

# MAINE STATE LEGISLATURE

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# Report of the Governor's Banking Study Advisory Committee



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Bureau of Banks and Banking  
Department of Business Regulation  
State of Maine

August 1974

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**Report of the  
Governor's Banking Study  
Advisory Committee**

August 1974

**Bureau of Banks and Banking  
Department of Business Regulation  
State of Maine**

**KENNETH M. CURTIS  
GOVERNOR**

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## PREFACE

The Maine Governor's Banking Study Advisory Committee is unique among all the state committees to study financial structure reform, because half of its members were public members and only half its members were from the banking industry. In other states, such committees are composed almost entirely of industry members. Florida was considered daring when it created a banking study committee with two public members. However, the strength of this committee is that its members usually voted their own personal convictions, and did not feel constrained to vote as representatives of any particular group or constituency.

The Committee was appointed by Governor Curtis on December 1, 1972. Its first assigned duty was to advise the Bank Superintendent on the selection of a financial consultant. Carter H. Golembe Associates, Inc. of Washington, D.C., was selected. The Golembe Report was submitted in November, 1973.

It was then that our real work began. We considered the recommendations of the financial consultant and, from them, have written this report. It adopts some of the financial consultant's recommendations, rejects a few, and modifies many of them to add detail. Although our report contains a few recommendations on other subjects, its primary concern is the recommendations of the Golembe Report. We expect to consider other subjects during our further deliberations, and seek input from the public as to what areas need further study.

Our next duty will be to focus on recodification of the banking statutes to incorporate the recommendations in this report. We plan to have that recodification submitted to the 107th Legislature in January, 1975.

The recommendations in this report seem to us to be appropriate for the special circumstances of the State of Maine and we have not considered whether they are appropriate in other states or on a national basis. For example, in Maine, over 46% of deposits are in thrift institutions, while the comparable nationwide figure is 31%.

To consider the recommendations of the financial consultant, we divided into four subcommittees: Structure of Financial Institutions,



chaired by Professor Donald Savage; Powers of Financial Institutions, chaired by Robert Mitchell; Regulation of Institutions, chaired by Richard W. Baldwin; and Other State Policies and Activities, chaired by Eliot Wadsworth II. Each of these men put in innumerable hours putting together excellent subcommittee reports which we considered in full committee sessions in February and March, 1974. All of the members of this committee have put in many hours of work and thought, and I wish to thank them publicly for their effort and their ability to work together. In addition, I wish to thank Superintendent Gelder for his many efforts in helping us to prepare this report and in participating regularly in our discussions.

Finally, I wish to thank Governor Curtis for appointing a committee with such diverse opinions. Sometimes our sessions generated heat, but more often they generated light. We never lost our ability to talk to each other, and we believe that our recommendations are more sound because we heard so many points of view. It should be noted that there is a dissenting opinion by Mr. Barouch on two of the Committee's recommendations.

We began our assignment in general agreement that the present banking statutes are obsolete, and are a hindrance to the operation of both financial institutions and the Bureau. Having this general consensus on the need for change, we could and did approach each problem in a workmanlike manner and made each of our recommendations on the merits as we perceived them.

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# Report of the Governor's Banking Study Advisory Committee

## I. INTRODUCTION

The Governor's Banking Study Advisory Committee was formed and charged with helping the State study and improve its policies for dealing with Maine's banking institutions to insure that they are efficiently and reliably meeting the needs of Maine people on fair and reasonable terms.

The Committee proposes complete revision of the existing Maine Banking statutes.<sup>1</sup> Its recommendations are the result of a comprehensive review of the structure, operation and regulation of financial institutions in Maine and are presented within a conceptual framework that takes into consideration national developments and Maine's economic and financial requirements.

The last complete recodification of Maine's Banking Statutes occurred during the 1930's. Since then, these statutes have been amended often, leaving the State with a patchwork system of laws — frequently ambiguous and even conflicting — that are geared essentially to the circumstances and problems of earlier periods.

Persistent inflation and sharply fluctuating interest rates in recent years have also exposed basic deficiencies in the organization and structure of our financial markets. Many Maine people are concerned that the State's financial institutions — particularly thrift institutions — have insufficient flexibility to respond to changing developments and to meet shifting financial needs. The rise of the bank holding company as the dominant form of financial organization in this State and

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<sup>1</sup>The Maine Banking Statutes are contained in Title 9, M.R.S.A., Parts 1, 2, 3, 4, 5, 6, and 7A. These statutes, and the regulations issued pursuant thereto, cover the following financial institutions chartered by the State: bank and trust companies, savings banks, savings and loan associations, industrial banks, and credit unions.

rapid changes occurring in the nation's banking system reinforce the need for rewriting Maine's Banking statutes.

Financial reform is in progress at the Federal level. A Presidential Commission on Financial Structure and Regulation — the Hunt Commission — was appointed in 1970. Many of the Commission's proposals, which are designed to bring about reform in the nation's financial system are now being considered by the Congress. However, reform and recodification in Maine should not await changes in Washington. In the public interest, Maine's Banking statutes should be updated and revitalized now.

To aid its efforts, the Committee engaged Carter H. Golembe Associates, Inc. of Washington, D.C. to prepare a background study of financial institutions in the State. This study was published in November 1973. The Golembe findings provided the base for many of the ideas and concepts considered in developing the recommendations presented in this Report. The Committee's broad representation assured that diverse viewpoints were heard and discussed.

The Committee's recommendations should provide the State with a set of statutes within which the State's financial institutions may develop during the next decade. The proposals represent a conscious effort to balance various interests. Since the recommendations are interrelated, the Committee urges that they be viewed as a whole and that each be enacted by the Legislature and adopted by the Bank Superintendent as rules and regulations. Failure to enact needed reforms could lead to stagnation of the State's financial institutions and hinder their ability to meet the credit needs of the State of Maine and its people.

## II. SUMMARY

In developing a consistent framework for a new set of Banking Statutes, the Banking Study Advisory Committee recognized that the current statutes are outdated and fail to take into account the many recent changes in our financial and economic life.

The Committee maintains that Maine should act in its own best interests and not merely react to a changed financial and economic environment. The decade ahead requires that financial institutions have greater freedom to compete on a more equal basis, be responsive

to changing credit needs of the public, and be capably managed and supervised to assure that the State's financial system is safe and sound.

Briefly the Committee hopes to achieve a financial system for Maine that will:

- Assure a competitive environment sufficiently vigorous and orderly to encourage the development and expansion of financial services at prices consistent with the public interest.
- Be efficient and sound, clearly able to weather rapidly shifting economic and financial tides.
- Contribute to economic growth and development in the State.
- Be responsive to all segments of the public in providing convenient services.

The Committee recognizes that such a financial system must be monitored by a Banking Bureau with sufficient staff and regulatory authority to assure that these objectives can be attained.

A major constraint upon competition in financial markets is the legal distinctions among financial institutions in the State: commercial banks, savings banks, savings and loan associations, industrial banks, and credit unions. Each has its own deposit and lending powers. Therefore, same or similar services offered by different types of depository institutions are often not subject to the same rules or regulations. Outmoded regulations have created inequities among these various institutions and inhibited free-market competition in the provision of financial services.

The growth of bank holding company systems, while subject to federal regulations, has been completely free of State scrutiny and supervision.<sup>2</sup> Since mid-1966, the number of bank holding companies has grown from a single organization with 4 banks and accounting for about 5 percent of the State's commercial banking deposits to 6 holding company systems controlling a total of 24 banks and accounting

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<sup>2</sup>A bank holding company is an organization that owns or controls 25 percent or more of the outstanding voting shares of one or more commercial banks. Since the parent company is not a bank (i.e., it does not accept deposits), the activities of that company are not subject to Maine banking laws.

for over 70 percent of deposits. Thus, the State of Maine is now left with 26 commercial banking organizations — 20 independent banks and 6 bank holding company systems.

The Committee does not propose complete elimination of all distinctions among depository financial institutions. Even if desirable, it would not be permissible under Federal laws and regulations. Rather the Committee has sought to remove many of the artificial and archaic barriers to competition, while at the same time preserving an institution's ability to specialize in particular credit markets deemed vital to the State, such as housing finance and business loans. In so doing, the Committee also sought to assure that all depository institutions offering the same services would be subject to essentially the same laws and the same regulatory scrutiny. Specialization by type of service would be more a matter of choice for the individual institution than decreed by statute or regulation.

To achieve increased competition in the State, the Committee recommends the following:

First, broader depository and lending powers for financial institutions. For instance, thrift institutions would be permitted to offer credit cards, personal checking accounts, and interest-bearing NOW accounts (if and when permitted by Federal law). They would also be permitted to increase their participation in commercial loans and expand their consumer lending activities.

Second, commercial banks and thrift institutions would be allowed to branch statewide. Credit unions would also be allowed statewide branching privileges, subject to common bond membership restrictions. The Committee's proposals thus would remove all in-state geographic barriers to competition, provided that the Bank Superintendent determines that specific applications to expand will promote public convenience and advantage.

Third, institutions would be permitted to convert from one type of institutional charter to another (for example, from a savings bank to a commercial bank), and from one type of ownership to another (for example, from a mutual to a stock organization), under regulations established by the Bank Superintendent. The option to convert from one charter to another should allow institutions flexibility to respond to changing opportunities and changing public needs. More importantly, allowing mutual institutions to convert to stock organizations

should permit these institutions greater opportunity to raise additional capital.

Fourth, the Bank Superintendent would have the authority to permit thrift institutions and trust companies<sup>3</sup> not affiliated with a bank holding company to engage in some or all of the bank-related activities permitted bank holding companies operating in Maine.

Finally, holding companies domiciled in another state would be permitted to establish or acquire institutions in Maine, provided Maine holding companies have reciprocal rights in that state. Entry would be subject to the approval of the Bank Superintendent who would be required to consider whether such proposals would bring net new funds into the State rather than create net outflows to other states.

To give the State a voice in the activities of bank holding companies, the Committee recommends that bank holding company legislation paralleling the Federal Bank Holding Company Act be enacted by the State. This legislation would give the Bank Superintendent the authority to approve or deny acquisitions by bank holding companies and to determine the list of permissible bank-related activities in which bank holding companies may engage.

The Committee also recognized that "unbridled competition" could have undesirable consequences. Maine's smaller institutions should be protected from excessive or unfair competition on the part of larger institutions. Therefore, the Committee has proposed that the Bank Superintendent be given specific statutory authority to issue regulations governing practices of bank holding companies and banking institutions deemed to be anticompetitive, deceptive or otherwise injurious to the public. Such practices, left unregulated, would constitute excessive or unfair competition with regard to smaller banks.

Savings banks and savings and loan associations have been under severe strain in recent years as a result of violent swings in market interest rates. For historical and statutory reasons, these institutions invest the bulk of their assets in long-term, fixed-rate mortgages and obtain their funds primarily from consumer savings deposits which in practice can be withdrawn without notice. Consequently, thrift institutions are ill-equipped to deal effectively with persistent sharp upward movements in short-term money rates. When short-term money

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<sup>3</sup>Trust companies are commercial banks chartered by the State.



market rates rise above the deposit rate ceilings set by the Federal regulatory authorities — as happened in the summer of 1973 and again in mid-1974 — the ability of these institutions to attract and hold deposits is seriously impaired. A growing number of savers in Maine and elsewhere have become increasingly aware of alternative investment opportunities and are quick to withdraw their funds in favor of more attractive money market investments. Yet, even if thrift institutions were permitted to pay market rates — as happened briefly on the 4-year, no-ceiling certificates during the summer of 1973 — there is still considerable doubt that mortgage portfolios locked into lower rates would permit them to do so. Limiting thrift institutions to fixed-rate, long-term mortgages does not afford them the flexibility to compete for funds in money markets characterized by sharply rising rates.

