



Bob Riley
Governor

STATE OF ALABAMA
STATE BANKING DEPARTMENT



John D. Harrison
Superintendent of Banks

MEMORANDUM

TO: Chief Executive Officers of All Alabama State-Chartered Banks

FROM: John D. Harrison
Superintendent of Banks 

SUBJECT: **Opinion 2010-1 – Establishment of Loan Production Offices**

DATE: February 2, 2010

This Opinion sets the conditions under which Alabama, state-chartered banks may establish Loan Production Offices and conditions under which out-of-state banks may establish Loan Production Offices in Alabama. This Opinion also sets limits upon the activities which may be conducted at such Loan Production Offices.

Effective this date, approval by the superintendent of banks will be required for establishment of Loan Production Offices (LPO's) by Alabama state-chartered banks. An application letter disclosing the street address of the proposed LPO and detailing the activities (including expected volumes of lending by loan type and proposed management of LPO) which are to be conducted at the LPO must be sent to the Superintendent of Banks by Alabama, state-chartered banks wishing to establish an LPO in this state or any other state. This application should be sent to the following address: Superintendent of Banks, State of Alabama, State Banking Department, P.O. Box 4600, Montgomery, AL 36103-4600

Out-of-state banks wishing to establish an LPO in Alabama must comply with their chartering authorities rules governing establishments of LPO's and should send notice to the Superintendent disclosing the street address of the proposed LPO and detailing the activities which are to be conducted at the LPO. Alternatively, such notice may be given to the out-of-state bank's primary regulator (chartering agency) provided the out-of-state bank's primary regulator provides a copy of such notice to the Alabama Superintendent of Banks.

On page 2786.02 of the FDIC Rules and Regulations, an LPO is defined as meaning "a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications."

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In accordance with FDIC guidelines, we construe this to allow the following activities:

1. **Loan Origination:** Credit information may be assembled and loan applications can be solicited or processed.
2. **Loan Closing Activities:** Such activities as the execution of promissory notes and mortgages may be conducted at the facility. The borrower may not, however, take actual receipt of the loan proceeds at the facility. Loan proceeds may be received by a customer by mail, or in person at the main office or a branch office of the bank (not an LPO), or at a place that is not the bank's main office and is not licensed as a branch (such as a closing attorney's office), provided that a third party is used to deliver the funds and the place of delivery is not established by the lending bank. A third party includes someone who customarily delivers loan proceeds directly from bank funds, such as a lawyer or escrow agent.

Loan Approval and Disbursement of Loan Proceeds: Loan applications may not be approved at the facility, in either a public or non-public area of it. Consequently, no credit decisions may be made at the LPO or by officers or employees of the LPO. As noted above, loan proceeds may not be disbursed at an LPO.

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