



BULLETIN

No. B-88-6

December 14, 1988

Effective immediately state-chartered savings and loan associations will be required to charge-off one hundred percent (100%) of all assets classified "Loss" by state examiners during the examination in which these assets are classified.

Relative to assets classified "Doubtful", the association may either:

- (1) Immediately charge-off one-half of all assets classified "Doubtful" by state examiners; or
- (2) Establish a special reserve equal to one half of the dollar amount of all assets classified "Doubtful". If this method is chosen, the special reserve shall not be used in computing capital and legal lending limitations.

Examiners shall verify that these classified assets have been either charged-off or, in the case of the "Doubtful" assets, reserved for, before they finalize their report of examination and shall make an appropriate comment in the report indicating how this verification was made.

An association may not re-book any asset without the prior, written consent of the Commissioner.

Please address questions to Assistant Commissioner Louise Johnson or Director of Examinations Mark McDowell at (615)741-2236.

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Appendix A

Open-End Investment Companies which Appear to Meet the Requirements of T.C.A. §45-2-607(a)(12) and (13) and §45-3-601(2)(D) and (E)

1. Prudential-Bache Government Plus Fund
2. Merrill Lynch Institutional Intermediate Fund
3. U. S. Government High Yield Trust, a Series of Criterion
4. Kemper U. S. Government Securities Fund
5. Putnam High Income Government Trust
6. Putnam U. S. Government Guaranteed Securities Income Trust
7. Colonial Government Securities Plus Trust
8. First Trust U. S. Government Fund
9. Putnam GNMA Plus Trust
10. Franklin U. S. Government Securities Fund
11. Van Kampen Merritt U. S. Government Fund, Inc.
12. Alliance Bond Fund/U. S. Government Portfolio
13. Colonial Enhanced Mortgage Trust
14. Treasury First, Inc.
15. Federated Intermediate Government Trust
16. Federated Short Intermediate Government Trust
17. Federated GNMA Trust
18. MFG Government Securities High Yield Trust
19. MFG Government Guaranteed Securities Trust
20. Premier GNMA Fund
21. Dean Witter Government Securities Plus
22. Dean Witter U. S. Government Securities Trust
23. Lord Abbett U. S. Government Securities Fund
24. Criterion Limited Term Institutional Trust
25. Criterion U. S. Government Institutional Trust
26. Sears Government Investment Trust
27. Prudential-Bache Government Plus Fund II
28. Kemper Government Securities Trust GNMA Portfolio
29. Limited Maturity Treasury Fund
30. Tax-Free Intermediate Fund
31. Delaware Group Government Fund: U. S. Government Series
32. Franklin Custodian Funds, Inc.: U. S. Government Securities Series
33. Merrill Lynch Federal Securities Trust
34. Vigilant Select U. S. Government Collateral Series
35. MetLife-State Street Government Income Fund
36. Colonial U. S. Government Trust
37. Pilgrim Prime Rate Trust

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Appendix B

Open-End Investment Companies Which Do Not Appear to Meet the Requirements of T.C.A. §45-2-607(a)(12)(13) and §45-3-601(2)(D)(E)

1. Pilgrim Adjustable Rate Fund
2. Geico Adjustable Rate Preferred Fund
3. Hutton Investment Series (8 Series, Rev. 11/85)
4. Flagship Corporate Cash Management
5. Franklin Corporate Cash Management Fund
6. Dreyfus Corporate Cash Trust
7. Vanguard Qualified Dividend Portfolio III
8. Putnam Corporate Cash Trust
9. Pilgrim Preferred Fund
10. Colonial Corporate Cash Trust I
11. Colonial Corporate Cash Trust II
12. Fidelity Corporate Trust/Auction Preferred Portfolio
13. Fidelity Corporate Trust/Adjustable-Rate Portfolio
14. Fidelity Qualified Dividend Fund
15. Pilgrim Corporate Cash Fund
16. Dean Witter Government Income Trust

The Commissioner reminds the Boards of Directors of the several state-chartered savings and loan associations that it remains the responsibility of an association's directorate to ensure that any particular investment is a proper holding for the association's portfolio. Each holding of shares of an investment company must be reviewed at least quarterly in order to determine whether that particular investment company continues to be appropriate for the association's investment portfolio.

Attached to this BULLETIN are two lists. Appendix A lists those mutual funds which have been reviewed by counsel for the Department and which appear to meet the requirements of state law for investment under T.C.A. Section 45-3-601(2)(E). Appendix B lists those funds which do not appear to meet the criteria of state law for investment by state associations. If a particular fund is not on either list, an association may submit a prospectus on the fund to the Department for review. Prospectuses from brokers are not accepted for review.

The Commissioner reserves the right to review an association's investment portfolio for safety and soundness and to require divestiture of any investment which, in the opinion of the Commissioner, after the appropriate opportunity for a hearing on the matter, jeopardizes the safety and soundness of the institution.

All State-chartered associations will be required to account for mutual fund investments each quarter according to Federal Home Loan Bank Board Memorandum #R 69, which states:

- (1) For investments in mutual funds defined in Section 523.10 of the Bank System Regulations, through 1993 institutions may use either the cost basis or the requirements of FASB #12, which requires the use of the lower of cost or market. After 1993 these investments must be reported using FASB #12.
- (2) For all other investments in marketable equity securities (including investments in mutual funds that do not meet the definition in Section 523.10) institutions may continue to report the investment at cost only until January 1, 1989. Thereafter, these investments must be reported in accordance with FASB #12.

Recoupment of prior losses may be reflected as an adjustment to the undivided profits account. Appropriate entries must be made to the association's books to reflect these adjustments.

Questions concerning this BULLETIN may be addressed to Assistant Commissioner Louise Johnson, Bank Division, Department of Financial Institutions, 500 Charlotte Avenue, Fourth Floor, John Sevier Office Building, Nashville, TN 37219 or Assistant Commissioner and Legal Counsel Katie Edge, at the same address. The Department's telephone number is (615) 741-2236.

Attachment: Appendix A (September 15, 1988)
Appendix B (September 15, 1988)