The Committee's program for removing statutory barriers in the provision of depository and credit services should also help strengthen the long-term stability of the thrift industry. Expanded powers allowing thrift institutions to make consumer loans and to participate in business loans should enable them to improve their liquidity and cash flow and adjust more rapidly to sharp fluctuations in interest rates. More importantly, enabling savings banks and savings and loan associations to offer credit cards, checking accounts and full consumer services will permit them to become "one stop" family financial institutions and enhance their ability to compete for new and hold existing deposits. Since the loss of deposits is a major factor causing mortgage funds to "dry up", measures to stabilize the flow of funds to thrift institutions should help stabilize the flow of mortgage credit into Maine housing — a result that is of vital importance both to consumers and the housing industry in the State.

The amount of business credit available from Maine institutions relative to credit needs is low. In recognition of this, the Committee proposes measures to supplement the availability of funds for growth and development in the State. First, thrift institutions would be given additional leeway power to participate in commercial loans over and above that permitted under current statutory limitations. Second, the recommendation permitting entry of out-of-state organizations, referred to earlier, should provide greater credit availability for large business loans and local availability of "money center" banking services.

In making these recommendations, the Committee recognizes that an efficient and competitive financial system is a necessary precondition for economic development, but not the only one. Banking institutions are not a primary source of venture capital. However, they perform a critical supportive role in supplying commercial loan funds and financial services. Thus, the Committee's proposals are directed primarily to assuring this necessary support, recognizing that credit availability alone will not guarantee business expansion and economic growth.

The Committee makes two basic recommendations on methods to increase the availability of venture capital funds. First, investment portfolios consisting of funds derived from Maine enterprises and people should be encouraged to make part of their resources available as business development funds in Maine under "prudent man" investment and loan rules. Second, serious study should be given to forming a Maine-based venture capital trust, staffed with full-time professional managers, to supplant much of the present state government participation in this field. Such a study should inquire into possible participation by Maine financial institutions and investment portfolios originating in Maine, and the availability of State guarantees.

In recommending removal of many of the statutory barriers designed to protect banks from market competition, the Committee does not intend either that State regulation of the financial industry should be sharply curtailed or that the Banking Bureau be relegated to playing a perfunctory role. Instead, the responsibilities and tasks of the Bureau must be streamlined and assume a different emphasis.

In the past, the Bureau has devoted its energy and resources primarily to ensuring financial soundness. This task must still be performed. In addition, the public interest now demands that the Bureau assure effective competition among institutions and that the financial needs of the State are filled. The change in the regulatory focus of the Bureau requires that its organizational structure and powers be modernized and strengthened.

The Committee recommends that the Bureau now be reorganized into two divisions: an examination division and a financial structure division. Each would be headed by a deputy superintendent. The Examination Division would examine for safety and soundness of institutions; the Financial Structure Division would assure competition

and encourage the provision of financial services. Each division should be staffed with personnel having the expertise required to carry out its responsibilities. For example, the staff of the financial structure division should have backgrounds in economics or financial markets. This would also give the Bureau a capability for engaging in economic analysis and research that it now lacks. Such a capability would be tailored specifically to providing information necessary for decisions on competition and increased financial services.

The Committee recommends that the present method and term of appointment of the Superintendent be continued. However, the present statutory requirement of "seven years practical experience" condition for candidacy should be replaced by a more flexible requirement, such as "demonstrated knowledge of, or experience in, the practice or theory of banking". Potential conflicts of interest should be prevented by prohibiting certain Bureau personnel from borrowing from, or owning stock in, any institution regulated by the Bureau.

The thrust of the Committee's recommendations in the area of supervisory powers is that statutes be broadly constructed, allowing room for some discretion in implementing rules and regulations. The power of industry advisory committees to veto Bureau regulations would be removed, giving the Superintendent greater ability to respond to changes in the State's ever-evolving economic and financial environment. However, to assure that the Superintendent acts responsibly and that interested parties are given a voice in the regulatory posture of the Bureau, the Committee recommends statutory guidelines for administrative rule-making and for decision-making procedures on applications. Specific administrative processing and hearing procedures would be implemented by regulation.

The Committee also addresses itself to the question of accountability of mutually-organized financial institutions to the public. The Committee recommends that the Bureau's examiners have the power to review whether the composition of the board of corporators and board of trustees of mutual thrift institutions are broadly representative of their community. Mutual institutions would also be required to make financial information available to depositors 10 days prior to the required annual meeting. A mandatory retirement age of 72 for corporators of mutual savings banks and prohibition of interlocks between such corporators and other financial institutions is also recommended.

The Committee recommends additional disclosure and availability of information to the public. The public would be allowed to request and participate in hearings as interested parties and the Bureau would be required to set forth findings of fact and reasons for each of its decisions on applications. The Superintendent also would be given authority to issue regulations prohibiting false, misleading or deceptive advertising of financial services.

The following sections set forth a complete listing and specific language of each of the Committee's recommendations. The reasoning behind the recommendations is also presented, together with alternative proposals that were considered.

### **III. RECOMMENDATIONS FOR LEGISLATION**

#### **A. BANK HOLDING COMPANIES**

Bank holding companies are regulated and supervised at the Federal level by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended in 1970. The Board approves the formation of new holding companies as well as the expansion of existing companies via merger or acquisition into new banking markets or fields closely related to banking. Currently the Board has ruled that bank holding companies may engage in such nonbank activities as underwriting credit life insurance, personal property leasing, factoring and providing financially-oriented data processing services.

The Bank Holding Company Act permits States to regulate and supervise bank holding companies operating within their boundaries if they wish to exercise such power. A number of States have elected to regulate bank holding companies operating within their boundaries. However, Maine statutes are silent on bank holding companies so that the operation and expansion of such companies has occurred outside the regulatory purview of the Banking Bureau.

In view of the rapid growth and relative economic importance of bank holding companies in Maine, the State should regulate the operation and activities of these companies. The regulation would apply

not only to Maine-based holding companies, but also to bank holding companies domiciled in other states seeking to enter the Maine market.

The Committee recommends that:

1. **Bank holding company legislation paralleling the Federal Bank Holding Company Act should be enacted by the State and that statutory criteria for decision-making conform to Federal criteria. This legislation should give the Bank Superintendent the authority (a) to approve or deny the formation of, and acquisition by, bank holding companies; (b) to determine which nonbank activities approved by the Federal Reserve Board would be permissible for bank holding companies in Maine to engage in, provided that powers of and restrictions on banking institutions under existing Maine statutes are retained; and (c) to review and examine bank holding companies for financial soundness and compliance with laws and regulations.**

To minimize the administrative burdens on bank holding companies and on the Banking Bureau, the Committee recommends that:

2. **Maine legislation should permit the Bank Superintendent to accept applications and reports of examinations conducted by Federal examiners to satisfy requirements of Maine law.**

This recommendation should not preclude the Banking Bureau from making special requests for data or information needed for supervisory purposes.

The relatively small size of Maine's banking organizations limits credit availability, particularly to larger business concerns. As a result, some Maine borrowers are either unable to fulfill their credit needs or must seek accommodation at banks in other states. The Committee rejected the notion that fostering the growth of larger financial institutions through mergers within Maine was a feasible way to deal with the problem. The consolidation of all commercial banks in the State, for example, would not create an institution as large as the leading Boston banks. Moreover, further mergers between Maine banks could adversely affect competition within markets of the State and en-

counter U.S. Justice Department opposition. The Committee concluded that the best means of achieving economies of scale in banking, while at the same time fostering competition and the provision of needed services, would be to permit Maine institutions to operate across State lines and permit out-of-state institutions to enter Maine on a reciprocal basis.

To assure that interstate banking would promote the interests of the people of Maine, the Committee agreed that entry by out-of-state institutions should be limited to holding company acquisitions of existing or de novo banks, with requirement that at least two-thirds of the bank directors continue to be Maine residents. Such acquisitions would also have to have the prior approval of the Bank Superintendent, under the proposed Maine Bank Holding Company law. Before approving a proposed acquisition by an out-of-state holding company, the Superintendent would have to find that such entry would serve the interests of Maine. Specifically, the proposal should provide new services and bring net new funds into the State rather than create a net outflow to other states.

Permitting out-of-state banks to branch into Maine was rejected. The Committee believed that it would be more difficult to regulate the activities of a branch, which is not a separate legal entity, than it would be a bank.

The operation of banks or bank branches across State lines is prohibited by Federal law, unless entry by out-of-state institutions is explicitly permitted by State law. Maine statutes do not provide for the operation of banks or bank branches by out-of-state financial institutions.

The Committee recommends that:

- 3. A holding company in another state should be permitted, subject to approval by the Bank Superintendent, to establish or to acquire financial institutions in Maine provided that (a) Maine holding companies have reciprocal rights of establishment and acquisition in that State and (b) two-thirds of the members of the board of directors of the Maine institution reside in Maine.**

The Committee believes that activities deemed permissible by the Bank Superintendent for bank holding companies under the State's

proposed holding company law should not be confined solely to holding companies or their subsidiaries. The Bank Superintendent should have the authority to permit thrift institutions and trust companies not affiliated with a bank holding company to engage in some or all of the bank-related activities permitted bank holding companies operating in Maine. In this way, the benefits from bank participation in these activities could be made available to the public in areas of the State not served by bank holding companies.

The Committee would not require individual institutions within an industry to obtain regulatory approval to engage in activities ruled permissible for a specific type of institution. The Committee felt that the small size of some institutions may be weighed too negatively by the Banking Bureau in considering specific proposals to engage in permissible nonbank activities.

The Committee recommends that:

- 4. Thrift institutions and trust companies not affiliated with a bank holding company should be permitted to engage in those additional nonbank activities determined by the Bank Superintendent to be permissible activities for bank holding companies operating in Maine. Thrift institutions should be authorized to engage in such permissible nonbank activities within the institutions themselves or through subsidiaries.**

## **B. BRANCHING POWERS**

Under current law, commercial banks and thrift institutions are allowed to branch only in their home or adjoining counties, in municipalities where no bank is regularly transacting business, or where a unit bank or a branch of a bank is absorbed via merger. Consequently, not all banks can compete with each other in all markets of the State. However, the holding company device can be used to expand outside the limited area where individual banks can branch. While bank holding company subsidiaries are subject to the banking laws, there are no State restrictions on the number or location of such subsidiaries within the State.

There is no economic justification for retaining the existing branching scheme. Commercial banks have adopted the holding company

structure in order to expand and in many instances this has been more expensive than growth via branching. Moreover, it has created competitive inequities among financial institutions.

The Committee recommends that:

5. Maine statutes should be amended to allow state-wide branch banking by commercial banks and thrift institutions, with the establishment of new branches subject to the approval of the Bank Superintendent.
6. Credit unions should be permitted to establish branches anywhere in the State in order to meet the needs and convenience of their common bond members, subject to approval by the Bank Superintendent.

Under existing Maine statutes, there are no explicit provisions for limited-time branches or seasonal branch facilities. While the Banking Bureau has permitted a few branches to operate on short hours or less than five days a week, each branch approved is technically a full-time and full-service office.

Most communities in Maine capable of supporting a branch have an office of one or more financial institutions. However, there are communities not served by a full-time facility that could use and support the services of a limited-time facility.<sup>4</sup> There are also communities that would benefit from a seasonal branch facility<sup>5</sup> because of the large influx of tourists and seasonal residents. If operations and services must be scaled to a year-round basis, banking facilities in such communities would probably be inadequate during seasonal peaks. On the other hand, maintaining year-round operations to service peak periods would be inefficient and costly. Seasonal branches would be a reasonable method of meeting public need and convenience.

The proliferation of seasonal or part-time facilities could, however, inflict serious losses on existing full-time facilities. For this

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<sup>4</sup>A limited-time branch is any facility that is open each week, but may operate less than five days a week or less than normal banking hours during a day.

<sup>5</sup>A seasonal branch is any facility that does not open every week of the year.



reason, limited-time or seasonal branches should be restricted to areas not served by full-time facilities. However, the presence of a limited-time branch should not foreclose the establishment of a full-time office in the area. Should a full-time branch be permitted to operate in an area served by a limited-time facility, this should not automatically preclude the continued operation of the limited-time office.

