REPORT OF THE

JOINT SUBCOMMITTEE ON BANKING

(HB 1285)

TO

THE SENATE COMMERCE AND LABOR COMMITTEE

AND

THE HOUSE CORPORATIONS, INSURANCE

AND BANKING COMMITTEE

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I. INTRODUCTION

The legislation currently under discussion by the Joint Subcommittee can be traced back to 1976 as originating in HB 796 of the 1976 Session of the General Assembly. HB 796 was the result of recommendations made to the State Corporation Commission by Carter Golembe Associates, a consulting firm hired by the Commission to make recommendations to the Commission on how Virginia's laws regulating financial institutions might be updated in the public interest. Delegate Ralph L. Axselle, Jr. was asked to serve as patron of the original bill and also of its successor, HB 1285 of the 1977 Session. While HB 796 was passed by the 1976 Session of the General Assembly, as Chapter 658 of the 1976 Acts of Assembly, many controversial items had been amended out of the bill during the legislative process (i.e–branching provisions, regulation of financial institution holding companies, etc.).

The purpose of HB 1285 of the 1977 Session was to enact several of the controversial items removed from HB 796 during the legislative process and to enact several other conforming amendments and refinements to the original bill. HB 1285 passed the House in 1977 but the Senate felt they needed more study of the legislation and as a result, Senator William E.Fears, Chairman of the Senate Commerce and Labor Committee, appointed Senators Peter K. Babalas, Edward E. Holland, Madison E. Marye and Nathan H. Miller to serve as a Subcommittee to study HB 1285 and report back to the full Committee at the 1978 Session of the General Assembly.

The House Corporations, Insurance and Banking Committee was asked to appoint a like number of Delegates to form a Joint Subcommittee to study the issues contained in HB 1285. Delegate Robert R. Gwathmey, III, Chairman of the Committee, appointed Delegates A. L. Philpott, Richard M. Bagley, George H. Heilig, and Alexander B. McMurtrie, Jr.

Also serving as ex officio members of the Subcommittee representing the banking industry in Virginia were:

John B. Bernhardt, from the Virginia National Bank of Norfolk;

Frederick Deane, Jr., from the Bank of Virginia Company of Richmond;

James M. Dooley, from the Hanover National Bank of Ashland;

Harry B. Grymes, from the Virginia Capitol Bank of Richmond;

C. A. Jewell, from the 1st City Bank of Newport News;

Randolph W. McElroy, from the First and Merchants National Bank of Richmond;

Douglas D. Monroe, Jr., from the Chesapeake National Bank of Kilmarnock;

Lawrence N. Smith, from United Virginia Bank of Norfolk;

S. B. Spencer, from the 1st National Bank of Farmville;

Joe W. West, from the Covington National Bank.

L. Willis Robertson, Jr. and Hugh P. Fisher, III of the Division of Legislative Services served as staff to the Joint Subcommittee.

II. WORK OF THE SUBCOMMITTEE AND SUMMARY OF RECOMMENDATIONS

At the first meeting of the Subcommittee it became obvious that proposed changes in the branching laws would be the most controversial aspect of the study. The Golembe report and HB 796 as introduced recommended Statewide branching without geographic restraint. However, HB 1285 did not recommend such a drastic change in the branching laws. The present Virginia branching laws are found in § 6.1-39 of the Code of Virginia which provides:

(1) That banks whose main offices are located in a county or city may branch anywhere in the county or city of the main office.

(2) That banks whose main offices are located in a county or city may branch anywhere in a city contiguous to the county or city of the main office.

(3) That banks whose main offices are located in a city may branch into any contiguous county as long as such branch is not more than 5 miles outside the city limits.

The major differences from the present laws proposed in HB 1285 were as follows:

(1) That banks with main offices in counties or cities could branch into any county or city contiguous to the county or city of the main office.

(2) That banks with branch offices in counties or cities could branch into any county or city contiguous to the county or city of the main office provided such branch was the main office of an existing bank at the time of its merger or consolidation into another bank and at the time of the merger such branch office had been a main office for at least 6 years prior thereto or the main office had otherwise been in the same county or city for at least 6 years prior thereto.

