

CHAPTER 11

INVESTMENTS

Authority

N.J.S.A. 17:1-15(e); 17:2-10; 17:9A-24, 24.13, 25(12), 25.3, 26(7), 60, 62 and 182.1 through 182.3; and 17:12B-165 and 168.

Source and Effective Date

R.2000 d.36, effective January 18, 2000.
See: 31 N.J.R. 1657(a), 32 N.J.R. 265(a).

Chapter Expiration Date

In accordance with N.J.S.A. 52:14B-5.1c, Chapter 11, Investments, expires on July 17, 2005. See: 37 N.J.R. 162(a).

Chapter Historical Note

Chapter 11, Investments, became effective prior to September 1, 1969.

Subchapter 7, Limitation of Liability to a Bank, was adopted as R.1973 d.58, effective March 1, 1973. See: 5 N.J.R. 32(b), 5 N.J.R. 103(b).

Subchapter 1, Loan and Investment Approval, was adopted as R.1973 d.116, effective May 1, 1973. See: 5 N.J.R. 77(a), 5 N.J.R. 136(b).

Subchapter 9, Standby Letters of Credit, was adopted as R.1976 d.306, effective October 1, 1976. See: 8 N.J.R. 411(a), 8 N.J.R. 499(c).

Subchapter 10, Savings Banks: Credit Cards, was adopted as R.1981 d.91, effective March 10, 1981. See: 13 N.J.R. 61(b), 13 N.J.R. 185(b).

Pursuant to Executive Order No. 66(1978), Subchapter 1, Loan and Investment Approval, was readopted as R.1983 d.264, effective June 14, 1983. See: 15 N.J.R. 658(b), 15 N.J.R. 1094(a).

Subchapter 5, Limitation on Investment, Commissioner Approval and Additional Power of Commissioner, was repealed and Subchapter 5, Investment by Bank in Capital Stock of Domestic Operating Subsidiaries, was adopted as new rules by R.1984 d.69, effective March 19, 1984. See: 15 N.J.R. 1787(a), 16 N.J.R. 520(b).

Pursuant to Executive Order No. 66(1978), Subchapter 10, Savings Banks: Credit Cards, was readopted as R.1986 d.93, effective March 19, 1986. See: 18 N.J.R. 241(a), 18 N.J.R. 639(a).

Subchapter 11, Restriction of Leeway Investments, was adopted as R.1986 d.245, effective July 7, 1986. See: 18 N.J.R. 132(a), 18 N.J.R. 1370(b).

Subchapter 12, Savings Banks: Commercial Loans, was adopted as R.1988 d.230, effective May 16, 1988. See: 19 N.J.R. 1679(b), 20 N.J.R. 1075(a).

Pursuant to Executive Order No. 66(1978), Chapter 11, Investments, expired on March 19, 1989.

Chapter 11, Investments, was adopted as new rules by R.1989 d.236, effective May 1, 1989. See: 21 N.J.R. 367(a), 21 N.J.R. 1121(a). Pursuant to Executive Order No. 66(1978), Chapter 11 expired on May 1, 1994.

Chapter 11, Investments, was adopted as new rules by R.1994 d.377, effective July 18, 1994. See: 26 N.J.R. 1909(a), 26 N.J.R. 2892(a). Pursuant to Executive Order No. 66(1978), Chapter 11 expired on July 18, 1999.

Chapter 11, Investments, was adopted as new rules by R.2000 d.36, effective January 18, 2000. See: Source and Effective Date.

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SUBCHAPTER 1. LOAN AND INVESTMENT APPROVAL

3:11-1.1 Approval to exceed 15 percent limitation

(a) The following are persons which may become liable to a bank or obligations in which a bank may invest in an unlimited amount subject only to the exercise of prudent banking judgment.

