



BULLETIN

NO. B-93-1

TO: Chief Executive Officers
All State Chartered Banks

RE: Section 45-2-1104, Tennessee Code Annotated

DATE: January 4, 1993

This Bulletin supersedes and renders void the Department of Financial Institutions' memorandum to Chief Executive Officers of Tennessee State Chartered Banks dated November 4, 1983.

Section 45-2-1104, T.C.A. prohibits a state bank from making any loan or discount on the security of the shares of its own capital stock. For a number of years and under different Commissioners, the Department has interpreted this prohibition as also applying to the stock of one bank holding companies. The general belief was that one bank holding company stock is so similar to bank stock as to also be impermissible collateral security for a loan. However, this expanded interpretation has been questioned on several occasions. After further review and consideration of the issues, the Department has decided to reverse its previous position on the applicability of this statute to one bank holding company stock. Henceforth, Tennessee Code Annotated, Section 45-2-1104 should be interpreted as follows:

A state bank may not lend on the security of its own shares. However, a state bank may lend on the security of the shares of its one bank holding company or its multi-bank holding company subject to the limitations and requirements set forth in federal law.

Any questions should be directed to Assistant Commissioner Kathryn Edge or Program Administrator Derek Carrier at 615/741-6013.


Talmadge B. Gilley, CFE
Commissioner

TBG:DLC:DCG