The Virginia Bankers Association position with regard to the necessity for some change in the branching laws can be summarized as follows:

(1) There have been no changes in the branching laws of the Commonwealth since 1962 and changes within the industry dictate the necessity of a change.

(2) Virginia is becoming more urban and its population is increasing at a rate 2% above the national average.

(3) Surburban areas today extend well beyond the current 5 mile limitation of the present branching laws.

(4) Competition for banks from credit unions, national finance companies, savings and loan associations and retail point of sale terminals offering consumers viable alternatives to banks has increased substantially since 1962 because these institutions are not subject to the legal restrictions on banks relating to the establishment of branch offices and EFT systems.

(5) Many economies of operation could be realized in large bank holding companies by liberalization of the branching laws which could be passed on to the consumer because affiliate banks could be consolidated into the larger banks without the loss of branching rights.

The Virginia Independent Bankers Association position with regard to the proposition that changes to the present branching laws are not necessary can be summarized as follows:

(1) The State's ratio of population per commercial banking office is 3413, which is well below the national average of 4892.

(2) The Golembe report held that of the Commonwealth's 79 markets, only 18 had population per commercial banking office ratios above the national average; and of these 18, there were 10 which had offices located

in rural areas where only one bank office presently exists. Adding addtional banks to these areas would result in no bank having a profitable number of customers and giving the larger holding company banks a competitive advantage.

(3) The larger the bank, the higher its prices or charges to the public.

(4) Independent banks are able to give banking a personal touch by designing policies to meet the needs of the customers in their market area.

With these positions in mind, the Joint Subcommittee worked to formulate a compromise position on branching favorable to both the Virginia Bankers Association and the Virginia Independent Bankers Association. However, the Joint Subcommittee soon found that a proposal suitable to both groups on this issue would not be easy to establish.

The recommendations of the Joint Subcommittee regarding branching were the only parts of the proposed legislation not receiving the unanimous support of the members of the Subcommittee. Several members questioned certain aspects of the legislation and reserved the right to make a decision on the branching proposal at a later date during the upcoming 1978 Session of the General Assembly. However, a majority of the Joint Subcommittee made a recomendation on branching which would have the following major features:

1. That banks with main offices in counties or cities may establish branch offices within 15 miles of the boundary line of the county or city in which the main office is located, without regard to whether such location is in a contiguous county or city.

2. That banks with branch offices in counties or cities may establish additional branch offices in the county or city or at a location up to 15 miles from the boundary line of the county of city in which the branch office is located provided:

A. that the branch was the main office of an existing bank at the time of and for at least 6 years prior to its merger or consolidation into another bank or the main office had otherwise been in the same county or city for at least 6 years prior to its merger or consolidation into another bank and

B. in the case of a former main office in a city, the city has a population of 25,000 or more or in the case of a former main office in a county, the county has a population of 100,000 or more.

(3) That counties with populations of 100,000 or more shall be treated as cities to permit banks with main offices in counties or cities to branch into contiguous cities.

(4) Banks owned by holding companies on April 30, 1977 may merge into or consolidate with another bank and the surviving bank may branch in the branching area of the new main office and the former main office.

(5) Cities which are contiguous to each other shall be treated as one city for the purpose of branching.

Other recommendations of the Joint Subcommittee, which were unanimously agreed upon, include the following:

(1) Including credit unions within the definition of financial institutions § 6.1-2.1.

(2) Prohibiting officers and directors of financial institutions from serving more than one financial institution, except in certain instances § 6.1-2.6.

(3) Giving the State Corporation Commission authority to grant banks temporary emergency powers § 6.1-11.1.

(4) Allowing vehicles other than armored vehicles to receive deposits as long as they provide adequate protection of the funds § 6.1-41.1.

(5) Defining "obligations" for purpose of enforcing the 15% of capital and surplus limitation on obligations of any person, partnership, association or corporation; and requiring reporting by related entities § 6.1-61.

(6) Restricting loans to officers, directors and employees of banks § 6.1-62.

(7) Applying the public interest determination test to savings and loan associations and credit unions §§ 6.1-195.48 and 6.1-197.

(8) Providing for the conversion of a mutual savings and loan to a stock association § 6.1-195.57.