The Committee recommends that:

7. **Maine Statutes should explicitly provide for establishment and operation of limited-time bank branches and seasonal bank branch facilities. However, they should be restricted to areas or communities not served by full-time banking facilities.**

The statutes should also continue to confine branches to specific locations to prevent the development of so-called mobile branch facilities.<sup>6</sup> Mobile units would endanger existing full-time branch offices.

The Committee recommends that:

8. **Maine Statutes should explicitly prohibit mobile branch banking facilities.**

### **C. DEPOSITORY POWERS**

To assure their continued viability, savings banks and savings and loan associations must be able to compete for consumer deposits. The growing inability to attract new consumer deposits and retain existing savings during periods of rapidly rising rates requires that these institutions be permitted to offer personal checking accounts<sup>7</sup> and interest bearing NOW accounts<sup>8</sup> to individuals. These powers would

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<sup>6</sup>A mobile branch is any facility that is transferable from one location to another without prior regulatory approval.

<sup>7</sup>The term "personal checking account" follows the F.D.I.C.'s definition of such accounts and would include funds deposited to the accounts of individuals and to non-profit organizations and operated primarily for religious, philanthropic, charitable, fraternal, or other similar purposes.

<sup>8</sup>NOW accounts are savings deposits against which negotiable orders of withdrawal may be drawn. Withdrawals from regular savings accounts require presentation of a passbook; prior written notice to withdraw may also be required.

provide thrift institutions with full access to any electronic payments system and permit them to become full-service family financial institutions. At present, only commercial banks can offer one-stop consumer banking services.

The Committee recognized that granting thrift institutions interest-bearing NOW account powers (if and when permitted by Federal law) and checking account powers would bring these institutions more directly into competition with commercial banks which traditionally have had exclusive power to offer payment services. However, since the availability of housing credit is directly related to the ability of thrift institutions to attract and to hold consumer deposits, broader depository powers seem essential. Nevertheless, thrift institutions that elect to offer these payment services should be subject to the same reserve requirements against these accounts as are trust companies that are not members of the Federal Reserve System.

The Committee recommends that:

9. Maine statutes should allow thrift institutions to offer checking accounts, but this authority should be limited to personal checking accounts until there is equality among financial institutions as to interest rate ceilings payable on deposits. If Federally-chartered thrift institutions receive general checking account powers, Maine statutes should allow State-chartered thrift institutions to have equal checking account powers.
10. All State-chartered commercial banks and thrift institutions should have the power to issue interest-bearing NOW accounts. This authority should be implemented by the Bank Superintendent if and when the Federal law prohibiting such accounts is rescinded. Statutes or regulations implementing this authority should strive to maintain competitive equality among financial institutions authorized to offer such accounts.
11. Thrift institutions should be subject to the same reserve requirements against their checking and NOW account liabilities as are trust companies that are not members of the Federal Reserve System. Thrift institutions that are

**members of the Federal Home Loan Bank System should be permitted to hold their required reserves in the FHLB.**

Every commercial bank and all but one savings bank and three savings and loan associations are insured by either the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. However, the State's industrial banks and many State-chartered credit unions are uninsured. All State-chartered institutions should be required to carry Federal Deposit Insurance.

The Committee recommends that:

- 12. All financial institutions should be required to carry federal insurance coverage on deposits and credit union insurable shares and deposits. All uninsured institutions should be granted a period of up to six months to apply for insurance and up to two years to comply fully with the insurance requirements following the effective date of such legislation.**

The maximum rates of interest that commercial banks and thrift institutions may pay on their deposits is established jointly by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board. Rates that may be paid on credit union shares and deposits are also subject to ceilings. However, rates paid by industrial banks are subject to neither Federal nor State ceilings. To avoid the possibility that industrial banks would use this loophole to pay rates on deposit accounts out-of-line with those payable by financial institutions subject to ceilings, the Committee recommends that:

- 13. Maine statutes should permit the Bank Superintendent to establish rate ceilings on certificates of investment and other types of deposit accounts offered by industrial banks with due regard to maintaining competitive equality among all financial institutions.**

#### **D. LENDING POWERS**

Present State law places no limitations on the markets in which commercial banks may lend funds; thrift institutions do not have the same flexibility. For historical and legal reasons, thrift institutions

have invested the bulk of their assets in first mortgages on real estate. Other types of loans and investments can be made only within specific statutory limitations.

In addition to loans on first mortgages on real estate, savings banks are authorized to grant or participate in personal loans up to 10 percent of deposits, loans on mobile homes up to 5 percent of deposits, loans on "prudent" collateral up to 10 percent on deposits, term loans originated by Maine commercial banks up to 10 percent of deposits, and other "prudent loans" that savings banks would not otherwise have the authority to make up to 5 percent of deposits. State-chartered savings and loan institutions may grant real estate, home improvement and equipment loans not secured by real estate up to 10 percent of deposits, and other "prudent loans" up to 10 percent of total assets.

Commercial banks furnish most of the business credit in the State and thrift institutions grant most of the housing credit. The Committee, while approving of some market segmentation, believes that thrift institutions should have more flexibility to invest in shorter-term, higher-yielding instruments and to place more funds into the commercial loan market. Greater portfolio diversification is needed so that thrift institutions can adjust and maintain their cash and earnings flow during periods of sharply rising interest rates. Greater participation in commercial loans by these institutions would also contribute to meeting the economic development needs of the State.

The Committee believes that the lending powers of savings banks and savings and loan associations over and above their existing authority to grant first mortgages on real estate should be consolidated and made more uniform.

The Committee recommends that:

14. **Maine statutes should permit each thrift institution to invest:**
  - a. **10 percent of its total deposits in personal and consumer loans;**
  - b. **10 percent of its total deposits in loan participations originated by Maine commercial banks;**
  - c. **10 percent of its total deposits in "prudent loans", including commercial loans; and**

- d. an additional percentage, adjustable between 0 and 10 percent, established on an industry-wide basis according to criteria specified by the Bank Superintendent, in commercial loans or in loan participations originated by Maine commercial banks.
15. The fixed dollar limit on personal loans in the present statutes for savings banks should be eliminated. A statutory limitation on this type of loan to any one individual should be set at 1% of the institution's deposits.

The effect of the Committee's proposals would be to extend to savings and loan associations the authority of savings banks to grant personal loans. Also the statutory ceiling on "prudent loans" extended by savings banks would be raised to the level now permitted savings and loan associations. In addition, thrift institutions would be permitted a new power, subject to the discretion of the Bank Superintendent, giving them additional leeway to grant or participate in commercial loans.

The credit card is a borrowing and payment device. Those banks desiring to participate in any electronic payments system will find it necessary to issue credit cards.

The Committee expressed some reservations about consumer loan overextension through unrestricted access to credit cards. However, the problems of overextension cannot be solved by limiting the authority to issue credit cards to certain institutions.

The Committee recommends that:

16. All thrift institutions should be authorized to issue credit cards subject to regulation by the Bank Superintendent. Credit unions should also be allowed to issue credit cards for the purpose of participating in an Electronic Funds Transfer System, subject to interest rate and personal loan limitations contained in credit union laws.

## E. CONVERSION POWERS

Allowing institutions the option of converting to different types of financial charter — commercial bank, savings bank, and savings and

loan — and to a different form of ownership — stock or mutual — should provide greater operational flexibility. Such conversions, however, must be closely regulated and supervised by the Banking Bureau and have the approval of both the governing body of the institutions and the stockholders.

Under existing Maine statutes, commercial banks must be stock institutions, and savings banks and savings and loan associations must be mutual institutions. To permit complete institutional flexibility, Maine law should be amended to permit mutual commercial bank charters, stock savings banks, and stock savings and loan associations. The Committee recognized that conversion to mutual commercial banks would be unlikely.

In supporting broad conversion powers, the Committee agreed that any proposed conversion of an institutional charter, whether State or Federal, should include a careful appraisal of the effect on the competitive structure of both the market being entered and the market being left. For example, if a mutual savings bank applied to the Banking Bureau for conversion to a mutual commercial bank, the Superintendent would evaluate that proposal as he would evaluate a proposal by a commercial bank for entry into that market area. In addition, due regard must be given by the Banking Bureau to any potential loss of thrift services in that market area from the conversion.

The Committee recommends that:

17. **Maine statutes should permit conversion from one type into another type of financial institution, subject to approval of the Bank Superintendent. Such conversion must be approved by both the board of directors of the institution and, where appropriate, by the stockholders.**

Mutual thrift institutions are presently limited in their ability to raise new capital. Allowing conversion from mutual to stock ownership would help alleviate this problem by allowing these institutions to sell stock. Conversion to a stock charter would also put mutual institutions in a better position to form or become part of a holding company organization, if permitted under State and Federal regulations.

The problem in permitting mutual banks to convert to stock institutions is distribution of the surplus created as a mutual institution. There is no ideal solution to this problem. However, the Federal Home Loan Bank Board has proposed regulations, applicable to all Federally-chartered and Federally-insured savings and loan associations, which the Committee believes could serve as a model for such conversions under State regulation. The Committee agrees that the details of any conversion procedure would be better accomplished by regulation than by statute.

The Committee recommends:

- 18. Maine statutes should allow a mutually-owned institution to convert to a stock-ownership corporation, and a stock-ownership to convert to a mutually-owned institution, subject to regulations on such conversion issued by the Bank Superintendent.**

Appendix B lists the basic criteria that the Committee believes any Banking Bureau regulations on conversions from stock to mutual and from mutual to stock should contain. The conversion criteria from stock to mutual ownership were patterned after similar provisions in the Maine Insurance Statutes (Title 24-A). The conversion criteria from mutual to stock ownership were largely based on the proposed FHLBB regulations.

## **F. MANAGEMENT ACCOUNTABILITY**

Mutually-chartered institutions should be subject to the same principles of corporate democracy and disclosure as other corporate enterprises. At issue is whether depositors should be given a greater voice in the management of mutual institutions than they now have. Should they, for example, have a role more nearly comparable to stockholders of commercial banks?

Trustees of mutual savings banks are elected by incorporators, who constitute a self-perpetuating body. The Committee considered the recommendation that trustees of mutual savings banks be elected by the depositors of such institutions, but rejected it. The Committee also questioned the degree to which depositors would participate in

the affairs of the banks. The record of institutions with depositor voting suggests that few depositors would exercise their voting rights even if they had such powers.

The Committee concluded accountability to the public would best be achieved through boards of trustees and corporators broadly representative of the community. The Superintendent should supervise such a requirement through the regular Banking Bureau examination procedure.

The Committee recommends that:

- 19. The Banking Bureau should have the power to comment on the sociological composition of boards of mutual thrift institutions.**

A broad range of interests of the community is to be included in "sociological composition". There should be sufficient turnover and numbers of trustees and corporators to bring various interests to bear on bank policy.

A mandatory retirement age for corporators of mutual savings banks is proposed in order to introduce new people and ideas more rapidly.

The Committee recommends that:

- 20. Corporators and trustees of mutual savings banks should have a mandatory retirement age of 72. This provision should become effective two years after enactment of such legislation.**

A proposal to limit the terms of office of trustees of thrift institutions to 15 years was rejected. The Committee believes that there is no necessary connection between length of service and decreased capability to serve.

Depositors and the public can benefit from regular disclosure of financial information. Depositors of mutual institutions should be provided regularly with financial information, as are depositors of stock-owned institutions.



The Committee recommends that:

21. Mutual institutions should be required to make available in all offices a fiscal year-end balance sheet and an income statement covering bank operations for the preceding fiscal year. These statements should be available at least 10 days prior to the required annual meeting.

Maine statutes currently prohibit interlocks between trustees of mutual savings banks and other financial institutions. This prohibition should be extended to corporators.

The Committee recommends that:

22. Maine statutes should prohibit corporators of mutual savings banks from serving on boards of other financial institutions.