1. General obligations of any State of the United States or any political subdivision thereof.

2. Such other individual obligations as the Commissioner may from time to time prescribe. A list of these individual obligations shall be kept on file in the office of the Commissioner.

i. Following is the current listing of obligations approved by the Commissioner pursuant to the provisions of this paragraph:

- (1) Banks for Cooperatives;
- (2) Commodity Credit Corporation;
- (3) Export-Import Bank (Participation Certificates or Debentures);
- (4) Farmers Home Administration;

(5) Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes;

(6) Federal Home Loan Bank System;

(7) Federal Intermediate Credit Banks;

(8) Federal Land Bank;

(9) Federal National Mortgage Association;

(10) Government National Mortgage Association;

(11) New Jersey Health Care Facilities Financing Authority (provided that no more than 15 percent may be invested in one obligor (individual hospital) which is responsible for the payment of the particular issue);

(12) New Jersey Economic Development Authority (provided that no more than 15 percent may be invested in bonds issued on behalf of one person. Such bonds, exclusive of any portion that may be guaranteed by the Authority, will be aggregated with any other obligations of that person at the bank for determining the 15 percent limitation. The obligations should be classified as loans and will be reported as such in the Department's examination report).

(b) The following are persons which may become liable to a bank or obligations in which a bank may invest in excess of 15 percent, but not in excess of 25 percent of the capital funds of such bank subject to the exercise of prudent banking judgment.

1. Those obligations as the Commissioner may from time-to-time prescribe. A list of these obligations shall be kept on file in the office of the Commissioner.

i. The following is the current listing of obligations subject to the provisions of this paragraph:

- (1) Delaware River and Bay Authority;
- (2) Delaware River Port Authority;
- (3) New Jersey Highway Authority (non-guaranteed issues);
- (4) New Jersey Housing Finance Agency;
- (5) New Jersey Mortgage Finance Agency;
- (6) New Jersey Sports and Exposition Authority;
- (7) New Jersey Turnpike Authority;
- (8) Port Authority of New York and New Jersey (secured by general reserve fund only).

(c) Prudent banking judgment requires that every bank shall maintain in its files credit information adequate to demonstrate that it has exercised prudence in making the determination to invest in a particular obligation.

(d) Request for addition of an obligation to the listings noted in (a) or (b) above may be made by any bank to the commissioner. Such request should be supported by information in sufficient detail to enable the Commissioner to make the necessary determination and should include the bank's appraisal of the information furnished.

Amended by R.1974 d.93, effective April 16, 1974.

See: 6 N.J.R. 168(b).

Amended by R.1978 d.221, effective July 6, 1978.

See: 10 N.J.R. 316(a).

Amended by R.1979 d.298, effective August 6, 1979.

See: 11 N.J.R. 315(d), 11 N.J.R. 429(c).

Amended by R.1994 d.377, effective July 18, 1994.

See: 26 N.J.R. 1909(a), 26 N.J.R. 2892(a).

3:11-1.2 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 as defined in N.J.S.A. 17:9A-1(1), a savings bank as defined in N.J.S.A. 17:9A-1(13) and a State association as defined in N.J.S.A. 17:12B-5(1).

"Commissioner" means the Commissioner of the Department of Banking and Insurance.

"Department" means the Department of Banking and Insurance.

"General obligation of any state or any political subdivision thereof" means an obligation supported by the full faith and credit of an obligor possessing general powers of taxation, including property taxation. It includes an obligation payable from a special fund or by an obligor possessing general powers of taxation when an obligor possessing general powers of taxation, including property taxation, has unconditionally promised to make payments into the fund or otherwise available for the payment of the obligation of amounts which (together with any other funds available for the purpose) will be sufficient to provide for all required payments in connection with the obligation.

"Political subdivision of any state" means a county, city, town or other municipal corporation, a public authority, and generally and publicly owned entity which is an instrumentality of the state or of a municipal corporation.

SUBCHAPTER 2. (RESERVED)

SUBCHAPTER 3. ORGANIZATION AND OPERATION OF SMALL BUSINESS INVESTMENT COMPANIES

3:11-3.1 Terms of organization

(a) Banks are authorized to organize or to participate in the organization and to operate, in accordance with N.J.S.A. 17:9A-27(a), small business investment companies formed under the Small Business Investment Act of 1958 15 U.S.C. §§ 661 et seq., under the following terms and conditions.

