



Commonwealth of the Northern Mariana Islands

Office of the Governor

Saipan, Mariana Islands 96950

Cable Address:
Gov. NMJ Saipan

FEB 6 1984

The Honorable Vicente M. Sablan
Speaker, House of Representatives
Fourth Northern Marianas
Commonwealth Legislature
Saipan, CM 96950

and

The Honorable Ponciano C. Rasa
President of the Senate
Fourth Northern Marianas
Commonwealth Legislature
Saipan, CM 96950

Dear *Mr.* Speaker and *Mr.* President:

This is to inform you that I have signed into law House Bill No. 147, H.D.L, S.D.L, C.D.L, entitled "AN ACT TO LICENSE AND **REGULATE** BANKS, TO PROVIDE PENALTIES, TO REPEAL **SECTION 503 (d) (1) and (2) OF PUBLIC LAW 3-11, TO REPEAL SECTIONS 101 THROUGH 106 OF TITLE 29 OF THE TRUST TERRITORY CODE, AND FOR OTHER PURPOSES**", passed by the Third Northern Marianas Commonwealth Legislature, Fourth Regular Session, 1984.

However, I do have **some** concerns with this public law which I believe should be addressed immediately. First, in my opinion, the law is unduly restrictive regarding new banking enterprises. **Commonwealth** banks which are also retail banks must obtain federal insurance for deposits. There is **some** question as to whether the Federal Deposit Insurance Corporation will provide insurance to such banks. State, national and foreign banks can establish a local office only if fifty-one percent or more of their shares are owned by residents of the Commonwealth. In contrast, existing Commonwealth banks need not have federal deposit insurance and existing state, national and foreign banks need not have fifty-one percent resident ownership.

Second, the definition of "Banking business" set forth in Section 102(c) should be re-drafted for clarity. At present, critics claim that it requires mortgage companies, finance companies, credit unions, stock brokers and retail stores which extend credit to secure a license to engage in the banking business. Our legal analysis concludes that occasional and incidental acts are not intended to be covered, such as those of a retail store which extends credit. Also, limited purpose brokers, such as stockbrokers, money exchanges and credit unions, are exempted. However, to avoid confusion and possible litigation, this section should be amended.

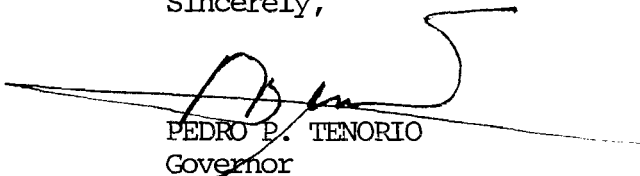
Third, Part C of Chapter II requires a license to engage in retail banking. This seems to merely repeat the procedures for receiving a banking license and require another \$1,000 fee.

Finally, Section 107(b) provides for judicial review of orders issued by the Director of Commerce and Labor. Under the Administrative Procedures Act, such an order is factually reviewable only to the extent of determining whether there is substantial evidence in the record to support the order. (1CMC §9112(f) (2) (E).) Section 107(b) (4) allows the court to require a trial de novo on disputed issues of fact. This procedure could result in costly government litigation and should be amended to conform to the Administrative Procedure Act.

If we can be of any assistance to the Fourth Northern Marianas Commonwealth Legislature when addressing the above mentioned concerns, please do not hesitate to contact us.

House Bill No. 147, H.D.1, S.D.1, C.D.1 becomes Public Law 3-104. Copies bearing my signature are forwarded for ready reference.

Sincerely,



PEDRO P. TENORIO
Governor

CC: Special Assistant for Programs and Legislative Review

THIRD NORTHERN MARIANAS COMMONWEALTH LEGISLATURE

FOURTH REGULAR SESSION, 1984

AN ACT

To license and regulate banks, to provide penalties, to repeal Section 503(d)(1) and (2) of Public Law 3-11, to repeal Sections 101 through 106 of Title 29 of the Trust Territory Code, and for other purposes.

Offered by Representatives Benigno R. Fitiaf, Jose R. Lifoifoi, and
Vicente M. Sablan

Date: May 21, 1983

House Action:

Referred to: Committee on Resources and Development

Standing Committee Report No. 3-132

First and Second Reading: May 4, 1983

Final Reading: November 29, 1983

Recall Consideration: December 20, 1983

Conference Committee Report No. 3-12

Final Reading: January 4, 1984

Senate Action

Referred to: Committee on Resources, Economic Development and Programs

Standing Committee Report No. 3-259


First Reading: October 28, 1983

Second Reading: November 22, 1983

Recall Consideration: December 20, 1983

Conference Committee Report No. 3-12

Final Reading: January 5, 1984



Herbert S. Del Rosario
Chief Clerk
House of Representatives

AN ACT

To license and regulate banks, to provide penalties, to repeal Section 503(d)(1) and (2) of Public Law 3-11, to repeal Sections 101 through 106 of Title 29 of the Trust Territory Code, and for other purposes.