(9) Regulating financial institution holding companies §§ 6.1-381 through 6.1-388.

(10) Repealing § 6.1-40, which provided that the public interest test need not be met in certain situations for the establishment of a new bank.

The proposed legislation of the Joint Subcommittee can be found in Appendix I of this report.

III. CONCLUSION

The members of the Joint Subcommittee feel that the proposed legislation contained in Appendix I of this report is a workable solution to many of the problems facing the banking industry in the Commonwealth today. The legislation, if enacted, would compliment those parts of HB 796 enacted by the 1976 Session of the General Assembly which were also a result of the Golembe report recommendations. While the membership realized that there is not unanimous approval of the proposed legislation within the banking industry or within the membership of the Subcommittee,

the proposal contained in Appendix I represents a compromise solution to a very difficult problem.

Respectfully submitted,

Peter K. Babalas, Chairman

A. L. Philpott, Vice-Chairman

Edward M. Holland

Madison E. Marye

Nathan H. Miller

Richard M. Bagley

George H. Heilig, Jr.

Alexander B. McMurtrie, Jr.

APPENDIX I

A BILL to amend and reenact §§ 6.1-2.1, 6.1-39, 6.1-41.1, 6.1-61, 6.1-62, 6.1-195.48, 6.1-195.57, and 6.1-197 of the Code of Virginia, relating to furnishing of certain information to fiduciaries by financial institutions, branching of banks, use of armored vehicles to pick up customer deposits, limitations on liabilities of borrowers and certain kinds of obligations, loans to officers, directors or employees, powers and branches of savings and loan associations, conversion from mutual to stock associations and prerequisites for commencing business by savings and loan associations; to amend the Code of Virginia by adding sections numbered 6.1-2.6 and 6.1-11.1, relating to service as director for more than one institution, and special banking powers; and to further amend the Code of Virginia by adding in Title 6.1 a chapter numbered 13, consisting of sections numbered 6.1-381 through 6.1-388, relating to the regulations of financial institution holding companies; penalty for violations; and to repeal § 6.1-40 of the Code of Virginia, relating to certificates of authority to operate a bank.

Be it enacted by the General Assembly of Virginia:

1. That §§ 6.1-2.1, 6.1-39, 6.1-41.1, 6.1-61, 6.1-62, 6.1-195.48, 6.1-195.57 and 6.1-197 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding sections numbered 6.1-2.6 and 6.1-11.1 and in Title 6.1 a chapter numbered 13, consisting of sections numbered 6.1-381 through 6.1-388, as follows:

§ 6.1-2.1. Financial institutions to furnish certain information to fiduciaries.—The provisions of Title 6.1 and any other provisions of law notwithstanding, any financial institution subject to the provisions of said title shall make available to any fiduciary, upon request, all information concerning assets or liabilities in which his decedent or ward had or has any interest.

Where used in this title, the term "financial institution" shall mean any bank, trust company, savings and loan association, ~~or~~ small loan company , *or credit union*

§ 6.1-2.6. Directors to serve only one institution.—No officer or director of any financial institution other than a small loan company or credit union domiciled in this Commonwealth shall at the same time serve as an officer or director of any other such financial institution unless both such institutions are within a single financial institution holding company; provided, however, that the Commission, upon petition brought on behalf of an individual, may permit him to serve on the boards of two such institutions if the Commission finds that the two financial institutions are not in competition with each other or that one or both of the institutions might otherwise be denied capable management or direction from an individual residing in or employed in the locality served by an institution.

The prohibition contained in this section shall not be applicable to

officers, or directors who, on the effective date of this section, are in violation of the provisions hereof until July one, nineteen hundred eighty-two.

§ 6.1-11.1. Grant of special powers to banks by the Commission.—In addition to the permissible business authorized by § 6.1-11, the State Corporation Commission may, upon the Commission's finding that an emergency exists, confer by order upon banks such temporary powers as the Commission may determine to be in the public interest and such powers as are granted may be authorized for a limited period of time, may be granted selectively to fewer than all banks, and may be revoked by further order of the Commission.

