
See: 27 N.J.R. 3254(a), 27 N.J.R. 4281(a).

Amended by R.2000 d.481, effective December 4, 2000.
See: 32 N.J.R. 3358(a), 32 N.J.R. 4253(a).

Inserted references to State associations throughout; and in (a), changed N.J.S.A. reference.

SUBCHAPTER 2. INTERNAL OPERATIONS PROCEDURE

3:7-2.1 Review of fire insurance

Banks, savings banks and State associations shall periodically review all fire insurance policies supporting loans secured by mortgages and real estate owned by the bank, savings bank or State association to ascertain if the amount of insurance is sufficient considering present values, especially where the policy contains a coinsurance clause. The bank, savings bank or State association may use other prudent means instead of periodic review, such as obtaining insurance for inadequate coverage, to protect itself from exposure to loss from insufficient insurance coverage on these properties.

Amended by R.1990 d.497, effective October 15, 1990.

See: 22 N.J.R. 2205(a), 22 N.J.R. 3213(a).

Added language requiring "periodic" reviews and insurance for inadequate coverage.

Amended by R.2000 d.481, effective December 4, 2000.

See: 32 N.J.R. 3358(a), 32 N.J.R. 4253(a).

Inserted references to State associations throughout.

3:7-2.2 Retention of closing statements

All banks, savings banks and State associations shall obtain closing statements (settlement sheets) from counsel or title companies immediately following mortgage loan closings and file such statements with the documents evidencing the loans.

Amended by R.2000 d.481, effective December 4, 2000.

See: 32 N.J.R. 3358(a), 32 N.J.R. 4253(a).

Inserted a reference to State associations.

3:7-2.3 Verification of payment of real estate taxes

All banks, savings banks and State associations shall verify the payment of taxes by mortgage borrowers at least annually on or before January 15 of each year, either by requiring the presentation of receipted tax bills or by examining or having examinations made of the tax records.

As amended, R.1977 d.428, eff. November 18, 1977.

See: 9 N.J.R. 452(a), 9 N.J.R. 556(a).

Amended by R.2000 d.481, effective December 4, 2000.

See: 32 N.J.R. 3358(a), 32 N.J.R. 4253(a).

Inserted a reference to State associations.

SUBCHAPTER 3. EXAMINATION OF BANKS, SAVINGS BANKS AND STATE ASSOCIATIONS UNDER DIRECTION OF BOARD OF DIRECTORS, BOARD OF MANAGERS OR BOARD OF TRUSTEES

3:7-3.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise.

"Bank" means a bank or savings bank.

"Board of directors" shall include the board of directors of a bank and the board of managers or trustees of a savings bank.

"Department" means the New Jersey Department of Banking and Insurance.

"Internal auditor" means any full or part-time employee of the bank appointed by the board of directors to perform the internal audit function for the bank, including an employee of the bank's holding company who has been delegated by the board of the bank and the board of the holding company to perform the internal audit function.

"State association" means a State association as defined in N.J.S.A. 17:12B-5.

Amended by R.2000 d.481, effective December 4, 2000.

See: 32 N.J.R. 3358(a), 32 N.J.R. 4253(a).

Inserted definitions for "Department" and "State association".

3:7-3.2 Date of examination

The examination shall be commenced within the time period specified in N.J.S.A. 17:9A-253B or 17:12B-176(l). Prior to commencing the examination, the person scheduled to conduct the examination shall notify the Department so as to avoid conflict with an examination pursuant to N.J.S.A. 17:9A-260 or 17:12B-172. In the transmittal or report to the bank, the person conducting the examination shall specify the date of completion of the examination.

Amended by R.1990 d.497, effective October 15, 1990.

See: 22 N.J.R. 2205(a), 22 N.J.R. 3213(a).

Correction to N.J.S.A. cite; requirement that transmittal include the date of completion of examination.

Amended by R.2000 d.481, effective December 4, 2000.

See: 32 N.J.R. 3358(a), 32 N.J.R. 4253(a).

Changed N.J.S.A. references.

3:7-3.3 Confirmation of deposits and debts

The public accountant or other approved person examining for the board of directors shall confirm with certain depositors and debtors the correctness of the deposits due them and debts owed to the bank on various types of loans and contracts purchased. Such confirmations, except for provided exclusions, shall be either of the positive or negative type or any combination of the two types and shall be mailed during each calendar year to the savings deposit accounts and other time deposits, the demand deposit accounts and any and all types of direct loans, serviced loans or contracts purchased. Collateral pledged to secure a loan shall be included in the confirmation. The person conducting the confirmation program will be responsible for resolving to his or her satisfaction any differences disclosed through the confirmation procedures which are deemed to be of a material nature and all such differences which remain unresolved, shall be reported to the board of directors for its further disposition. A schedule reflecting the confirmation program shall be included as a part of the report or included in a supplement to the report.