BE IT ENACTED BY THE NORTHERN MARIANAS COMMONWEALTH LEGISLATURE:

CHAPTER I

Short Title, Definitions, and Administration

Section 100. Short title. This Act may be cited as the "Commonwealth Banking Code of 1984."

Section 101. Purpose. It is the purpose of this Act to establish a comprehensive code for the regulation of the banking business within the Commonwealth which will protect depositors and consumers while also encouraging development of the banking, finance and investment industry and in particular locally owned and managed firms. The provisions of this Act shall apply to all banks doing banking business from within the Commonwealth, to the extent the provisions are not in contravention of any applicable federal law. This Act is meant to supplement the applicable federal laws, and, in particular, federal banking laws, which apply to the Northern Mariana Islands by virtue of Covenant Section 502, but only to the extent obligatory in the Commonwealth.

Section 102. Definitions. As used in this Act unless the context clearly requires otherwise:

- (a) "Action" in the sense of a judicial proceeding includes recoupment, counter-claim, set-off, suit in equity and any other proceedings in which rights are determined.

1 (b) "Bank" means any person doing a banking business
2 whether subject to the laws of the Commonwealth or the
3 laws of any other jurisdiction. Bank includes off-shore,
4 retail, state, national, foreign, Micronesian and
5 Commonwealth banks but does not include the Development
6 Bank of the Government of the Commonwealth.

7 (c) "Banking business" means engaging for profit
8 but not on an occasional, incidental or fiduciary basis
9 in the activity of accepting deposits, making secured
10 or unsecured loans, extending credit on the credit of
11 the extender, issuing credit instruments, purchasing
12 and selling credit instruments, commercial paper,
13 securities, coin, currency, and bullion, and generally
14 dealing in finance on behalf of the business or of
15 others, singularly or in conjunction with other
16 financial institutions. Banking business does not
17 include limited purpose brokers in money, security or
18 credit, factors, and numismatic dealers, but none of
19 such excepted enterprises may accept deposits on
20 their own credit as defined herein.

21 (d) "Commonwealth" means the Commonwealth of the
22 Northern Mariana Islands.

23 (e) "Commonwealth Bank" means any bank chartered
24 by the Commonwealth.

1 (f) "Department" means the Department of Commerce
2 and Labor.

3 (g) "Director" means the Director of Commerce and
4 Labor or his authorized designee, unless the context
5 indicates that "director" means the director of a bank.

6 (h) "Executive Officer" when referring to a bank,
7 means any person designated as such in the by-laws and
8 includes, whether or not so designated, the president,
9 any vice-president, the treasurer, the cashier, the
10 comptroller and the secretary, or any person who
11 performs the duties appropriate to those offices.

12 (i) "Fiduciary" means trustee, agent, executor,
13 administrator, committee, guardian or conservator for
14 a minor or other incompetent person, receiver, trustee
15 in bankruptcy, assignee for creditors or any holder of
16 a similar position of trust.

17 (j) "Foreign bank" means a bank organized under
18 the laws of a foreign state.

19 (k) "Foreign state" means any foreign government
20 or any governmental organization or subdivision of a
21 foreign government or any agency or instrumentality
22 thereof.

23 (l) "Good faith" means honesty in fact in the
24 transaction and some reasonable ground for belief that
25 the transaction is rightful or authorized.

1 (m) "Item" means any instrument for the payment of
2 money even though negotiable, but does not include money.

3 (n) "License" unless specifically qualified means
4 the general license required of all Commonwealth, state,
5 national, Micronesian or foreign banks by this Act as a
6 prerequisite of engaging in any banking business in the
7 Commonwealth.

8 (o) "Licensee" means any person holding a license
9 under Act.

10 (p) "Micronesian bank" means any bank chartered under
11 the banking laws of the Marshall Islands, Federated States
12 of Micronesia or Palau; Provided that such bank is owned
13 51% or more by residents of the Commonwealth, Marshall
14 Islands, Federated States of Micronesia, and Palau.

15 (q) "National Bank" means any bank chartered under
16 the banking laws of the United States.