§ 6.1-39. When and where branch banks may be established; merger of banks allowed; establishment of drive-in facilities.—(a) No bank or trust company heretofore or hereafter incorporated under the laws of this State shall be authorized to engage in business in more than one place, except that the State Corporation Commission, when satisfied that public ~~convenience and necessity~~ *interest* will thereby be served, may authorize banks having paid-up and unimpaired capital and surplus of fifty thousand dollars or over to establish branches within the limits of the city or county in which the ~~parent bank~~ *main office* is located or to establish branches elsewhere by merger with banks located in any other county or city.

This section shall not be construed to prohibit the operation of existing branch ~~banks~~ *offices* heretofore established.

The term ~~"parent bank"~~ *"main office"* shall be construed to mean the bank or banking office at which the principal functions of the bank are conducted. The location of a ~~parent bank~~ *main office* or of a branch ~~bank~~ *office* may be moved if the State Corporation Commission determines that public ~~convenience and necessity~~ *interest* will be served by such move; but the location of a ~~parent bank~~ *main office* may not be moved more than thirty miles except through a merger with another bank and the location of a branch ~~bank~~ *office* may not be moved beyond the limits of the city or county in which it is located ~~except through a merger with another bank~~ .

(b) This section shall be construed to allow the merger of banks and the operation by the merged company of such banks, and to allow the sale of any bank to, and the purchase thereof through merger by, any other bank and the operation of such ~~banks~~ *banking offices* by the merged bank, provided that the State Corporation Commission shall be of the opinion and shall first determine that public ~~convenience and necessity~~ *interest* will be served by such operation, and provided further that, at the time of such merger the banks involved shall have been in actual operation for a period of five years or more. But in any case in which the Commission is satisfied that the public interest demands, on account of emergency conditions, that a merger be effected, it may enter an order to such effect permitting such merger notwithstanding that the banks involved, or one or more of them, have not been in actual operation for five or more years.

(c) Notwithstanding the limitations of the foregoing paragraphs, the

State Corporation Commission may, when satisfied that *the* public ~~convenience and necessity~~ *interest* will thereby be served, authorize the establishment of branch ~~banks~~ *offices* in cities contiguous to the county or city in which the ~~parent bank~~ *main office* is located, ~~and~~ the establishment of branch ~~banks in counties contiguous to the city in which the parent bank is located~~ *offices within fifteen miles of the boundary line of the county or city in which the main office is located and without regard to whether such location is in a contiguous county or city* . Establishment of such branches may be by merger, consolidation, purchase of assets or creation of a new branch ; ~~but if the parent bank is located in a city such branches in the contiguous county may not be established more than five miles outside the city limits~~ . *In determining whether a proposed location falls within the fifteen mile limitation imposed by this section, a slope measurement survey of the line actually measured along the contour of the land and not reduced to a horizontal distance shall be controling. Notwithstanding subsection (a) above, when a bank with its main office in one county or city has subsequent to June thirty, nineteen hundred seventy-eight established branches outside such county or city of the main office under the provisions of this section, such main office shall continue to be the main office for the purposes of de novo branching under this subsection (c), notwithstanding the subsequent moving of such main office or the performance of such functions at a different location.*

(d) Notwithstanding the limitations of the foregoing paragraphs, a bank may establish a drive-in facility upon prior notification to the State Corporation Commission, and determination by the State Corporation Commission that the facility is an extension to an existing branch or ~~parent bank~~ *main office* ; provided that unless such bank is the only bank with an office in such county or city, such drive-in facility shall not be more than five hundred feet from such existing branch or ~~parent bank~~ *main office* .

(e) Notwithstanding the limitations of the foregoing paragraphs, the State Corporation Commission may, when satisfied that the public interest will be served, authorize the establishment of additional branch offices in either: (i) the county or city or (ii) at a location which is up to fifteen miles from the boundary line of the county or city in which a branch office is located if: A. such branch office was the main office of an existing bank for at least six years prior to and at the time of its merger or consolidation into another bank or the main office had otherwise been in the same county or city for at least six years prior to its merger or consolidation into another bank, and B. in the case of a former main office in a city, the city has a population of twenty-five thousand or more as of the last preceding federal census or in the case of a former main office in a county, such county has a population of one hundred thousand or more as of the last preceding federal census.