## G. CREDIT UNIONS

The Maine statutes covering credit unions should be largely rewritten. Credit unions must be able to develop new services and programs to meet the demands of their members and to be able to respond flexibly to market developments, including new consumer lending powers won by other financial institutions. Moreover, credit unions chartered by the State should have powers comparable to those given Federal credit unions. The Committee agreed that credit union representatives, the Bank Superintendent and the legislative draftsman should rework and modernize the existing statutes, submitting any substantive changes to the full Committee for its review and approval. The Model Credit Union Act published by the Credit Union National Association should be a point of departure for restructuring the Maine credit union statutes.

In addition to the branching and credit card proposals that included credit unions presented in other sections of this Report, a number of specific changes in the organization and powers of credit unions were considered.

Presently, State-chartered credit unions are required to establish a share par value of \$5.00. Allowing a higher par value for their

shares would enable credit unions in effect to set a higher minimum upon which dividends must be paid.

The Committee recommends that:

- 23. Credit unions should be granted the authority to establish the par value of member shares in multiples of \$5.00 up to \$25.00.**

The present statutes restrict the borrowing power of credit unions to 50 percent of unimpaired capital and surplus. In some situations this limitation is too restrictive. While recognizing that present limits protect the membership, credit unions should be allowed to exceed this restriction under the supervision of the Bank Superintendent to respond to particular credit needs of members.

The Committee recommends that:

- 24. Maine statutes should permit credit unions to exceed the present statutory borrowing limit of 50 percent of unimpaired capital and surplus, provided prior written approval to do so is obtained from the Bank Superintendent.**

State-chartered credit unions are now authorized to pay dividends of up to 6 percent and hold an advantage vis-a-vis other financial institutions on passbook accounts. However, they are not able to compete with Federal credit unions which currently may offer 7 percent. Since the present dividend rate for Federal credit unions is set by regulation, the statutory rate for State-chartered credit unions should be abolished and the Bank Superintendent given authority to establish rates by regulation.

The Committee recommends that:

- 25. Maine statutes should permit the Bank Superintendent to establish rate ceilings on dividends paid by credit unions with due regard to maintaining competitive equality between State-chartered credit unions, Federal credit unions and other financial institutions.**

Credit unions are presently required to maintain reserves of 10 percent of net income until such time that they equal 20 percent of

assets. These reserve requirements are substantially in excess of those under the Federal Credit Union Act.

The Committee recommends that:

- 26. The Bank Superintendent should review present reserve requirements of State-chartered credit unions in order to make them more consistent with requirements applicable to Federal credit unions.**

State-chartered credit unions with assets of \$100,000 or more may now grant unsecured loans of \$2,500 to an individual as a maximum limit. Consideration was given to a complete removal of this limit, but such a move was believed unwise at this time.

The Committee recommends that:

- 27. The monetary limit on unsecured, personal loans should be raised to a maximum of \$5,000 with all other existing statutory limitations on such loans remaining in effect.**

## **H. BANKING BUREAU ORGANIZATION**

Basic organizational changes in the structure of the Bureau are required to reflect the Banking Bureau's new authority, responsibilities, and regulatory focus. In the past, the Bureau has spent most of its time and effort examining financial institutions chartered by the State to assure that each is financially sound. It has viewed protection of the public's deposits in banks as its primary goal. It has not been able to devote sufficient resources to promoting effective competition between institutions or to assuring that organizations under its supervision are responsive to the interests and demands of the public for financial services.

The Committee does not propose changing the basic goals and responsibilities of the Bureau. Protection of the public's deposits should not be de-emphasized. However, the Banking Bureau's responsibilities for assuring a competitive financial structure responsive to the public needs should be promoted and given equal regulatory emphasis. To recognize this change of emphasis, the Committee recommends that:

28. The declaration of policy contained in Maine statutes regarding the function of the Banking Bureau should be revised as follows:

“It is declared to be the policy of the State that the business of all financial institutions shall be supervised by the Bureau of Banks and Banking in a manner to assure reasonable and orderly competition, thereby encouraging the development and expansion of financial services advantageous to the public welfare; to maintain close cooperation with other supervisory authorities; and to assure the strength, stability and efficiency of all financial institutions”.

The Committee intends that the language “promote reasonable competition” should authorize the Bureau to suggest, but not mandate, the provision of financial services to meet the needs of the State.

With respect to organizational changes in the Banking Bureau, the Committee recommends that:

29. The name of the Bureau of Banks and Banking should be shortened to “Bureau of Banking”.
30. The Banking Bureau should be organized into two banking divisions, each headed by a deputy superintendent reflecting the State’s principal regulatory activities and goals.
- a. Examination Division — Examination and surveillance of individual institutions to assure that each is financially sound and complies with State and Federal laws and regulations.
  - b. Financial Structure Division — Evaluation of data and processing of applications by institutions to expand or diversify with a view towards promoting reasonable and orderly competition and provision of financial services consistent with the public interest.
31. The Banking Bureau should be staffed with personnel reflecting the needs and responsibilities of its regulatory functions.
32. The Banking Bureau’s personnel training programs should neither put undue emphasis on bank safety and sound-

ness nor stress a supervisory posture that would inhibit financial institutions from engaging in activities or making loans which appear unusual but are nevertheless in the public interest.

Examining personnel should have backgrounds in economics, finance or accounting. The Bureau should develop electronic data processing expertise within the Examination Division to stay abreast of extensive automation taking place in the banking industry.

The Financial Structure Division should be staffed with individuals with backgrounds in economics, banking, business development and financial research. However, persons with broad liberal arts training should be considered if they possess strong analytical and writing skills. The Financial Structure staff should be capable of evaluating whether the needs of communities are being met as well as appraising the impact of charters, branches, mergers and holding company acquisitions in nonbank fields of competition and the public interest. The staff should also provide the Bureau with a capability to engage in economic analysis and research in these areas.

The Financial Structure Division should collect or maintain ready access to economic, demographic and other relevant information necessary to make judgments on the competitiveness of markets and on prices and availability of financial services. Provision should be made to share such information with other State departments concerned with development, except for confidential information pertaining to individual banking institutions.

The ability of the Banking Bureau to serve the public will be enhanced if the Committee's recommendations are incorporated into law. To direct the Banking Bureau, Maine needs a Superintendent of outstanding ability who can command wide respect and exercise sound independent judgment. The prerequisites to appointment in the present law are no longer appropriate and could eliminate individuals who would make outstanding Superintendents.

The Committee recommends that:

33. **The Superintendent of Banking should continue to be appointed for a five-year term by the Commissioner of the Department of Business Regulation with the advice and**

consent of the Governor and Council. The Superintendent's salary should be established at a rate commensurate with his responsibilities.

34. The only statutory prerequisite for the office of Superintendent of Banking should be "a person with demonstrated knowledge of, or experience in, the theory or practice of banking".

To avoid potential conflicts of interest concerning Bureau personnel and the banking institutions which they regulate, the Committee recommends that:

35. The Bank Superintendent, as well as all other examining and professional personnel in the Bureau, should be prohibited from borrowing from, or owning stock in, any institution which is supervised by the Bureau.

Federally-chartered financial institutions in the State, which are not regulated by the Bureau, should be able to handle the credit needs of personnel in the Bureau.

The Golembe Report recommended that a full-time attorney be added to the staff of the Bureau. The Committee rejected this proposal because the Bureau has used only about 20 percent of an attorney's time in the past and is expected to use only 30 to 35 percent of an attorney's time in the near future. However, the Attorney General's staff is greatly overburdened and has not been able to respond promptly to the work requested by the Banking Bureau or the Department of Business Regulation.

A full-time staff attorney within the Department of Business Regulation could be justified on the basis of that Department's legal work alone. An attorney to be assigned through the Commissioner's office to any of its Bureaus (Banking, Insurance, Real Estate, Consumer Protection) would overcome many of the Attorney General's objections relating to confinement of an attorney to a limited area of law. A full-time attorney within the Department of Business Regulation would also provide the Bureaus "in house" legal advice on regulatory matters which have not received proper attention in the past.

The Committee recommends that:

36. The Department of Business Regulation should be authorized to hire directly one full-time attorney to advise

**the Department and in addition should continue to receive the services normally provided by the Attorney General's office.**

The Golembe Report recommended a reconsideration of the recent reorganization of the state government which placed the Bureau of Banking within the Department of Business Regulation. This Committee believes it is too early at this time to make a judgment as to whether or not the Bureau of Banking should remain in the Department of Business Regulation.

## **I. BANKING BUREAU REGULATORY POWERS**

Under present law, the state's commercial banks, savings banks, and savings and loan associations each appoint an advisory board to assist the Superintendent in matters pertaining to their regulations. These boards have veto power over regulations issued by the Superintendent affecting their industry. Because of this veto power, the advisory boards have not been used effectively as sounding boards and few regulations have been issued by the Banking Bureau. The Superintendent should have the authority to promulgate rules and regulations, subject to the proposed rule-making procedures contained in Section III-J of this Report, without first obtaining the approval of industry advisory boards.

The Committee recommends that:

- 37. The present system of advisory boards with veto power over Bureau regulations should be abolished. However, the Superintendent should be permitted to establish and appoint advisory boards which have no veto powers and whose composition would be at his discretion. Members would serve without pay and would be reimbursed only for expenses.**

The thrust of many Committee recommendations is to promote more effective competition among financial institutions in the State. Strengthening the market system should promote greater responsiveness of institutions to public demands and contribute to the economic

development goals of the State. On the other hand, excessive competition has undesirable consequences. Maine's smaller institutions should be protected against unfair competition or anti-competitive conduct on the part of larger financial institutions. The Superintendent should be given specific statutory authority to deal with this potential problem.

The Committee recommends that:

- 38. The Bank Superintendent should have the power to promulgate rules and regulations governing practices of financial institutions, bank holding companies, and subsidiaries of bank holding companies deemed to be anti-competitive, deceptive, or otherwise injurious to the public interest. However, the Superintendent shall not be authorized to regulate or to control prices of bank services except in those instances deemed to be anti-competitive or deceptive.**

A manifestation of expanded competition is increased advertising and product promotion. However, advertising and promotion programs can become excessive and degenerate into practices that confuse or mislead the public. In recent years, the Banking Bureau has received an increasing number of complaints from the public about the advertising practices of financial institutions in the State. Advertising should aid and inform the consumer of his options for financial services. To protect the public, the Superintendent should have the power to set guidelines and to act against deceptive advertising.

The Committee recommends that:

- 39. The Bank Superintendent should have the power to issue regulations prohibiting false, misleading, or deceptive advertising by financial institutions, associations of such institutions, and bank holding companies in Maine.**

Most state banking bureaus and Federal bank regulatory agencies have some form of bank officer removal power. Such power is essential in some situations to complement "cease and desist" orders. To equip the Banking Bureau with full powers to protect the public — depositors, shareholders, and the public — and to supplement the



Bureau's "cease and desist" authority, the Committee recommends that:

40. The Superintendent should be provided officer removal authority in cases where (a) the institution has suffered or probably will suffer substantial financial loss or damage, (b) the interests of its depositors could be seriously affected, or (c) personal dishonesty was involved on the part of such director or officer. The specific provisions of this authority should be implemented by regulation and should conform with FDIC's officer removal regulation.

Appendix C proposes language for a regulation setting forth procedures for officer removal.

To implement other recommendations of the Committee, such as the Maine Bank Holding Company Law and commercial lending leeway proposed for thrift institutions, the Superintendent would, of course, have the authority to issue regulations pursuant to rule-making procedures and enforce these new laws.

## **J. BANKING BUREAU ADMINISTRATION PROCEDURES**

The Committee found that the present rule-making procedures of the Banking Bureau are inadequate. Procedures are often ad hoc and vague. Distinction is not made between rules, declaratory rulings, and decisions in contested cases. They do not provide public notice of pending rules or hearings, and do not afford the public an opportunity to participate.

To a large degree, the absence of Bureau rule-making and decision-making procedures reflects ambiguities and inconsistencies in the existing statutes. For example, the present Banking law requires that the Bureau hearings be conducted in accordance with Maine Insurance Statutes, which are not applicable to the banking industry. The advisory boards, discussed earlier, also have been an impediment to effective rule-making and have forced the Bureau to resort to informal rulings and decision-making procedures. The Banking Bureau should have administrative procedures for promulgating rules and regulations and for processing applications that are fair to all concerned.

