

HB 825



Alaska State Legislature
House

JUNEAU ALASKA

March 17, 1976

MEMORANDUM

TO: Representative Bob Bradley

FROM: Terry Berman
Administrative Assistant

SUBJECT: House Bill No. 825

A committee substitute for HB 825 was drafted after reviewing the Federal regulations on insider loans brought to the attention of the Commerce Committee by the Director of Banking, Miles Schlosberg. Contrary to the testimony of Mr. Schlosberg, the federal regulations are not the same nor do they achieve the same results as HB 825.

They differ in three respects:

1. The federal regulations only apply to commercial banks. HB 825 includes mutual savings banks and savings and loans associations. *- Done*
2. The federal regulations require records of loans to be maintained by the bank. HB 825 requires the reporting of such loans directly to the Department of Commerce.
3. Federal regulations require the reporting of loans only if they exceed a certain amount (as much as 100,000 dollars if a bank's assets exceed 500 million dollars). HB 825 requires that all insider loans be reported.

The committee substitute was prepared to make the bill correspond more closely in definition with the federal regulations.



JUNEAU ALASKA

Alaska State Legislature
House

March 1, 1976

Terry Berman
Fed. Reserve

MEMORANDUM

TO: Rep. Bob Bradley, Chairman
House Commerce Committee

FROM: Terry Berman *TB*
Administrative Assistant

SUBJECT: House Bill 825

In recent weeks, the Federal Reserve Board has been calling for tighter control over banks. This comes with news of the failure of one of the nation's largest banks, Hamilton Banchares of Tennessee and the resulting losses, which were substantial, to several other large banks, scattered across the country. There have been two other bank failures of note in recent years, Franklin National Bank of New York and U. S. National Bank of San Diego, both among the top 300 in the nation. These failures were due partially to incomplete examination by regulatory bodies.

The Federal Reserve Board has pointed to the inability of state regulatory bodies to keep a close enough watch over its banks. HB 825, which asks that banks disclose loans to insiders, is one step toward correcting this.

Ever since the bank failures of the thirties, governments have kept a close watch on insider transaction, and "the American Bankers Association has supported efforts to curb insider abuses provided the burdens are not disproportionate." Some states have even prohibited loans to insiders. At present only salaried officers and employees have to have loans over \$5,000 secured. The present law places no restrictions on unsalaried officers, who are also insiders.

Thus, there are several loopholes. Loans may be taken out through a spouse or a business organizations. This bill asks that such loans be reported to the Department of Commerce, so that they may be taken into account in an examination of the bank. This bill does not restrict such loans, but allows the department access to information which could be vital in assessing the soundness of a bank.

If we weigh the small cost of disclosure of such information, which could be valuable even to the bank itself, against the heavy lossess to shareholders, borrowers, depositors, and the community itself. We can see the value of such legislation. It is vital that we protect the community against potential mismanagement.