17 (r) "Officer" when referring to a bank means any
18 person designated as such in the by-laws and includes,
19 whether or not so designated, any executive officer, the
20 chairman of the board of directors, the chairman of the
21 executive committee, and any trust officer, assistant
22 vice-president, assistant treasurer, assistant cashier,
23 assistant comptroller, or any person who performs the
24 duties appropriate to those offices.

1 (s) "Off-shore bank" or "Off-shore banking
2 corporation" means an entity incorporated in the
3 Commonwealth whose purpose and activities are
4 limited to:

5 (1) negotiating, making and extending
6 loans to borrowers who are not residents or
7 citizens of the Commonwealth; and/or

8 (2) borrowing from lenders who are not
9 residents or citizens of the Commonwealth.

10 (t) "Off-shore bank license" means a license
11 granted under Section 800 of this Act.

12 (u) "Person" means an individual, corporation,
13 partnership, joint venture, trust, estate, unincorporated
14 association, or other group or combination acting as a
15 unit.

16 (v) "Reason to know" means that upon the information
17 available a person of ordinary intelligence in the
18 particular business, or of the superior intelligence or
19 experience which the person in question may have, would
20 infer that the fact in question exists or that there is
21 such a substantial chance of its existence that, if
22 exercising reasonable care with reference to the matter
23 in question, conduct would be predicated upon the
24 assumption of its possible existence.

1 (w) "Retail Bank" means any bank authorized
2 pursuant to this Act to accept or hold deposits from
3 persons domiciled in, or formed pursuant, to laws of
4 the Commonwealth.

5 (x) "Special License" means retail and other
6 such special licenses that may be required in addition
7 to a general license.

8 (y) "State Bank" means any bank chartered under
9 the banking laws of one of the states of the United
10 States or of the territories of the United States.

11 Section 103. Director of Banking.

12 (a) The Director of Commerce and Labor shall
13 serve as the Director of Banking for purposes of this
14 Act.

15 (b) The Director may delegate to any officer
16 or employee of the Department any of his ministerial
17 powers and duties.

18 (c) The Director shall provide as he deems
19 necessary and sufficient for the bonding of any
20 officers or employees handling money or securities
21 in the course of their employment.

22 Section 104. Powers of the Director. The Director shall have
23 the following powers:

24 (a) To administer and enforce the provisions of this
25 Act as well as any applicable federal banking law for the
26 protection of the general welfare of Commonwealth residents.

1 (b) To investigate the qualifications of each
2 applicant before any license is issued and thereafter
3 to observe the conduct of all licensees to the end
4 that licenses are not issued to or held by unqualified
5 or disqualified persons or by persons whose operations
6 are conducted in contravention of this Act.

7 (c) To deny any application for a license not in
8 compliance with the requirements of this Act.

9 (d) To limit, condition, restrict, revoke, or
10 suspend any license pursuant to the procedure set forth
11 in Section 501 herein.

12 (e) To conduct an annual audit of the banking
13 operations of any licensee, in accordance with Sections
14 400 through 403 herein, and to conduct any special
15 audit if there is cause to believe that the financial
16 stability of the bank is in danger or the public
17 interest otherwise demands.

18 (f) To restrict the withdrawal of deposits and
19 request from a court of competent jurisdiction the
20 appointment of a receiver to take possession of the
21 assets, liabilities, books, records, papers, and files
22 of every description belonging to the bank, and collect
23 all loans, fees, and claims of the bank, and see to the
24 payment of its obligations and debts if the Director
25 determines or has reason to believe that a bank is not

1 in sound financial condition to continue doing business
2 or that its affairs are being conducted in such a manner
3 that the public or the persons having securities or funds
4 under its custody are in danger of being defrauded.

5 (g) To accept public comment and hold public
6 hearings on any bank application.

7 (h) To employ, retain or contract for the services
8 of qualified specialists or experts, as individuals or
9 as organizations, to advise and assist the Director.

10 (i) To have access at all reasonable times to such
11 books, records, vouchers, documents, cash, and securities
12 of any bank, and to call upon the manager or any officer
13 designated by the manager of any bank for such information
14 or explanation as the Director may reasonably require for
15 the purposes of enabling the Director to perform all
16 required functions under this law. However, the Director
17 shall only have access to the account of a depositor of a
18 bank or to any information, matter, or thing relating to
19 the affairs of any customer of a bank pursuant to an order
20 of the Commonwealth Trial Court made on the grounds that
21 there are no other means of obtaining the information
22 required by the Director.

23 (j) To order any person to cease violating a
24 provision of this Act or a regulation issued thereunder
25 or to cease engaging in any unsound banking practice.

1 (k) To adopt such policies, rules, and regulations
2 as may be necessary for the exercise of the powers and
3 duties conferred on the Director by this Act, in
4 accordance with Title 17 of the Trust Territory Code.