The Committee recommends the following:

41. **Rule-making** — The provision of Maine law that requires Bureau hearings be conducted in accordance with Maine Insurance Bureau statutes should be repealed. The Maine Banking Statutes should incorporate provisions for adoption of Banking Bureau administrative procedures to include the following:
  - a. Notice to interested parties of Bureau's intention to promulgate a regulation.
  - b. Public notice, including notice to interested parties, of proposed Bureau regulations, rules or amendments. Notice should allow opportunity for written comment and hearing.
  - c. Written comments received would be made part of a public file maintained at the Banking Bureau. Copies should be available at cost.
  - d. If a hearing is requested by an interested party, notice of the hearing must be given promptly after expiration of the period allowed for comment.
  - e. A hearing should be held within 30 days following notice.
  - f. Following a hearing, or expiration of the time period allowed for comment, the final form of the regulation, rule or amendment and its effective date must be made public within 30 days.
  - g. Copies of rules and regulations should be available to the public at the office of the Bureau.
42. **Decision-making** — Maine statutes should incorporate the following general procedures for processing applications filed with the Banking Bureau for new charters, branches, mergers, etc.
  - a. Notice of acceptance of application to interested parties and to general public.
  - b. Opportunity for interested parties to submit written comments or request a hearing. A member of the general public may petition to be considered an in-

terested party. (A defined number of people shall be considered an interested party.)

- c. Establishment of a public file on each application which the public may inspect at the Bureau. Copies should be available at cost. The Banking Bureau should delete from the application in the public file those materials or statements deemed to be confidential.
- d. If a hearing is requested, interested parties may present evidence and testimony and cross-examine the evidence and testimony of others.
- e. A written order by the Superintendent approving or denying application must be issued within 60 days after acceptance of application, or within 30 days after conclusion of hearing should one be held.
- f. The written order by the Superintendent must set forth the reasons for the decision, including specific findings of fact on each of the six decision-making standards contained in Recommendation 44.

Both the rule-making and decision-making procedures should recognize that some parties may feel aggrieved by whatever action is taken. Therefore, the right to judicial review must be incorporated as a part of the proposed administrative procedures.

The new Bureau administrative procedures should also take into consideration a public interest in Banking Bureau matters. The public, therefore, should be allowed to initiate and participate in public hearings, as an interested party.

The Committee recommends that:

43. If a financial institution does not meet standards set forth for its operation, does not provide the services needed in a community, or has violated laws or regulations of the Banking Bureau, a group of 25 or more persons may request a hearing to consider such grievances and to participate as an interested party. A hearing shall be held unless the request is deemed frivolous.

Specific and detailed rule-making and decision-making procedures to be followed by the Banking Bureau should be implemented by regulation.

Standards on which decisions on applications are made should be made known to the industry and to the public. The Committee recommends that the Banking statutes include the following standards for decision-making on applications:

44. In considering applications to branch, merge, consolidate or acquire; or to engage in any activity closely related or incidental to banking; or to obtain a charter, or convert from an existing to a different charter, the Superintendent shall take into account, but not be limited to:
  - a. the character, ability and overall sufficiency of the management, including directors, organizers and incorporators;
  - b. the adequacy of capital and financial resources of the institution(s) concerned;
  - c. the competitive abilities and future prospects of the institution(s) concerned;
  - d. the convenience and needs of the market area(s) to be served;
  - e. the competitive effect of the proposed transaction on the price, availability and quality of services in the market area(s) to be served; and
  - f. the likely impact of the proposed transaction on other financial institutions in the market area(s) to be served.

The Superintendent shall not approve an application unless he determines that the proposed transaction contributes to the financial strength and success of the financial institution(s) concerned and promotes the convenience and advantage of the public. In determining whether the application results in public advantage, the Superintendent shall find that public benefits, such as increased competition or gains in efficiency, outweigh the possible adverse effects, such as decreased or unfair competition, undue concentration of resources, conflicts of interest, or unsound banking practices. In all cases, the burden of proof is on the applicant.

## K. OTHER RECOMMENDATIONS

Assuring the soundness of financial institutions chartered by the State must continue to be a State responsibility even though Federal agencies may also examine these institutions for soundness. Efforts should be made to eliminate dual examinations. However, the Committee rejects the proposal of the Maine Management and Cost Survey Commission that the Banking Bureau withdraw completely from "on-site audits" of financial institutions which are also examined by Federal bank regulatory authorities.

One option to minimize duplication would be a revision in the Maine statutes allowing the Bank Superintendent to accept the reports of Federal examiners to satisfy the annual examination requirement. Another would be a withdrawal of the Federal regulatory authorities from examination of State-chartered banks in Maine, as the Federal Deposit Insurance Corporation has done in three states on an experimental basis. In any event, the Superintendent should have the discretionary authority to decide whether an annual State examination is necessary, if an annual Federal examination is conducted.

The Committee recommends that:

45. **The Banking Bureau should continue to examine, at least annually, financial institutions under its supervision. However, the Bank Superintendent should be allowed to accept the reports of Federal regulatory agencies as a method of satisfying this requirement.**

Currently, there are no restrictions on the acquisition of the shares of a Maine financial institution by another Maine financial institution. Since acquisition of shares of competitor institutions could result in anti-competitive practices and conflicts of interest, such purchases should be prohibited unless prior approval to merge or consolidate the financial organizations involved is obtained from the Bank Superintendent. Existing holdings of shares in other financial institutions should be divested within a reasonable period of time.

The Committee recommends that:

46. **Financial institutions operating in Maine should be prohibited from acquiring shares in other Maine financial**

**institutions, except in a fiduciary capacity, without the prior approval of the Bank Superintendent to merge or consolidate the institutions involved. Any existing holdings exceeding one percent of the voting shares of another institution must be sold within a five-year period in accordance with a plan approved by the Bank Superintendent. Upon application, the Bank Superintendent may allow additional time for divestiture of up to five years if market or other conditions warrant such a delay.**

Under the Federal Truth-in-Lending Law, a state may receive an exemption from Federal regulation and enforcement of the statute if that State has a comparable truth-in-lending law. Maine enacted a Truth-in-Lending Statute in 1969 and was granted such an exemption from the Federal law by the Federal Reserve. The Maine law provides for State regulation and enforcement of cost of credit disclosures.

The Maine Management and Cost Survey Commission proposed that the State's exemption from federal law be terminated. The Commission was apparently under the impression that Federal Reserve Board personnel would assume examination responsibilities for compliance with truth-in-lending in the State if the exemption were terminated. While the Federal Reserve Board and F.D.I.C. would examine state-chartered financial institutions, they would not examine other creditors, such as merchants who offer credit. This responsibility would pass to the Federal Trade Commission which would not examine them, but only investigate complaints. The Committee believes that creditors and their customers deserve service from and the protection of the State.

The Committee recommends that:

- 47. Maine should retain its present exemption from the Federal Truth-in-Lending Act. Administrative responsibility for the Maine Truth-in-Lending Law should be expanded to include the Superintendent of Consumer Protection as well as the Superintendent of Banks and Banking.**

Effective June 28, 1974, the Personal and Consumer Finance Division of the Bureau of Banks and Banking became the Bureau of Consumer Protection and was transferred from the Banking Bureau

to the Department of Business Regulation. The new Bureau was given responsibility for credit cost examinations of all institutions extending consumer credit. As responsibility for disclosure under the Maine Truth-in-Lending Act still rests with the Bank Superintendent, this Act should be amended to give the Superintendent of the Consumer Protection Bureau responsibility for disclosure of credit terms by merchants and other nonbank lenders that are no longer examined by the Banking Bureau.

#### IV. RECOMMENDATIONS FOR STUDY

##### A. EXPANDING THE AVAILABILITY OF FUNDS FOR ECONOMIC DEVELOPMENT

For the past thirty years economic development in Maine has lagged behind the rest of the nation. Many factors contribute to Maine's relatively slow growth, including the unavailability of venture capital with which to launch new businesses or expand existing operations. Expansion of the supply of investment capital requires development of new sources of funds, more efficient allocation of funds available to critical sectors, and less waste through improved administration of invested funds.

Maine ranks high in per capita dollars invested on the New York Stock Exchange. Most of the State's sizeable investment funds are not managed in Maine. However, some of our larger financial institutions are developing greater expertise in this area, thus enhancing the prospects for increased local management in the future.

Maine banks are making a determined effort to extend their resources in support of the Maine economy, but their loan-to deposit ratios are now near a "prudent" maximum. However, private investment portfolios originating in Maine have the potential to allocate a portion of their total assets (perhaps  $\frac{1}{2}$  of 1%) as business development funds for Maine industry. The introduction of this additional capital could have significant financial and social impact. Nevertheless, the Committee recognizes that decisions on portfolio placement, quite properly, should remain a prerogative of fund managers.

The Maine State Employees Retirement Fund offers venture capital possibilities as the largest pool of investable funds in the State

(nearly \$200 million). The Committee recognizes that the managers of the Fund have important fiduciary responsibilities regarding funds available for the future security of State employees. The majority of the Committee feels any mandatory alteration of the Fund's portfolio to favor Maine investments could reduce its flexibility and the fiduciary objectivity of its managers.

The Committee recommends that:

- 48. Investment portfolios originating in Maine and managed here or elsewhere, including Maine State Employees Retirement Fund, should be encouraged, but not required, to make some part of their funds available as business development funds in Maine under "prudent man" investment and loan rules.**

Of deep concern to the Committee is the availability of funds for residential mortgages. The Committee endorses the activities of the Maine Housing Authority as one method of making supplemental housing funds available. Other sources of funds for housing may exist, such as greater use of national secondary mortgage markets.

The Committee recommends that:

- 49. The Governor should appoint a task force to study methods of improving access to national secondary mortgage markets, possibly including reform of Maine's foreclosure statutes. Also, further study should be made of the uses of secondary markets in other areas, such as Federally-guaranteed student loans.**

The problem of providing financing for Maine business is a difficult one. In the formative stages, neither degree of security nor the expected returns to banks or investors will attract the needed seed money. The absence of a local investment banking capability exacerbates the situation.

At present, several State and Federal agencies exist to provide funds for businesses which are unable to obtain capital elsewhere. While not intending to criticize the performance of these agencies, the



Committee believes that for an agency to be successful it should have most of the following attributes:

- Be privately owned
- Have professional management
- Be profit-oriented and not concerned with employment *per se*
- Have publicly traded shares for investor liquidity
- Have substantial funding (at least \$10,000,000)
- Make equity investments as well as loans
- Have access to a research facility to enable evaluation of technical projects
- Be associated with other financial institutions of the State in a way that permits interchange of information and common security and other interests

The Committee recommends that:

- 50. A Maine-based venture capital trust should be formed employing private funds and staffed with full-time professional managers, which would be granted a wide-range of loan and investment powers to supplant much of the present State government participation in the field. Study of this proposal would include inquiry into possible participation by investment portfolios originating in Maine, availability of State guarantees, and participation by Maine financial institutions.**

The likelihood of less than competitive returns will make it necessary to find a means of enhancing either the profits or the security represented by such an investment. One possible mode would be to utilize a structure similar to that of the already existing Development Credit Corporation.

The scope of the structure the Committee envisions would have a substantially greater equity base than the Development Credit Corporation. In addition to an expanded commitment from participating banks, the Fund would offer shares for public sale. If such a corporation should have a capital base of more than \$10,000,000, the equity portion should yield sufficient return to carry the overhead during the start-up period.

The Committee believes that two local problems, concern over State-guaranteed loans and lack of adequate management personnel, could be overcome. A broad marketing effort, not only to sell shares but also to advertise the availability of services, would be needed.

The Committee does not present the foregoing as a definitive analysis of the problems of economic development. Rather, it is intended as a point of departure and for discussion. The Committee believes that a program emphasizing strong management and sufficient capital can significantly alter the present economic environment to the benefit of Maine and its people.