1. No bank shall hold shares of stock in more than one such company without prior approval of the Commissioner;

2. A bank shall in no event hold shares of stock in any such company in an amount aggregating more than five percent of the capital funds of the bank;

3. No bank shall make a loan or advance to or purchase debentures of any such company if the aggregate of such loans, advances and purchases, together with the stock investment of the bank in such company, will exceed more than 15 percent of the capital funds of the bank;

4. No bank shall make a loan to any individual, partnership, corporation or association when the amount of that loan together with the following will exceed more than 15 percent of the capital funds of the bank;

i. The amount of the liabilities of any nature of that individual, partnership, corporation or association to any small business investment company; and

ii. The acquisition cost of any shares of that corporation owned by the small business investment company in which the bank has controlling interest.

As amended, R.1976 d.416, eff. December 16, 1976.

See: 8 N.J.R. 498(b), 9 N.J.R. 4(b).

As amended, R.1977 d.23, eff. January 28, 1977.

See: 9 N.J.R. 3(b), 9 N.J.R. 112(c).

3:11-3.2 Violations

The Commissioner may direct a bank to divest its ownership in any small business investment company for failing to comply with the terms, conditions and limitations required by N.J.A.C. 3:11-3.1.

R.1977 d.23, eff. January 28, 1977.

See: 9 N.J.R. 3(b), 9 N.J.R. 112(c).

3:11-3.3 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 as defined in N.J.S.A. 17:9A-1(1).

"Capital funds" is as defined in section 60 of the Banking Act of 1948, as amended, and includes any effective regulations pursuant to same.

"Commissioner" means the Commissioner of the Department of Banking and Insurance.

"Controlling interest" is as defined in section 71 of the Banking Act of 1948, as amended.

R.1977 d.23, eff. January 28, 1977.

See: 9 N.J.R. 3(b), 9 N.J.R. 112(c).

**SUBCHAPTER 4. INVESTMENT BY BANK IN
CAPITAL STOCK OF BANK PRINCIPALLY
ENGAGED IN INTERNATIONAL OR
FOREIGN BANKING**

3:11-4.1 Authorization

(a) Banks are authorized to subscribe for purchase and hold stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any state thereof, and principally engaged in international or foreign banking, as defined and authorized under section 25(a) of the Federal Reserve Act, provided that:

1. Qualification to invest: The total capital stock and surplus of the bank making such investment or investments shall not be less than \$1,000,000;

2. Limitations on investment: The total amount invested in all such banks or corporations shall not exceed 10 percent of the total capital stock and surplus of the bank.

3:11-4.2 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 as defined in N.J.S.A. 17:9A-1(1).

**SUBCHAPTER 5. INVESTMENT BY BANK,
SAVINGS BANK OR STATE ASSOCIATION
IN CAPITAL STOCK OF DOMESTIC
OPERATING SUBSIDIARIES**

3:11-5.1 Operational subsidiaries

(a) With the prior approval of the Commissioner, a bank may engage in activities, which are a part of the business of banking or incidental thereto, by means of an operating subsidiary corporation. In order to qualify as an operating subsidiary hereunder, at least 80 percent of the voting stock of the subsidiary must be owned by the bank. An application to conduct business as an operating subsidiary shall be accompanied by a \$100.00 application fee. In addition, the Department shall impose a per diem charge, as required.

(b) An operating subsidiary may perform any business function which the parent bank is permitted to perform.

(c) The Department considers an application for the establishment of a domestic operating subsidiary to be primarily a business decision of the applicant; however, the Commissioner must be satisfied that the general condition of the applicant is satisfactory. The existence of conditions warranting special supervisory attention by the Department normally will preclude approval. A bank should not have an undue amount of criticized assets, particularly in relation to capital; serious or frequent violations of law; inadequate liquidity; adverse operating trends; poor internal controls or other significant problems. Capital, earnings and retention of earnings should be sufficient to support the current level of operations as well as the proposed expansion. In determining the applicant's capacity to support the proposed subsidiary, the estimated cost of establishing or acquiring the subsidiary and the volume and scope of anticipated business will be considered. If the application is for the acquisition of an existing business, the Commissioner will also take into account the public interest factor, similar to the requirement for this consideration on mergers as called for in N.J.S.A. 17:9A-136.

(d) Transactions between the parent bank and the operating subsidiaries are not subject to the limitations in N.J.S.A. 17:9A-62.