For purposes of this section, a county with a population of one hundred thousand or more as of the last preceding federal census shall be treated as a city within the provisions of paragraph (c) permitting banks with main offices in counties or cities to branch into contiguous cities.

(f) Notwithstanding any other provision of this section, a bank which

is owned by a holding company as defined in § 6.1-4 and which had a main office existing on April thirty, nineteen hundred seventy-seven, may merge into or consolidate with another bank and such surviving bank may continue to branch within the branching area of any former main office existing on April thirty, nineteen hundred seventy-seven, as if such merger had not taken place. Any bank now in existence or hereafter created which maintains the home office in the same location or the same county or city for a period of six years shall be entitled to merge into a successor bank and the successor bank shall retain such branching rights as it would have had from such former main office, if such merger had not occurred.

(g) For the purpose of this section, cities which are contiguous to each other shall be treated as if they were one city and the State Corporation Commission may, when satisfied that the public interest is served, authorize the establishment of branch offices in any of the contiguous cities in which one such city main office is located or at a location within fifteen miles of a city line, of any such city or contiguous city into contiguous counties or other jurisdiction not so contiguous. For purposes of the foregoing sentence, cities separated by a river or other body of water shall be deemed contiguous. Northampton and Accomack Counties shall not be deemed contiguous to any jurisdiction on the western side of the Chesapeake Bay.

§ 6.1-41.1. Use of armored vehicles to pick up customers' deposits.–Any bank holding a certificate of authority from the State Corporation Commission or national bank whose principal office is in Virginia may utilize armored vehicles *or other vehicles providing adequate protection for the funds transported* for receipt of deposits of its customers; provided that such vehicle may receive or pick up deposits only at a location where such bank could establish a de novo branch pursuant to the provisions of § 6.1-39. *Armored vehicles may also be used by such banks to deliver currency and coin.*

§ 6.1-61. Limitations on liabilities of borrowers and on certain kinds of obligations.–Subject to the exceptions hereinafter stated, the total ~~liabilities~~ *obligations* of any person, partnership (including the members *having a five per centum or greater interest in either the income or capital thereof* other than limited partners), *association* or corporation to any bank shall at no time exceed fifteen percent of the capital and surplus of such bank. For the purposes of this section there may be counted as part of the surplus (a) the undivided profits as of the date of the most recent call statement, and (b) capital notes and debentures, the issuance of which has been approved by the Commission, outstanding as of said date, and consisting of debt obligations subordinate to all other contractual liabilities of the bank.

The term "obligations" shall mean the direct liability of the maker or acceptor of the paper discounted with or sold to such bank and the liability of the endorser, drawer or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such bank, and shall include in the case of obligations of a corporation all obligations of

all subsidiaries thereof in which such corporation owns or controls a majority interest. The term "obligation" shall include any liability of the bank under a letter of credit, other than a letter of credit arising out of transactions involving the importation or exportation of goods or the domestic shipment of goods, except to the extent (i) the bank has a binding participation of another bank, organized under the laws of this Commonwealth or another state or the United States, or a written commitment by another such bank to assume primary liability therefor, or (ii) such bank issuing the letter of credit has in its possession money on deposit to the credit of such customer or securities or assets readily convertible into cash with which to honor such letter of credit.

A. The following kinds of obligations shall not be subject to any limitation, except as expressly stated in subparagraph (7) hereof:

(1) Obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values;

(2) Obligations arising out of the discount of commercial or business paper actually owned by the person, partnership, association, or corporation negotiating the same;

(3) Obligations drawn in good faith against actually existing values and secured by goods or commodities in process of shipment;

(4) Obligations in the form of banker's acceptances of other banks of the kind described in section thirteen of the Federal Reserve Act;

(5) Obligations of the United States, obligations of the State of Virginia and of its political subdivisions,including sanitary or public facilities districts, obligations fully guaranteed or insured by a state or by a state authority for the payment of the obligation of which the faith and credit of the state is pledged, obligations issued by the Federal Home Loan Banks, first mortgage real estate loans which are insured by the Federal Housing Administrator, obligations guaranteed as to principal and interest by the United States, loans in which the Small Business Administration or a federal reserve bank has definitely agreed or committed itself to participate, to the extent of such participation, obligations guaranteed by the Small Business Administration or Farmers Home Administration, to the extent of such guaranty, loans which the Federal Commodity Credit Corporation has definitely agreed to purchase, direct obligations of and obligations guaranteed by the Export-Import Bank and loans guaranteed by a federal guaranteeing agency, pursuant to the Defense Production Act of 1950, or bonds and notes of the Federal National Mortgage Association or bonds, debentures and other similar obligations of Federal Land Banks, Federal Intermediate Credit Banks, or Banks for Cooperatives issues pursuant to acts of Congress;