#### **B. "SAVINGS BANK LIFE INSURANCE"**

The underwriting and sale of so-called "Savings Bank Life Insurance" by banking institutions in the State was considered. The Committee recognized that any proposal for such insurance would require changes in the Maine Insurance Statutes. In the absence of a specific plan to implement such a program, the Committee is not prepared to recommend enabling legislation to be enacted at this time.

Nevertheless, the concept of "Savings Bank Life Insurance" for sale by banking institutions to their customers comparable to the various programs offered in the states of New York, Massachusetts and Connecticut appears to promise significant benefits to banking customers and to the public. The concept of such insurance is endorsed by the Committee.

The Committee recommends that:

- 51. The Governor should appoint a commission to develop a workable structure within which "Savings Bank Life Insurance" could be offered by Maine financial institutions to their customers.**

## V. DISSENTING STATEMENT

### DISSENT OF SAM BAROUCH

I am in substantial agreement with the majority recommendations of the Study Committee. There are two specific areas in which I feel obliged to note my nonconcurrence, for the record.

Through much of the Committee's deliberations, prior to receiving the Golembe report, a common theme expressed by members was the need to stimulate development in Maine by encouraging new or undercapitalized ventures. Indeed, designing a financial structure that would spur economic growth was viewed as an important objective of our overall charge. One critical impediment to this goal was found to be the relatively limited funds available in the State for investment. It was noted that Maine's lending institutions had an aggregate loan/asset ratio that would preclude any significant increase in funds available for new ventures. Put simply, unless we can increase the size of the "pie" there seems to be limited hope for increased economic development. It was the strong consensus of the Committee that the final report include recommendations addressing this problem.

The Golembe report, as well as the sub-committee on "Other State Policies and Activities", suggests that the Maine State Employment Retirement Fund may be directed, in some fashion, to stimulate local investment. This fund, the largest single pool emanating from Maine, (approximately \$194 million) is almost exclusively invested out of state, ostensibly because of more attractive opportunities. If, as the sub-committee suggests,  $\frac{1}{2}$  of 1% of its total assets (about \$1 million) were "utilized toward Maine business development loans, administered in Maine for the benefits of Maine industry," it could have an important impact on the State's economy. Such allocations would be guaranteed by the State. Its effect would be twofold: increase available capital and to serve as a prototype and incentive for privately managed Maine-based funds. The majority of the Committee voted down this suggestion and its subsequent reconsideration.

The basis of this rejection focused on the notion that the State Retirement Fund had no special burden to foster Maine's economy and would be exposed to some jeopardy if such a requirement were imposed. Much of the reaction seemed to be predicated on the ad-

verse experience with previous State-guaranteed loans. In this context, some members expressed concern about political considerations influencing loan decisions.

While I share the apprehension voiced by other members for the safety of the Retirement Fund, there is nothing inherently precarious in the concept put forth. First, it does not call for a major reorientation of the portfolio, but merely  $\frac{1}{2}$  of 1%; thus under the most adverse conditions, the impact on earnings and safety would be negligible. Second, this fund would be administered by highly skilled independent professional managers, who would follow "prudent man" dictates. Third, in the event of unforeseen circumstances, the State would offer remuneration.

Given these safeguards and the oft-repeated expressions of need for economic growth, I cannot, in good conscience, fail to point out that the majority of Committee members opted against use of one of the most readily accessible sources of additional investment capital for the State of Maine.

My second point of departure is one that has become an increasing national concern — the right to privacy and access to personal financial information. At one of our earliest meetings, I expressed an interest in having the Committee discuss this matter; however, neither the Golembe Report nor any sub-committee chose to pursue this topic. At the March 15, 1974 meeting, this issue was brought to the attention of the full Committee, by another member.

The question posed was, should financial institutions release information about their relationship with an individual to any person or organization without specific approval? The ensuing debate was most informative and disturbing. While most of the representatives of financial institutions were candid about acknowledging problems with information control, they unanimously rejected attempts at restriction. It was argued that any curtailment of the reporting system would have dire consequences for the gamut of retail transactions; one member stated that institutions cannot be held accountable for their employees' failure to take appropriate precautions. The former objection is dubious, at best; certainly safeguards to confidentiality can be designed, within the existing framework, which would not unnecessarily impede the flow of required information. The latter objection needs no comment.

The motion to impose limitations was defeated. The documented abuses of credit reporting and related problems have prompted Federal inquiry and there are improved prospects of Congressional action. It is my view, that in failing to come to grips with this problem, the Committee has abrogated part of its responsibility to the public.

## APPENDIX A

### GLOSSARY\*

1. **BANK CREDIT CARD** A credit device that permits the cardholder to make "charge" purchases at stores belonging to the bank's credit plan. The bank pays the merchant and then bills the cardholder who may pay in installments for his purchases.
2. **BANK HOLDING COMPANY** An organization that owns or controls 25 percent or more of the outstanding voting shares of one or more commercial banks.
3. **COMMERCIAL BANK** A financial institution that lends to and accepts deposits from businesses, governments, and households. A unique feature of commercial banks is that a large part of their deposits are payable on demand.
4. **COMMERCIAL LOANS** Loans to individuals, partnerships or corporations for business and industrial purposes.
5. **CONSUMER LOANS** Loans to individuals for household, family and other personal expenditures. Includes both direct personal loans and installment loans to purchase automobiles and other consumer goods.
6. **CREDIT UNION** A cooperative, nonprofit organization of individuals with a common bond of association that seeks to promote thrift among members and provide them with relatively low cost credit.
7. **DEMAND DEPOSITS** Deposits which are payable upon order of the depositor. Since these deposits may be

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\*This glossary is designed to aid the general public and should not be regarded as a compilation of legal definitions.

used to make payments, they are commonly referred to as checkbook money. Checkbook money forms the basis of the nation's payments system.

**8. EFTS**

Electronic Funds Transfer System. A computer payment system for transferring funds from one person to another without the use of checks or other written documents.

**9. FINANCIAL INSTITUTIONS**

As used in this Report, financial institutions are organizations chartered by the State that accept deposits. These are: bank and trust companies, savings banks, savings and loan associations, industrial banks and credit unions. Commercial banks, savings and loan associations and credit unions operating in Maine may also be chartered by a Federal authority.

**10. INDUSTRIAL BANK**

A company organized to accept savings and time accounts and make loans with maturities not to exceed three years. Maine statutes no longer permit the organization of industrial banks.

**11. LIMITED-TIME BRANCH**

An office of a financial institution authorized to be open for hours and days that are less than normal banking hours each week.

**12. MOBILE BRANCH**

A banking facility that is transferable from one location to another without prior regulatory approval.

**13. NOW ACCOUNTS**

Savings deposits against which negotiable orders of withdrawal (NOW's), an instrument similar to a check, may be drawn.

**14. PERSONAL CHECKING ACCOUNT**

A demand deposit account of an individual or a non-profit organization operated primarily for religious, philanthropic, charitable, fraternal or other similar purposes.

15. "PRUDENT MAN"  
LOANS      Loans made by a financial institution that are not explicitly permitted by law but are considered to be sound investments for that institution.
16. SAVINGS  
ACCOUNT      A so-called "passbook" account on which interest is paid. Although 30-days notice may be required before withdrawals are permitted, in practice such notice is waived and funds can be withdrawn upon presentation of passbook.
17. SAVINGS  
AND LOAN  
ASSOCIATION      A financial institution that accepts time and savings deposits which are then invested primarily in residential mortgage loans.
18. SAVINGS BANK      A financial institution that accepts time and savings deposits which are then invested primarily in mortgage loans or securities.
19. SEASONAL  
BRANCH      A banking office that is open only during certain weeks of the year.
20. THRIFT  
INSTITUTIONS      For purposes of this Report, thrift institutions comprise savings banks and savings and loan associations.
21. TIME DEPOSITS      A deposit for a specified time period at a fixed rate of interest. Such deposits are often referred to as certificates of deposit or "CDs". Withdrawals before maturity result in a substantial interest penalty.
22. TRUST  
COMPANY      A State-chartered commercial bank that has the authority in its charter to offer trust services.



1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that proper record-keeping is essential for transparency and accountability, particularly in the context of public administration and financial management.

2. The second part of the document outlines the various methods and tools used for data collection and analysis. It highlights the need for standardized procedures to ensure the reliability and validity of the information gathered. This section also touches upon the challenges associated with data integration and the importance of regular updates to the database.

3. The third part of the document focuses on the implementation of the proposed system. It details the steps involved in the rollout, from initial testing to full-scale deployment. The document also addresses the training of staff and the necessary infrastructure to support the new system. It stresses the importance of ongoing monitoring and evaluation to ensure the system's effectiveness and to make any necessary adjustments.

4. The fourth part of the document discusses the future prospects and potential for further development. It identifies key areas for research and innovation, such as the integration of artificial intelligence and big data analytics. The document also mentions the need for continued collaboration with stakeholders and the importance of staying abreast of the latest technological advancements in the field.

5. The fifth part of the document provides a conclusion and a summary of the key findings. It reiterates the importance of the proposed system and the steps outlined in the document. The document ends with a call to action, encouraging all relevant parties to work together to ensure the successful implementation and long-term success of the project.

6. The final part of the document includes a list of references and a list of appendices. The references cite various sources used in the research and development of the document. The appendices provide additional information and data that support the main text of the document.

## APPENDIX B

### REGULATORY CRITERIA FOR CHANGING LEGAL FORMS OF OWNERSHIP

#### 1. Conversion of Stock to Mutual Institution\*

- A. The plan for the conversion of a stock institution to a mutual institution must be approved by the Superintendent of Banking. As part of the approval process, the Superintendent must hold a public hearing to determine if the submitted plan provides fair and equitable treatment for the stockholders and depositors of the institution.
- B. The plan for conversion must be approved by the holders of not less than two-thirds of the voting stock of the institution who vote either in person, by proxy or by mail.
- C. The plan for conversion must be approved by not less than two-thirds of the members of the Board of Directors (or governing body) of the institution.
- D. The shares of the stock of the institution must be retired at a price not in excess of the fair market value as determined by at least three independent appraisers whose qualifications have been approved by the Superintendent.
- E. The shares of non-consenting stockholders shall be purchased under the general laws covering non-consenting stockholders with respect to bank mergers. (See Title 9, M.R.S.A., Chapter 103, Section 1230)
- F. The Superintendent shall determine that the surplus funds that would remain after conversion will be adequate for the business environment and for type of mutual institution charter being assumed.

#### 2. Conversion of Mutual to Stock Institution

- A. The plan for the conversion of a mutual institution to a stock institution must be approved by the Superintendent of Banking. As part of the approval process, the Superintendent must hold a public hearing to determine if the submitted plan would provide fair and equitable treatment to the depositors of the institution.

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\*These criteria are based on the Revised Insurance Code. (See M.R.S.A. Title 24-A, Subchapter IV, Section 3472)

- B. The plan for conversion must be approved by two-thirds of the members of the governing body of the institution.
- C. If the converting institution is a savings and loan association, the plan for conversion must be approved by two-thirds of the members of the association who vote in person, by proxy, or by mail.
- D. The plan for conversion must provide that:
  - 1) the converting institution shall issue and sell shares of its capital stock at a total price equal to the estimated pro forma market value of such shares in the converted institution based on at least three independent appraisers whose qualifications have been approved by the Superintendent.
  - 2) each eligible account holder shall receive, without payment, non-transferable subscription rights to purchase his proportionate share of the total capital stock to be sold;
  - 3) all shares not purchased by exercise of rights shall be sold at the price determined in 1) above. Underwriting discounts are permitted on this portion of the total offering;
  - 4) each savings account holder in the institution will continue to have an account of equal value and withdrawable on the same terms as he had before the conversion;
  - 5) a portion of the net worth of the converted institution shall be reserved on its books as a liquidation account for the benefit of depositors in the event of liquidation;
  - 6) an eligibility record date, not less than 90 days prior to the date of adoption of the conversion plan by the institution, shall be established;
  - 7) the holders of the capital stock shall have exclusive voting rights after conversion; and
  - 8) for a period of three years following the conversion, no company that is not a thrift institution shall be permitted to acquire control of the converted institution.
- E. The plan for conversion must contain an option provision allowing depositors to receive a discount on the purchase price of the stock that would be determined by the Bank Superintendent. In establishing this discount, the Superintendent should consider any discount that would be available if conversion were made to a Federal stock charter.