(e) Except as otherwise permitted by statute or regulation, all provisions of State banking laws applicable to the operations of the parent bank shall be equally applicable to the operations of its operational subsidiaries.

(f) Unless otherwise provided by statute or regulation, pertinent book figures of the parent bank and its operating subsidiaries shall be consolidated for the purpose of applying applicable statutory limitations.

(g) Each operating subsidiary shall be subject to examination and supervision by the Commissioner in the same manner and to the same extent as the parent bank. If upon examination, the Commissioner shall ascertain that the subsidiary is created or operated in violation of law or regulation or that the manner of operation is detrimental to the business of the parent bank and its depositors, he or she may order the bank to dispose of all or part of such subsidiary upon such term as he or she may deem proper. The cost of an examination into the condition of an existing business proposed to be acquired and operated as an operating subsidiary shall be paid by the applicant as will any subsequent examinations of an approved subsidiary.

(h) Prior to the disposition of an operating subsidiary, the parent bank shall inform the Commissioner, by letter, of the terms of the transaction.

Emergency amendment, R.1989 d.406, effective July 3, 1989 (expires September 1, 1989).

See: 21 N.J.R. 2397(a).

Amended by R.1989 d.449, effective August 21, 1989.

See: 21 N.J.R. 1601(b), 21 N.J.R. 2473(b).

Application fee and per diem charge added.

3:11-5.2 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 as defined in N.J.S.A. 17:9A-1(1), a savings bank as defined in N.J.S.A. 17:9A-1(13) and a State association as defined in N.J.S.A. 17:12B-5(1).

"Commissioner" means the Commissioner of the Department of Banking and Insurance.

"Department" means the Department of Banking and Insurance.

SUBCHAPTER 6. APPROVED STOCK INVESTMENT

3:11-6.1 Approval of limited investment in Minbanc Capital Corporation

(a) Banks are authorized to subscribe for, purchase and hold common stock in the Minbanc Capital Corporation.

(b) Such investment shall not exceed two percent of the total capital stock and surplus of the bank.

R.1971 d.235, eff. December 30, 1971.
See: 3 N.J.R. 18(b), 3 N.J.R. 242(b).

3:11-6.2 Surplus defined

Surplus as defined in this regulation shall include surplus, undivided profits, reserve for contingencies, other capital reserves and capital notes and debentures.

R.1971 d.235, eff. December 30, 1971.
See: 3 N.J.R. 18(b), 3 N.J.R. 242(b).

3:11-6.3 Approval of investment in Student Loan Marketing Association

(a) Banks are authorized to subscribe for, purchase and hold common stock in the Student Loan Marketing Association.

(b) Savings banks are authorized to subscribe for, purchase and hold common stock in the Student Loan Marketing Association.

R.1973 d.250, eff. September 10, 1973.
See: 5 N.J.R. 256(b), 5 N.J.R. 328(c).

3:11-6.4 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 as defined in N.J.S.A. 17:9A-1(1).

"Savings bank" means a savings bank as defined in N.J.S.A. 17:9A-1(13).

SUBCHAPTER 7. LIMITATION OF LIABILITY TO A BANK, SAVINGS BANK OR STATE ASSOCIATION

3:11-7.1 Definition of capital funds

Capital funds as defined in N.J.S.A. 17:9A-60 is expanded to include contingent reserves.

3:11-7.2 Definition of contingent reserves

(a) Contingent reserves of a bank is defined to include:

1. Reserve for loan losses or bad debts;
2. Valuation reserves for securities;
3. Reserve for contingencies; and
4. Any other capital accounts excluding specifically allocated reserves or reserves for known specific charges.

Amended by R.1983 d.133, effective May 2, 1983.
See: 15 N.J.R. 192(a), 15 N.J.R. 688(a).

In (a)1, deleted "less amount of tax payable to the tax free portion of the reserve".

3:11-7.3 Limitations on obligations as endorser or guarantor of installment consumer paper

Obligations as endorser or guarantor of installment consumer paper which carries a full resource endorsement, repurchase agreement or other unconditional guaranty by the seller may exceed 15 percent but not 25 percent of the capital funds of the bank.