(6) Obligations of any person, partnership, association or corporation secured by not less than a like amount ofbonds or notes or other evidences of indebtedness of the United States or of the State of Virginia;

(7) Obligations as endorser or guarantor of installment consumer paper which carries a full or limited endorsement or guarantee of the person, partnership, ~~or~~ association , *or corporation* transferring the same when the bank has a certificate of a responsible officer designated by its board of directors for that purpose stating that the responsibility of the maker of such obligation has been evaluated and the bank is relying primarily upon such maker for the payment of such obligation, in which case the limitations of this section as to the obligations of the maker shall be the sole applicable loan limitation. As used in this subparagraph, the term "installment consumer paper" shall be deemed to include installment notes of up to ten years duration for the purchase of unimproved real property;

(8) Obligations secured by the pledge or assignment of certificates of deposit or saving certificates of the lending bank, to the extent of the principal amount of such certificates so pledged or assigned.

B. The following kinds of obligations shall be subject to a limitation of thirty percent of such capital and surplus:

(1) Obligations as endorser or guarantor of notes, other than commercial or business paper excepted under paragraph A (2) hereof having a maturity of not more than six months, and owned by the person, partnership, or corporation endorsing and negotiating the same.

(2) Obligations of any person, partnership, or corporation in the form of notes or drafts secured by shipping documents or instruments transferring or securing title covering livestock or giving a lien on livestock when the market value of the livestock securing the obligations is not at any time less than one hundred and fifteen percent of the amount by which the obligations exceed fifteen percent of such capital and surplus.

(3) Obligations secured by bonds or notes of the United States, or bonds of the State of Virginia or any of its political subdivisions, if the face value thereof is at least equal to the excess of the obligations over fifteen percent of such capital and surplus.

C. Nonrenewable obligations having not more than ten months to run consisting of notes or drafts secured by shipping documents, warehouse receipts or similar documents creating a security interest in readily marketable, nonperishable, staple commodities, insured to the extent that insurance is customarily required, shall be subject to a sliding scale limitation up to fifty percent of such capital, surplus and undivided profits. The sliding scale limitation shall be applied as follows: When the face amount of the obligation exceeds fifteen percent of such capital and surplus by any number of percentage points up to thirty-five, the market value of the security for the obligation must exceed the face amount of the obligation by at least the same number of percentage points.

D. The Commission shall promulgate necessary rules and regulations to require entities, which would otherwise be treated as separate entities, to be treated as related for the purposes of compelling reporting not more frequently than quarterly, to the Commission of the aggregate obligations

of such parties to the bank. For the purposes of this section, the Commission may treat as related parties, persons in the same household or which are the parents, grandparents, children or grandchild or grandchildren of each other whether or not in the same household. Any person owning as much as thirty-four per centum of stock of a corporation or being an officer or director of such corporation may be treated as related to such corporation and any party having an interest in income or capital of a partnership may be treated as a related party.

All loans made by a bank in excess of fifteen percent of its capital and surplus shall be approved by the board of directors or the executive committee of the bank by resolution recorded in the minute book.