## APPENDIX C

### PROPOSED BANKING BUREAU REGULATION ON OFFICER REMOVAL\*

Whenever the Superintendent determines that a director or officer of a financial institution has committed any violation of law, rule, or regulation, or any cease-and-desist order which has become final; engaged or participated in any unsound banking practice; or committed or engaged in any act, omission, or practice constituting a breach of his fiduciary duty, the Superintendent may serve upon such director or officer a written notice of his intention to remove that person from office. In reaching such a determination, the Superintendent should consider whether the institution has suffered or will probably suffer substantial financial loss or damage; the interests of its depositors could be seriously effected; or personal dishonesty was involved on the part of such director or officer.

A notice of intention to remove a director or officer from office or to suspend his participation in the conduct of the affairs of the financial institution, shall contain a statement of facts constituting grounds therefore, and shall fix a time and place at which a hearing will be held thereon. Such a hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after the date of service of such notice, unless an earlier or later date is set for good cause shown. Unless such a director or officer shall appear at the hearing in person or by a duly authorized representative, he shall be deemed to have consented to the issuance of an order of such removal or suspension. In the event of such consent, or if upon the record made at any such hearing the Superintendent shall find that any of the grounds specified in such notice has been established, the Superintendent may issue such orders of suspension or removal from office as he may deem appropriate. The Superintendent must issue any such order to become effective at the expiration of ten days after service upon such institution and the director or officer (except in the case of an order issued upon consent, which shall become effective at the time specified therein). Such order shall remain effective and enforceable except to such extent as it is stayed, modified, terminated, or set aside by action of the Bureau, the Superintendent or a reviewing Court.

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\*This recommendation is based on the F.D.I.C. regulation on this subject.



## APPENDIX D

### COMPARISON CHART — CURRENT LAWS AND PROPOSALS FOR CHANGE

#### ABBREVIATIONS

- CB — commercial bank
  - SB — savings bank
  - SL — savings and loan association
  - CU — credit union
  - IB — industrial bank
  - BHC — bank holding company
  - FRS — Federal Reserve System
  - FRB — Federal Reserve Board
  - FDIC — Federal Deposit Insurance Corporation
  - FHLB — Federal Home Loan Bank
  - FHLBB — Federal Home Loan Bank Board
  - SEC — Securities and Exchange Commission
- Treasury Report** — *Recommendations for Change in the U.S. Financial System*,  
Department of the Treasury, September 24, 1973
- Hunt Report** — *Report of the President's Commission on Financial Structure  
and Regulation*, December, 1971

## A. BANK HOLDING COMPANY POWERS

STATE LAW	FEDERAL LAW	HUNT REPORT RECOMMENDATIONS
There are no State laws relative to BHCs.	<i>Regulation</i> Federal Bank Holding Company Act gives the Board of Governors of FRS authority to regulate BHCs. Formation of and acquisitions by BHCs are subject to approval by the FRB.	<i>Nonbank Activities</i> Allow CBs, SBs and SLs to engage in same nonbank services authorized for BHCs. Permit CBs, SBs, SLs and BHCs to sell mutual funds, subject to SEC regulations.
	<i>Nonbank Activities</i> BHCs may engage in nonbank activities which have been determined by the FRB to be closely related to banking.	
	<i>Interstate Banking</i> Where explicitly permitted by state law, BHCs may acquire or form banks in other states.	

**TREASURY REPORT  
RECOMMENDATIONS**

None

**GOVERNOR'S ADVISORY  
COMMITTEE RECOMMENDATIONS**

*Regulation*

Enact legislation paralleling Federal Bank Holding Company Act allowing the Superintendent to:

- (a) approve or deny formation of BHCs and acquisitions by BHCs.
- (b) review and examine BHCs for financial soundness and compliance with laws and regulations;
- (c) accept applications and reports filed by BHCs with Federal authorities and examination reports by Federal examiners to satisfy Maine law.

*Nonbank Activities*

Authorize Superintendent to determine which nonbank activities approved by FRB would be permissible activities for BHCs operating in Maine, provided that powers of and restrictions on banking institutions under existing Maine laws are retained.

Permit SBs, SLs and CBs not affiliated with BHCs to engage in the additional activities permitted BHCs operating in Maine.

*Interstate Banking*

Allow reciprocal bank holding company operations with other states, subject to approval of the Superintendent.



## B. BRANCHING POWERS

### STATE LAW

### FEDERAL LAW

### HUNT REPORT RECOMMENDATIONS

#### *General*

Branching is allowed only in home county or adjoining counties, or any municipality where no bank is regularly transacting customary banking business or where a unit bank or a branch of a bank is taken over.

Establishment of branches by CBs, SBs and SLs subject to approval by Superintendent. Statutes silent in respect to branching by CUs.

#### *Limited-time Branches*

No statutory restrictions on approval of limited-time branches.

#### *General*

Branching by national CBs is determined by laws of state in which they operate. Interstate branching is prohibited.

Federal SLs may branch anywhere authorized by FHLBB.

#### *General*

Encourage states to change laws to allow statewide branching for all CBs, SBs and SLs without restriction as to number, location or type of institution.

**TREASURY REPORT  
RECOMMENDATIONS**

*General*

SBs that convert to Federal charter would be able to branch to the extent authorized by FHLBB.

**GOVERNOR'S ADVISORY  
COMMITTEE RECOMMENDATIONS**

*General*

Allow statewide branching by CBs, SBs and SLs upon approval by Superintendent. Allow statewide branching of CUs, subject to common bond membership restrictions.

*Limited-time Branches*

Restrict limited-time branches to areas not served by full-time banking facilities. Permit seasonal branch banking facilities in areas not served by full-time facilities. Prohibit mobile branch banking facilities.

## C. DEPOSITARY POWERS

STATE LAW	FEDERAL LAW	HUNT REPORT RECOMMENDATIONS
<i>Checking Accounts</i> Thrift institutions do not have explicit authority to offer checking accounts.	<i>Checking Accounts</i> Federally-chartered SLs may not offer checking accounts.	<i>Checking Accounts</i> Grant checking account authority to SBs and SLs for individuals and nonbusiness entities.
<i>NOW Accounts</i> Maine statutes are silent on issuance of NOW accounts.	<i>NOW Accounts</i> Federal law does not permit interest-bearing NOW accounts, except in Mass. and N.H.	<i>Interest Rates</i> Abolish all interest rate ceilings on time and savings deposits five years after passage of legislation. Continue prohibition against payment of interest on demand deposits.
<i>Interest Rates (Dividends)</i> Statutes set a maximum 8% dividend rate for State-chartered CUs, but are silent on dividend rates for other financial institutions.	<i>Interest Rates</i> All FDIC or FSLIC insured institutions are restricted to maximum interest rates payable on time and savings deposits set by the FRS, FDIC and FHLBB. Payment of interest on demand deposits is prohibited by law.	
<i>Deposit Insurance</i> Statutes are silent in respect to deposit insurance.	<i>Deposit Insurance</i> National CBs and state CBs that are members of FRS are required to carry deposit insurance.	

**TREASURY REPORT  
RECOMMENDATIONS**

*Checking Accounts*

Allow Federal SBs and SLs to offer checking accounts to individuals and corporations.

*NOW Accounts*

Allow CBs and Federal SBs and SLs to offer interest-bearing NOW accounts.

*Interest Rates*

Abolish all interest rate ceilings on time and saving deposits five and a half years after passage of legislation. Continue prohibition against payment of interest on demand deposits.

**GOVERNOR'S ADVISORY  
COMMITTEE RECOMMENDATIONS**

*Checking Accounts*

Allow SBs and SLs to offer checking accounts. This would be limited to personal accounts until there is competitive equality among financial institutions as to reserve requirements and interest rates paid on deposits. Should Federal SBs and SLs get full checking account powers, State SBs and SLs should get same powers.

*NOW Accounts*

Permit all State-chartered CBs, SBs and SLs to offer NOW accounts, if permissible by Federal law.

*Interest Rates (Dividends)*

Authorize Superintendent to establish rate ceilings on certificates of investment or other deposits offered by IBs.

*Deposit Insurance*

Require all financial institutions to carry Federal insurance coverage on deposits and CU shares. Uninsured institutions would have six months to apply and two years to gain coverage following effective date of legislation.

*Reserve Requirements*

Subject SBs and SLs to same reserve requirements against their checking and NOW accounts as are State CBs that are not members of FRS.

## D. LENDING POWERS

STATE LAW	FEDERAL LAW	HUNT REPORT RECOMMENDATIONS
<p><i>Personal Loans</i></p> <p>SBs may grant personal loans up to 10% of total deposits. Such loans are subject to a maximum of \$5,000.</p>	<p><i>Personal and Commercial Loans</i></p> <p>Federal SLs do not have authority to make personal loans or participate in commercial loans not secured by real estate.</p>	<p><i>Personal Loans</i></p> <p>Grant general consumer credit authority for SBs and SLs, limited to 10% of assets.</p>
<p><i>Credit Cards</i></p> <p>Statutes are silent on the issuance of credit cards by SBs, SLs and CUs.</p>		
<p><i>Commercial Loans</i></p> <p>SBs may participate in bank loans (over and above those secured by real estate) originated by Maine CBs up to 10% of total deposits, not to exceed 1% to any one borrower.</p>		
<p><i>Other Prudent Loans</i></p> <p>SBs may grant sound prudent loans, the making of which would not otherwise be legal, up to 5% of total deposits, not to exceed 1% to any one borrower. SLs may make such prudent loans up to 10% of total deposits, not to exceed 1% to any one borrower.</p>		

**TREASURY REPORT  
RECOMMENDATIONS**

*Personal Loans*

Grant general consumer credit authority for Federally-chartered SBs and SLs up to total 10% of assets.

**GOVERNOR'S ADVISORY  
COMMITTEE RECOMMENDATIONS**

*Personal Loans*

Extend SBs authority to SLs to grant personal loans up to 10% of total deposits. Loans to any one borrower should not exceed 1% of deposits.

*Credit Cards*

Authorize SBs and SLs to issue credit cards, subject to regulation by Superintendent. Allow CUs to issue credit cards subject to Federal loan rate ceilings solely for purpose of participating in Electronic Funds Transfer System.

*Commercial Loans*

Extend SBs' authority to participate in commercial loans to SLs. Also allow SBs and SLs additional leeway to participate in or grant commercial loans, the additional amount of which would be set and adjusted by the Bank Superintendent, not to exceed 10% of total deposits.

*Other Prudent Loans*

Raise limitation on prudent loans by SBs to 10% level of total deposits permitted SLs.

## E. CONVERSION POWERS

STATE LAW	FEDERAL LAW	HUNT REPORT RECOMMENDATIONS
<i>Charter</i>	<i>Charter</i>	<i>Charter</i>
Allows for conversion from State charter to Federal charter and vice-versa. There is no specific authorization for SBs or SLs to convert to or merge into commercial banks.	State CBs may convert to national CBs and state SLs to Federal SLs, if permitted by state law.	Permit Federal chartering of stock SLs and mutual SBs.
<i>Stock Ownership</i>	<i>Stock ownership</i>	<i>Stock Ownership</i>
Maine Banking Laws do not provide for stock SBs or stock SLs.	Federal SLs authorized to convert to stock corporations after June 30, 1974, if authorized under state law.	Chartering authorities under guidelines set by Congress and state legislatures, develop regulations permitting conversion of mutual SBs and SLs to stock companies.

**TREASURY REPORT  
RECOMMENDATIONS**

*Charter*

Empower FHLBB to charter stock SLs and SBs.

*Stock Ownership*

Permit mutual SBs and SLs to convert to Federal stock charter.