3:11-7.4 Exclusion of obligations from 25 percent limitation

If the bank's files or the knowledge of its officers of the financial condition of each maker of such obligations is reasonably adequate, and upon certification by an officer of the bank designated for that purpose by the board of directors of the bank that the responsibility of each maker of such obligations has been evaluated and the bank is relying primarily upon each such maker for the payment of such obligations, the limitations of N.J.S.A. 17:9A-62 as to the obligations of each such maker shall be the sole applicable loan limitation.

3:11-7.5 Retention of certification

The bank officer certification required under section 4 of this subchapter shall be in writing and shall be retained as part of the records of such bank.

3:11-7.6 Accommodation endorser or guarantor

(a) The liability of an endorser or guarantor who does not receive any of the proceeds of a loan from a bank is not to be considered as an obligation of such endorser or guarantor for purposes of computing his limitation on liability to a bank under N.J.S.A. 17:9A-62.

(b) The liability of an endorser or guarantor is to be considered as an obligation of such endorser or guarantor when he has obtained a loan or has sold or discounted the paper.

3:11-7.7 Exclusion of time balances on deposits from 15 percent limitation

Time balances on deposit with an approved reserve depository, or in any other bank or national banking association located outside of New Jersey whose deposits equal or exceed three billion dollars and are insured by the Federal Deposit Insurance Corporation, may exceed 15 percent but not 25 percent of the capital funds of the bank.

Amended by R.1982 d.263, eff. August 16, 1982.

See: 14 N.J.R. 608(b), 14 N.J.R. 909(a).

Added out of state banks with deposits of \$3B.

3:11-7.8 General lending limitations

(a) The total liabilities, including investment securities, of any person which are not fully secured, as determined in a manner consistent with (b) below, by collateral having a market value at least equal to the amount of the liability shall not exceed 15 percent of the capital funds of a bank. The 10 percent limitations prescribed in N.J.S.A. 17:9A-62A and 17:9A-62F are increased pursuant to N.J.S.A. 17:9A-62H.

(b) The total liabilities of any person secured by readily marketable collateral having a market value, as determined by reliable and continuously available price quotations, at least equal to the amount of funds outstanding shall not exceed 10 percent of the capital funds of the bank. This limitation shall be separate from and in addition to the limitation contained in (a) above.

(c) A liability based on the limitation contained in (b) above shall be secured by readily marketable collateral having a current market value of at least 100 percent of the amount of the loan or extension of credit at all times. "Current market value" means the bid or closing price listed for an item in a regularly published listing or an electronic reporting service.

(d) For purposes of this section, "readily marketable collateral" means financial instruments and bullion which are salable under ordinary circumstances with reasonable promptness at a fair market value determined by quotations based on actual transactions on an auction or a similarly available daily bid and ask price market. "Financial instruments" include stocks, notes, bonds, and debentures traded on a national securities exchange, "OTC margin stocks" (as defined in Regulation U of the Federal Reserve Board), negotiable certificates of deposit, commercial paper, bankers' acceptances and shares in money market and mutual funds of the type which issues shares in which banks may perfect a security interest.

(e) Financial instruments may be denominated in foreign currencies which are freely convertible to United States dollars. If collateral is denominated and payable in a currency other than that of the loan or extension of credit which it secures, the collateral must be revalued at least monthly, using appropriate foreign exchange rates, in addition to being repriced at current market value.

(f) Each bank must institute adequate procedures to ensure that the collateral value fully secures the outstanding loan at all times. If collateral values fall below 100 percent of the outstanding loan, to the extent that the loan is no longer in conformance with this section and exceeds the general 15 percent limitation, the loan must be brought into conformance within five business days, except where judicial proceedings, regulatory actions or other extraordinary occurrences prevent the bank from taking action.

(g) The total liabilities of any person secured by a segregated deposit account in the lending bank shall not be subject to any limitation based on the capital funds of the bank.

New Rule, R.1983 d.133, effective May 2, 1983.

See: 15 N.J.R. 192(a), 15 N.J.R. 688(a).

Amended by R.1995 d.245, effective May 15, 1995.

See: 27 N.J.R. 794(a), 27 N.J.R. 1967(a).