§ 6.1-62. Loans to officers, directors or employees.– No officer, director, or employee of any bank shall borrow any amount ~~less~~ *more* than ~~twenty five~~ *five* thousand dollars from such bank until after such loan has been approved by a majority of the directors or by a committee *of officers or directors which shall include at least one director* appointed by the board of directors with authority to approve loans. The board of directors may by proper resolution authorize certain officers to handle renewals of such loans of less than twenty-five thousand dollars ~~; or may fix for a definite period lines of credit in amounts less than twenty five thousand dollars that may be granted to individual directors, officers or employees~~

Whenever any loan in an amount of twenty-five thousand dollars or more *or whenever any loan, the amount of which loan together with all the other obligations, direct or indirect, of such officer, director, employee or controlled entity is one hundred thousand dollars or more or five per centum of the bank's total capital and surplus, excluding undivided profits, whichever is less* is made to any officer, director, or employee of a bank, or to any entity which the Commission determines is controlled by one or more officers, directors, or employees thereof, *and whenever any line of credit for twenty-five thousand dollars or more or which with all the other obligations, direct or indirect, of such officer, director, or employee or controlled entity would be one hundred thousand dollars or more, or five per centum of the bank's total capital and surplus, excluding undivided profits, whichever is less,* such loan *or line or credit* shall be specifically approved by a majority of the bank's board of directors *or the committee of officers or directors and in the case of approval by the committee shall be reported to the board at its next meeting* . No extension ~~or~~ , renewal *or renegotiation* of any such loan *or line of credit* shall be made, ~~and no extension of a line of credit for twenty five thousand dollars or more shall be granted~~ *to* any of the foregoing individuals or their interests, unless it ~~first be~~ *is* approved by a majority of the board of directors *or by the committee of officers or directors so appointed . In the case of approval by the committee it shall be specifically reported to the board of directors at its next regular meeting. The prohibitions herein shall not be construed to require approval by the Board of advances under a previously authorized line of credit.*

The aggregate amount of a bank's loans to its officers, directors, employees, or their interests shall not be excessive. The Commission shall

establish such regulations as may be required to prevent excessive aggregate amounts of lending by banks to such persons and their interests.

§ 6.1-195.48. Main and branch offices.—The main office of a savings and loan association is the office at which it first commences to do business. No savings and loan association may establish a branch office, except that the Commission, when satisfied that the public ~~convenience and necessity~~ *interest* will be served thereby, may authorize an association to establish a branch or branches, including mobile branches.

The Commission may authorize the removal of a main or branch office to another location when it is satisfied that the new location will serve the public ~~convenience and necessity~~ *interest* better than the old location.

§ 6.1-195.57. Conversion from mutual to stock association.— ~~The Commission shall adopt regulations for the conversion of State mutual associations to stock associations. In adopting~~ *With the approval of the Bureau of Banking, and in accordance with provisions of this section and regulations promulgated hereunder, a State association which is a mutual association may convert to a stock association; provided that such conversion is conducted in a manner equitable to all parties thereto in the following manner: the board of directors of such mutual association shall first adopt by a two-thirds vote a conversion plan the provisions of which shall comply with the requirements set forth in regulations promulgated by the Bureau of Banking. Such plan shall insure that the interest of depositors and account holders in the network of such mutual association are equitably provided for. The Bureau of Banking shall approve any such plan of conversion and shall ascertain that such conversion will not have an adverse effect on the stability of any other association. The Bureau shall adopt regulations governing the procedures to be followed in completing the conversion once a satisfactory plan has been adopted.* Such regulations ~~the Commissioner~~ shall ~~do all that is necessary to~~ insure that any association in so converting shall continue to have its accounts insured by the Federal Savings and Loan Insurance Corporation.

§ 6.1-197. Approval of bylaws and other prerequisities to commencing business.—Immediately after the granting of the certificate of incorporation of a credit union by the State Corporation Commission, the directors shall adopt a set of bylaws in conformance with this chapter, and shall file a copy of the same with the Commission. When the bylaws are filed with and approved by the Commission, and all requirements of law as to organization are complied with, *and when* the Commission *finds that the establishment of such credit union will be in the public interest as defined in § 6.1-13 and that the proposed management will be capable of operating the said credit union in a safe and sound manner, it* shall thereupon issue a certificate authorizing the credit union to commence business. Provided, however, that the Commission shall not issue a certificate of authority to do business to a credit union when it has reason to believe that the corporation is formed for any other than legitimate credit union business, or that the moral fitness, financial responsibility, or business qualifications of the persons named as officers and directors are not such as to command the confidence of the community in which the

credit union proposes to operate; or determines, after notification to the credit union and affording it an opportunity to be heard, that the operation of the credit union is not economically advisable.

CHAPTER 13.