**GOVERNOR'S ADVISORY  
COMMITTEE RECOMMENDATIONS**

*Charter*

Allow conversion from one type of financial institution into another, subject to approval by Superintendent and boards of directors and stockholders where appropriate.

*Stock Ownership*

Enable mutual SBs and SLs to convert to stock ownership, subject to regulations on such conversions issued by the Superintendent.



## F. MANAGEMENT ACCOUNTABILITY

STATE LAW	FEDERAL LAW	HUNT REPORT RECOMMENDATIONS
<i>Boards and Corporators</i>	<i>Boards and Corporators</i>	None
Statutes prohibit interlocking directorates among financial institutions after October 3, 1976. Certain other requirements for Maine residency and numerical composition of boards exist, but are silent on age requirements or sociological representation.	Interlocking directors are permitted among institutions that are not competing with each other. FRS allows up to 3 interlocking directors between two banks in economically depressed areas, and may improve other situations. FHLB member institutions may not establish or maintain depository relationship with CBs where interlock exists.	
<i>Reports</i>	<i>Reports</i>	
Present statutes require semi-annual condition reports and annual income reports from financial institutions on a calendar-year basis. There is no requirement for availability of such reports on fiscal or calendar year basis prior to annual meetings.	FRS, FDIC and FHLBB require annual reports of income and semi-annual reports of condition, in addition to other special reports.	

**TREASURY REPORT  
RECOMMENDATIONS**

None

**GOVERNOR'S ADVISORY  
COMMITTEE RECOMMENDATIONS**

*Boards and Corporators*

Prohibit corporators of SBs from serving on boards of other financial institutions. Establish a mandatory retirement age of 72 for corporators and trustees of SBs, effective two years after enactment of such legislation. Empower the Banking Bureau to comment on the sociological composition of boards of mutual thrift institutions.

*Reports*

Require mutual SBs and SLs to make available in all offices a fiscal-year end balance sheet and income statement covering bank operations for the preceding fiscal year, at least 10 days prior to the required annual meeting.

## G. CREDIT UNIONS

STATE LAW	FEDERAL LAW	HUNT REPORT RECOMMENDATIONS
<i>Par Value</i> \$5.00 par value of shares.	<i>Par Value</i> \$5.00 par value of shares.	<i>Third Party Payments</i> Permit CUs to offer third party payments to members, provided such shares do not exceed 10 percent of total share accounts.
<i>Borrowing Powers</i> Maximum of 50 percent of unimpaired capital and surplus.	<i>Borrowing Powers</i> Maximum of 50 percent of capital and surplus.	
<i>Dividend Rate</i> Statutory limit of 6 percent rate on shares.	<i>Dividend Rate</i> Rate set by regulation. It is currently 7 percent.	<i>Other Activities</i> Permit CUs to sell travelers checks, cashiers checks and mortgage life insurance to members.
<i>Reserves</i> 10 percent of net income until 20 percent of assets.	<i>Reserves</i> 10 percent of net income until reserve equals 7½ percent of outstanding loans and risk assets. Then 5% of gross income until reserve reaches 10 percent of outstanding loans and risk assets.	Allow CUs to sell data processing services to other CUs.
<i>Loan Powers</i> \$2,500 limit on unsecured loans for CUs with assets over \$100M. Less than \$100M, \$200 or 2½ percent of assets, whichever is greater.	<i>Loan Powers</i> \$2,500 unsecured limit for Federal CUs with assets of \$100M or more. Less than \$100M, \$200 or 2½ percent of assets, whichever is greater.	<i>Loan Powers</i> Allow full array of secured and unsecured consumer installment loans, educational loans and mortgage loans to members.

**TREASURY REPORT  
RECOMMENDATIONS**

*Conversions*

Allow CUs to convert to mutual thrift institutions.

*Loan Powers*

Minor liberalization of existing loan powers.

**GOVERNOR'S ADVISORY  
COMMITTEE RECOMMENDATIONS**

*Par Value*

Allow par value to range from \$5 up to \$25.

*Borrowing Powers*

Allow CUs to exceed 50 percent level upon prior written approval of Superintendent.

*Dividend Rates*

Permit Superintendent to establish rate ceilings consistent with ceilings applicable to other financial institutions.

*Reserves*

Authorize Superintendent to review and establish reserve requirements consistent with Federal CUs.

*Loan Powers*

Permit \$5,000 maximum limit on unsecured loans with other statutory limitations remaining in effect.

## H. BANKING BUREAU ORGANIZATION

### STATE LAW

#### *Statement of Policy*

Present law states it to be the policy of the State that the business of all financial institutions shall be supervised by the Bureau of Banks and Banking in a manner to maintain and promote safe and sound financial practices; the strength, stability and efficiency of financial institutions; the security of deposits and share funds; reasonable and orderly competition; and the development and expansion of financial services advantageous to the public welfare.

#### *Appointment and Qualifications of Superintendent*

Superintendent is appointed for a five year term by the Commissioner of Business Regulation, with the advice and consent of the Governor and his council. The Superintendent is required to have seven years experience as the executive of a financial institution or in examinations work.

#### *Organization*

Present organization of the Bureau is in three units: the Division of Banking, the Securities Division, and the Personal and Consumer Finance Division. Effective June 28, 1974, the Personal and Consumer Finance Division became the Consumer Protection Bureau and was transferred from the Banking Bureau to the Department of Business Regulation.

#### *Legal Counsel*

All legal counsel required by Bank Superintendent in matters relating to official duties shall be rendered by the Attorney General or under his direction. To hire legal counsel outside the Attorney General's office requires the prior approval of the Attorney General.

### GOVERNOR'S ADVISORY COMMITTEE RECOMMENDATIONS

#### *Statement of Policy*

Revise the statement of policy as follows: "It is declared to be the policy of the State that the business of all financial institutions shall be supervised by the Bureau of Banks and Banking in a manner to assure reasonable and orderly competition, thereby encouraging the development and expansion of financial services advantageous to the public welfare; to maintain close cooperation with other supervisory authorities; and to assure the strength, stability and efficiency of all financial institutions".

#### *Appointment and Qualifications of Superintendent*

Superintendent should continue to be appointed for a five year term and that the salary of this position be established at a rate commensurate with his responsibilities. Only qualification for this position should be "a person with demonstrated knowledge of, or experience in, the theory or practice of banking".

#### *Organization*

(a) Shorten the name of the Bureau of Banks and Banking to "Bureau of Banking".

(b) Divide the existing Banking Division into two divisions, each headed by a Deputy Superintendent, reflecting the State's principal regulatory activities and goals.

*Examination Division* — Examinations and surveillance of individual institutions to assure that each is financially sound and complies with State and Federal laws and regulations.

*Financial Structure Division* — Evaluation of data and processing of applications by institutions to expand or diversify, with a view toward promoting reasonable and orderly competition and provision of financial services consistent with public interest.

(c) Staff the Bureau with personnel to reflect the needs and responsibilities of its regulatory functions.

#### *Legal Counsel*

Authorize the Department of Business Regulation to hire one full-time attorney to advise the Department, including the Banking Bureau, and continue the authority to receive normal legal services provided by the Attorney General's office.

## I. BANKING BUREAU REGULATORY POWERS

### STATE LAW

#### *Advisory Boards*

Under present law, each industry (CB, SB & SL) appoints an advisory board to assist the Superintendent in matters pertaining to industry regulations. These boards have veto power over regulations issued by the Superintendent affecting their industry.

#### *Powers of Superintendent*

Maine statutes list specific duties of the Superintendent, which are primarily related to assuring that financial institutions comply with the law and are safe and sound.

### GOVERNOR'S ADVISORY COMMITTEE RECOMMENDATIONS

#### *Advisory Boards*

Abolish the present system of advisory boards with veto power over Bureau regulations. Permit the Superintendent to establish and appoint advisory boards which have no veto powers and whose composition would be at his discretion. The only remuneration for board members would be reimbursement of expenses.

#### *Powers of Superintendent*

Empower the Superintendent to promulgate, in accordance with proposed administrative procedures, rules and regulations governing practices of financial institutions, bank holding companies and their subsidiaries deemed to be anti-competitive, deceptive or otherwise injurious to the public interest. However, the Superintendent would not be authorized to regulate or control prices of bank services except in those instances deemed to be anti-competitive or deceptive.

Authorize the Superintendent to issue regulations prohibiting false, misleading or deceptive advertising by financial institutions, professional associations of such institutions, and bank holding companies in Maine.

Provide Superintendent with officer removal authority consistent with Federal authority where: the institution has suffered substantial financial loss or damage; the interests of the depositors could be seriously affected; or personal dishonesty was involved on the part of such director or officer.

# J. BANKING BUREAU ADMINISTRATIVE PROCEDURES

## STATE LAW

### *Promulgating Regulations and Processing Applications*

Present statutes require public hearings be held, upon written request of any person with a substantial interest, in advance of any order, promulgation of any rule or regulation, issuance of any certificate of public convenience and advantage, or approval of merger or acquisition. Hearings must be conducted in accordance with Maine Insurance Bureau statutes.

## GOVERNOR'S ADVISORY COMMITTEE RECOMMENDATIONS

### *Promulgating Regulations*

Repeal the requirement that Banking Bureau hearings be conducted in accordance with Insurance Bureau Statutes. Incorporate provisions for adoption of Banking Bureau administrative standards to include the following:

- Notice to interested parties of intention of proposed regulation;
- Notice to public and interested parties of proposed regulations, rules or amendments, allowing opportunity for written comment and hearing; Copies should be available at cost.
- Make written comments received part of a public file to be maintained at the Bureau;
- If a hearing is requested, give prompt notice after expiration of period allowed for comment;
- Hold hearing 30 days following notice;
- Following a hearing, or expiration of the time period allowed for comment, make public within 30 days the final form of the regulation and its effective date;
- Make available to the public at the office of the Bureau copies of rules and regulations.

When an institution is not maintaining appropriate standards for its operation, not providing needed services, or has violated laws or regulations of the Banking Bureau, a group of 25 persons may request a hearing to consider such grievances and to participate as an interested party.

### *Processing Applications*

Incorporate general procedures into Maine statutes for processing applications filed with the Banking Bureau for new charters, branches, mergers, etc. as follows:

- Notice to interested parties and public.
- Opportunity for interested parties to submit written comments or request a hearing.
- Establishment of a public file on each application which the public may inspect at the Bureau. Copies should be available at cost. (Confidential information would be deleted)
- If a hearing is requested, interested parties may present evidence and testimony and cross-examine.
- A written order by Superintendent approving or denying application shall be issued within 60 days of acceptance of application, or within 30 days after conclusion of a hearing.
- A written order by the Superintendent setting forth the reasons for the decision.

## K. OTHER RECOMMENDATIONS

### STATE LAW

#### *Annual Examinations*

Statutes require that all State-chartered financial institutions in Maine be examined annually by the Bureau of Banks and Banking.

#### *Investments in Financial Institutions*

Present laws allow financial institutions to acquire shares in other financial institutions, subject to certain limitations, without prior approval of the Superintendent.

#### *Truth-in-Lending*

Because Maine has its own truth-in-lending law, the State is presently exempt from enforcement at the Federal level of the Federal Truth-in-Lending Act.

### GOVERNOR'S ADVISORY COMMITTEE RECOMMENDATIONS

#### *Annual Examinations*

Banking Bureau should continue annual examinations of financial institutions under its supervision. Allow the Superintendent to accept the reports of Federal regulatory agencies in satisfaction of this requirement.

#### *Investments in Financial Institutions*

Prohibit Maine financial institutions from acquiring shares in other Maine financial institutions, except in a fiduciary capacity, without prior approval of the Superintendent. Existing holdings exceeding one percent of the voting shares of an institution must be divested within five years, or in up to ten years if market conditions warrant.

#### *Truth-in-Lending*

The State should retain present exemption from the Federal Truth-in-Lending Act. Administrative responsibility for the Maine law should be expanded to include the Superintendent of Consumer Protection as well as the Superintendent of Banks and Banking.