3:11-7.9 Loans to financial institutions with the approval of the Commissioner

(a) Loans or extensions of credit to any financial institution or to any receiver, conservator, superintendent of banks, or other agent in charge of the business and property of such financial institutions, when such loans or extensions of credit are approved by the Commissioner, shall not be subject to any limitation based on capital funds.

(b) For purposes of this section, "financial institution" means a commercial bank, savings bank, trust company, savings and loan association, or credit union.

(c) This exception is intended to apply only in emergency situations where a bank is called upon to provide assistance to another financial institution.

New Rule, R.1983 d.133, effective May 2, 1983.

See: 15 N.J.R. 192(a), 15 N.J.R. 688(a).

3:11-7.10 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 as defined in N.J.S.A. 17:9A-1(1), a savings bank as defined in N.J.S.A. 17:9A-1(13) and a State association as defined in N.J.S.A. 17:12B-5(1).

"Commissioner" means the Commissioner of the Department of Banking and Insurance.

(b) It is further provided that savings banks and State associations may operate such credit card programs upon the same terms and conditions as the Federal Home Loan Bank Board may prescribe from time to time for such Federally chartered savings and loan associations.

3:11-10.3 Definitions

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

“Commissioner” means the Commissioner of the Department of Banking and Insurance.

“Savings bank” means a savings bank as defined in N.J.S.A. 17:9A-1(13).

“State association” means a State association as defined in N.J.S.A. 17:12B-5(1).

SUBCHAPTER 11. RESTRICTIONS OF LEEWAY INVESTMENTS

3:11-11.1 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 as defined in N.J.S.A. 17:9A-1(1), a savings bank as defined in N.J.S.A. 17:9A-1(13) and a State association as defined in N.J.S.A. 17:12B-5(1).

“Capital funds” means capital, surplus, reserves, undivided profits and capital notes.

“Commissioner” means the Commissioner of the Department of Banking and Insurance.

“Control” means the power to directly or indirectly vote 25 percent or more of the voting stock of a subsidiary company, the ability to control in any manner the election of a majority of a subsidiary company’s directors or trustees, or the ability to exercise a controlling influence over the management and policies of a subsidiary company.

“Department” means the Department of Banking and Insurance.

“Equity securities” means:

1. Shares of common or preferred stock registered on a national securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System; and
2. Equity securities issued by a corporation, partnership or joint venture engaged exclusively in activities

which are part of or incidental to the business of the institution.

3. Equity securities does not mean securities issued by a subsidiary company.

“Subsidiary company” means any corporation, partnership, association, joint venture or other business entity directly or indirectly controlled by a bank.

“Total liabilities” means total liabilities as defined in N.J.S.A. 17:9A-60(3), 60(6) and 60(8).

3:11-11.2 Type of investment

(a) Only to the extent and upon the conditions that have been authorized by N.J.S.A. 17:9A-24.12 and in accordance with the procedures and limitations contained in this subchapter:

1. A bank, by resolution of its board of directors, and without prior approval of the commissioner, may invest:
 - i. In equity securities;
 - ii. In subsidiary companies which engage in the activities prescribed in this subchapter; and
 - iii. Directly in those activities which are prescribed in this subchapter for subsidiary companies; and

2. A bank, by resolution of its board of directors, may apply to the commissioner for approval to make other investments. The application procedure and approval process shall be as provided in N.J.A.C. 3:11-11.9 and N.J.A.C. 3:11-11.10.

3:11-11.3 Equity security investments

(a) A bank shall be prohibited from investing, pursuant to N.J.S.A. 17:9A-24.12, in stocks, preferred or common, issued by a corporation in which it has made a stock investment under some other provision of law.

(b) A bank may invest in equity securities under N.J.S.A. 17:9A-24.12 provided that no bank shall make an investment in the stock of any corporation pursuant to this subchapter, except as otherwise provided by this subchapter, at any time when the total ownership of any one class of equity securities of such corporation exceeds or if the making of such investment would cause such investment to exceed two percentum of any one class of the outstanding equity securities of such corporation. In addition the aggregate amount invested in all classes of the outstanding equity securities of any one corporation shall not exceed three percentum of the capital funds of the bank. A bank, by resolution of its board of directors, may apply to the Commissioner for approval to make an investment in equity securities beyond the maximum amount provided above. The application procedure and approval process shall be as provided in N.J.A.C. 3:11-11.9 and N.J.A.C. 3:11-11.10.