FINANCIAL INSTITUTION HOLDING COMPANIES.

§ 6.1-381. Definitions.—As used in this chapter, unless a different meaning is required by the context, the words "financial institution holding company" shall mean any company which has control over any financial institution or which has control over any company which controls any financial institution. "Virginia financial institution holding company" shall mean any company which has control over any financial institution authorized to do business in this Commonwealth, or has control over a company which controls any such financial institution.

"Company" means any corporation, partnership, business trust, association or similar organization. "Virginia financial institution" means a financial institution authorized to do business in the Commonwealth of Virginia. "Commission" means the State Corporation Commission. As used in this chapter, the term "financial institution" shall not be deemed to include small loan companies.

A company shall be deemed to "control" another company, referred to in this chapter as a "subsidiary", if it owns twenty-five per centum or more of the voting shares of the subsidiary, or if under the Bank Holding Company Act of 1956, as amended, or under Section 408 of the National Housing Act, as amended, such company is presumed to control the subsidiary, or a determination has been made by the Commission that such company exercises a controlling influence over the management and policies of the subsidiary.

A financial institution holding company shall be deemed to own shares owned by a subsidiary. Such holding company shall be deemed to engage in activities engaged in by a subsidiary or by any other company of which it owns five per centum or more of the voting shares.

§ 6.1-382. Registration.—Every company that controls one or more Virginia financial institutions shall register with the Commission in accordance with procedures established by the Commission and, unless such company is a corporation chartered under the laws of Virginia, it shall be admitted to transact business in Virginia in accordance with § 13.1-102 of the Code of Virginia. Unless the Commission allows additional time, registration shall be completed within one hundred eighty days after the effective date of this chapter, or after the company acquires control of a Virginia financial institution, whichever date is later.

§ 6.1-383. Acquisition of interests in financial institutions.—No company shall acquire the control of Virginia financial institution, and no Virginia

financial institution holding company shall acquire more than five per centum of the voting shares of any other Virginia financial institution without prior notice to the Commission.

No financial institution shall acquire more than five per centum of the voting shares or otherwise gain control of any company other than a financial institution without prior notice to the Commission.

§ 6.1-384. Reports and examinations.—The Commission may require any financial institution holding company that controls a Virginia financial institution to furnish such reports as he deems appropriate to the proper supervision of such companies. Unless the Commission determines otherwise, reports prepared for federal authorities may be submitted by such holding company in satisfaction of the requirements of this section. If, in the judgment of the Commission, such information and reports as heretofore described are inadequate for the Commission's intended purposes, the Commission may examine any such financial institution holding company and any subsidiary doing business in this Commonwealth.

§ 6.1-385. Unsafe or unsound practices; cease and desist power.—Upon a finding that any activity of a holding company, including the control of a company or companies other than a Virginia financial institution, is or may be detrimental to the safety or soundness of an institution subject to regulation under the laws of this Commonwealth, the Commission, after reasonable notice to the holding company and an opportunity for it to be heard, shall have authority to order it to cease and desist from such activity.

§ 6.1-386. Conformity with federal procedures.—To the maximum extent consistent with the effective discharge of the Commission's responsibilities, the forms established under this chapter for registration, reports or any other forms shall conform with those established by regulation adopted pursuant to the Bank Holding Company Act of 1956 or Section 408 of the National Housing Act.

§ 6.1-387. Exclusions from this chapter.—The Commission may promulgate regulations excluding financial institution holding companies from the provisions of this chapter, under conditions comparable to those provided in either the Bank Holding Company Act of 1956 or Section 408 of the National Housing Act, where control of a Virginia financial institution arises out of the acquisition of shares in a fiduciary capacity, or in connection with an underwriting of securities or proxy solicitation, or in connection with securing or collecting a debt.

§ 6.1-388. Prohibitions and penalties.—To the extent provided for therein, financial institution holding companies subject to the laws of this Commonwealth shall be subject to the penalties set forth in §§ 6.1-114 and 6.1-125 of the Code of Virginia. Any company violating any provision of this chapter or any regulation promulgated thereunder shall be subject to a penalty of not more than one hundred dollars per day for each day the violation continues.

2. That § 6.1-40 of the Code of Virginia is repealed.