

## REGULATION NO. 1

### AS AMENDED BY THE STATE BANKING BOARD

**WHEREAS**, the Code of Alabama, 1975, Section 5-2-10, provides that the Superintendent of Banks may, with the concurrence of a majority of the members of the State Banking Board, promulgate reasonable rules and regulations;

**AND WHEREAS**, the Superintendent of Banks, with the concurrence of a majority of the members of the State Banking Board recognizes the need of and desirability for rules and regulations pertaining to bonds and debt securities suitable for investment by any bank, person, firm or corporation doing a banking business in the State of Alabama under the jurisdiction of the Superintendent of Banks;

**NOW, THEREFORE**, be it known that the State Banking Board in official meeting assembled on November 16, 1977, does hereby promulgate the following regulation:

The following are considered suitable for investment by any bank, person, firm or corporation doing a banking business in the State of Alabama under the jurisdiction of the Superintendent of Banks:

1. Any obligation of the United States Government or any agency or instrumentality thereof.
2. (a) Any marketable obligation of a state, or of any political subdivision of a state, including a county, city, town or other municipal corporation, board of education, public authority, board or corporation and generally any public entity organized by authorization or determination by any municipality or municipalities or county or counties or the governing body of any one or more thereof with respect to which a bank determines, in its prudent banking judgment (which may be based upon estimates which it believes to be reliable), that there is adequate evidence that the obligor will be able to perform all that it undertakes to perform in connection with the security, including all debt service requirements.  
  
(b) Any marketable obligation of a publicly held private corporation which a bank determines, in its prudent banking judgment (which may be based upon estimates which it believes to be reliable), that there is adequate evidence that the obligor will be able to perform all that it undertakes to perform in connection with the security, including all debt service requirements.

3. Every bank shall maintain in its files credit information or data adequate to demonstrate that it has exercised prudence in making the determinations required by this Regulation. There is no requirement that securities to be of investment quality be rated by any rating service, and the maintenance in the bank's files of credit information or data demonstrating that the requirements of this Regulation have been met will suffice. If the rating does exist, then the obligations described in 2(a) above (state or local governmental body, authority, board, corporation or entity) must be in one of the four highest rating bands by a nationally-recognized investment rating service; and if the obligation is one described in 2(b) (issued by a publicly-held private corporation), the obligation must be in one of the three highest rating bands by such nationally-recognized investment rating service. Any bank which does not have in its files the credit information or data required by this Regulation with respect to a security shall make every effort to obtain such information or data and if it fails or is unable to do so within a reasonable time, shall make every reasonable effort to dispose of that security.

4. Other obligations are not acceptable unless received for debts previously contracted. When such non-acceptable obligations are received for debts previously contracted they must be disposed of within two years from the date of receipt.

5. Securities that are designated as "Leeway Securities" by Federal Regulations are exempt from this regulation. Leeway securities are securities of corporations which are engaged in providing capital to minority business enterprises, securities of foreign governments, or the securities of corporations which are not merely private and entrepreneurial but whose objectives and purposes are primarily of a civic or community nature or seem socially desirable. These securities must not exceed ten per cent of the bank's total capital accounts and must be identified as leeway securities on the bank's records by the board of directors.

6. This Regulation becomes effective December 19, 1977. As evidence of adoption of the foregoing regulation, each member of the State Banking Board has hereunto set his hand on this the 16th day of November, 1977.

s/ D.M. Mitchell  
Chairman

s/ Mureal R. Crump  
Board Member

s/ Herman Watson  
Board Member

s/ Feagin Rainer

Board Member

s/ A.M. Grimsley, Jr.  
Board Member

s/ H.T. Strother  
Board Member

s/ Hayse McGahey  
Board Member

### **ATTACHMENT TO REGULATION NO. 1, AS AMENDED**

Example of highest rating bands as indicated by the three foremost rating services:

Standard & Moody's	Poor's	Fitch's
One AAA	Aaa	AAA
Two AA	Aa	AA
Three A	A	A
Four BAA	Baa	BBB

**June 25, 1991**

#### **MEMORANDUM**

**TO:** ALL BANK EXAMINERS

**SUBJECT:** State Banking Board Regulation No. 1

In a meeting held on April 3, 1991, the State Banking Board by resolution consented to Superintendent of the Banks Thompson exercising his authority under Section 5-5A-18.1 Code of Alabama 1975, which allows state chartered banks to make the same type of investments as national banks. This in effect

amends paragraph 3 of State Banking Board Regulation No. 1 to authorize investments in publicly held private corporations as defined in paragraph 2(b) to obligations rated in one of the four highest rating bands rather than three highest rating bands as stated in the current regulation.

This action will bring Alabama in line with the uniform agreement on Classification of Assets and Appraisal of Securities held by banks as adopted by the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Conference of State Bank Supervisors as stated in the OCC Banking Circular No. 127 dated June 8, 1979.

The State Banking Board also took action regarding the requirements that banks obtain credit information on non-rated securities. It is the position of the Board and now official policy of the State Banking Department that banks should obtain adequate credit information on non-rated investments to determine that in its prudent banking Judgment such an investment is wise. Once this information has been obtained and the investment has been made we would no longer require that the bank obtain credit information on an annual basis. In other words we would only require that the credit information be obtained at the time the investment is made.

s/Kenneth R. McCartha  
Deputy Superintendent of Banks

**STATE OF ALABAMA**  
**STATE BANKING DEPARTMENT**  
July 7, 1982

**MEMORANDUM**

**TO:** Chief Executive Officers of State Chartered Banks

**SUBJECT:** Regulation No. 1, As Amended by the State Banking Board

Subject regulation provides, among other things, that investment securities be in one of the four highest rating bands by a nationally recognized investment rating service. In a memorandum dated November 17, 1977, prior Superintendent of Banks D. M. Mitchell advised you of three rating services that would be acceptable as a nationally recognized rating service meeting the requirements of Regulation No. 1. Specifically, those firms are Moody, Fitch, and Standard & Poor.

You are now advised that the State Banking Board, in a meeting held on June 23, 1982, now recognizes the firm of Duff and Phelps, Inc. as being acceptable as a nationally recognized investment rating service meeting the requirements of Regulation No. 1.

s/ Kenneth R. McCartha  
Superintendent of Banks

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