(c) This subchapter shall not prohibit a bank from making loans or incurring liabilities authorized by a provision of law other than N.J.S.A. 17:9A-24.12 to any corporation in which the bank has invested in the equity securities pursuant to this subchapter. The total liabilities, not including equity investments made pursuant to this subchapter, of any person incurred by virtue of any provision of law, including this subchapter, are subject to the total liability limitations in N.J.S.A. 17:9A-62.

3:11-11.4 Subsidiary companies

(a) A bank shall be prohibited from contributing to the capital or investing in the capital stock of a subsidiary company, pursuant to N.J.S.A. 17:9A-24.12, in which it has a capital or stock investment pursuant to some other provision of law.

(b) A bank may contribute to the capital or invest in the capital stock of only those subsidiary companies which:

1. Engage in the activities prescribed in this subchapter; and/or
2. Are specifically approved by the Commissioner.

(c) This subchapter shall not prohibit a bank from making loans or incurring liabilities authorized by a provision of law, other than N.J.S.A. 17:9A-24.12, to any subsidiary company in which the bank has contributed to the capital or invested in the capital stock pursuant to this subchapter. The total liabilities, not including capital investments made pursuant to this subchapter, of any one subsidiary company to the bank incurred by virtue of any provision of law, including this subchapter, are subject to the total liability limitations in N.J.S.A. 17:9A-62.

3:11-11.5 Permissible activities

(a) A subsidiary company may engage in the following activities:

1. Originating, investing in, selling, purchasing (including purchasing participations in), servicing, or otherwise dealing in loans of any type which may be made by a bank;
2. Provide services primarily for other financial institutions (for example, accounting, auditing, clerical, consulting, data processing, investment advisory, managerial);
3. Acquiring improved or unimproved real property for the purpose of subdividing, developing, constructing improvements thereon, and reselling, leasing or operating such property for the production of income;
4. Providing real estate services (for example, brokerage, appraisal, inspection, property management, relocation services);

5. Providing equity and debt investments in corporations or projects designed primarily to promote community welfare, such as economic rehabilitation and development of low income areas by providing housing, services, or jobs for residents;

6. Providing travel agency and tax preparation services;

7. Providing insurance brokerage or agency services;

8. Providing securities services (for example, brokerage, investment advice);

9. Issuing letters of credit;

10. Issuing credit cards and engaging in credit card operations;

11. Acquiring personal property for the purpose of leasing such property;

12. Acting as underwriter for credit life insurance and credit accident and health insurance that is directly related to an extension of credit by the bank.

13. Acquiring capital stock of, or becoming a member of, any stock or mutual insurance company whose primary purpose is to provide or underwrite liability or casualty insurance for banks located in the United States of America.

3:11-11.6 Subsidiary company compliance with law

Except as otherwise permitted by statute or regulation, all provisions of State banking laws applicable to the operations of the bank shall be equally applicable to the operations of its subsidiary company.

3:11-11.7 Prohibition against tie-in requirements

A bank, who invests in subsidiary companies pursuant to this subchapter or engages directly in those activities which are prescribed in this subchapter for subsidiary companies, shall not directly or indirectly condition any extension of credit, lease or sale of property of any kind, or furnish any service on the requirement that the customer shall obtain some other credit, property, or service from the bank or any subsidiary company of the bank, other than a loan, discount, deposit, or trust service.

3:11-11.8 Examination of subsidiary companies

(a) Each subsidiary company shall be subject to examination and supervision by the Commissioner in the same manner and to the same extent as the bank. If upon examination the Commissioner shall ascertain that the subsidiary company is created or operated in violation of law or regulation or that the manner of operation is detrimental to the business of the bank and its depositors, the Commissioner may order the bank to dispose of all or part of such subsidiary upon such terms as the Commissioner may deem proper. The cost of an examination into the condition of an existing business proposed to be acquired and operated as a subsidiary company shall be paid by the bank. The cost of any subsequent examinations of a subsidiary company shall be borne by the subsidiary company or the bank.