5 Section 105. Additional Banking Powers of the Director. In
6 addition to the powers conferred by Section 104, the Director shall
7 have the power to require a bank to:

8 (a) Maintain its accounts in accordance with such
9 regulations as he may prescribe having regard to the
10 size of the organization.

11 (b) Observe methods and standards which he may
12 prescribe for determining the value of various types
13 of assets.

14 (c) Charge off the whole or part of an asset which
15 at the time of the Director's action could not lawfully
16 be acquired.

17 (d) Write down an asset to its market value.

18 (e) Record liens and other interests in property.

19 (f) Obtain a financial statement from a prospective
20 borrower to the extent that the bank can do so.

21 (g) Obtain insurance against damage to real estate
22 taken as security.

23 (h) Search, or obtain insurance for, the title to
24 real estate taken as security.

1 (i) Maintain adequate insurance against such other
2 risks as the Director may determine to be necessary and
3 appropriate for the protection of depositors and the
4 public.

5 Section 106. Additional Adjudicatory Powers.

6 (a) The Director shall have the power to subpoena
7 witnesses, compel their attendance, require the production
8 of evidence, administer an oath, and examine any person
9 under oath in connection with any investigation, hearing,
10 or other subject relating to a duty imposed upon or a
11 power vested in the Director. These powers shall be
12 enforced by the Commonwealth Trial Court. An individual
13 who claims a privilege against self incrimination may
14 nevertheless be compelled to testify, but he shall not
15 be prosecuted or subjected to a penalty or forfeiture on
16 account of anything concerning which he has testified
17 under such compulsion, except for perjury committed in
18 his testimony. Removal from an office or employment with
19 a Commonwealth bank is not the imposition of a penalty or
20 forfeiture.

21 (b) The Director may, on petition of any
22 interested person and after hearing, issue a declaratory
23 order with respect to the applicability to any person,
24 property or state of facts of this Act or rule issued
25 by the Director. The order shall bind the Director

1 and all parties to proceeding on the state of facts
2 alleged, unless it is modified or reversed by a court
3 having jurisdiction. A declaratory order may be
4 reviewed and enforced in the same manner as other
5 orders of the Director, and the refusal to issue a
6 declaratory order shall be reviewable.

7 (c) No person shall be subjected to any civil or
8 criminal liability for any act or omission to act in
9 good faith in reliance upon a subsisting order,
10 regulation or definition of the Director notwithstanding
11 a subsequent decision by a court invalidating the order,
12 regulation or definition.

13 Section 107. Court Review.

14 (a) Any person aggrieved and directly affected by an
15 order of the Director may appeal to the Commonwealth Trial
16 Court within thirty (30) days after issuance and notice of
17 the order is served upon the party. The validity of an order
18 may be tested only by such an appeal and may not be placed
19 in issue in an action to enforce it or in a prosecution for
20 its violation except where substantial rights of the
21 complainant are involved. The filing of a petition for
22 review shall not stay enforcement of an order, but the
23 Court may order a stay upon such terms as it deems proper.

24 (b) The Court may affirm the order of the Director,
25 may direct the Director to take action unlawfully withheld,
26 or may reverse or modify the order of the Director if it

1 (1) was issued pursuant to an unconstitutional statutory
2 provision; (2) was in excess of statutory authority; (3)
3 was issued upon unlawful procedure; or (4) is not
4 supported by the evidence in the record and the Court
5 may require a trial de novo on disputed issues of fact.

6 Section 108. Legal Assistance. The Director shall utilize the
7 Office of the Attorney General or its designee for legal assistance
8 and representation in carrying out the provisions of this Act.

9 Section 109. Banking Interest of Officers and Employees. No
10 officer or employee of the Department shall be an officer, director,
11 trustee, attorney, owner, shareholder or partner in any bank, or,
12 except as hereinafter provided, receive, directly or indirectly, any
13 payment or gratuity from any such organization, or be indebted to any
14 bank, or engaged in the negotiation of loans for others with any such
15 bank. This provision shall not prohibit being a depositor or borrower
16 on the same terms as are available to the public generally, or in the
17 case of the Director being indebted to a bank upon (1) a mortgage loan
18 upon the mortgagor's own home, (2) upon installment debt transferred
19 to a bank in regular course of business by a seller of household goods
20 or automobiles purchased by the employee, or other installment debt of
21 a personal nature, not to exceed twenty-five thousand dollars
22 (\$25,000.00) without approval of the Commonwealth Attorney General.

23 CHAPTER II

24 Banking Organization

25 Part A. Organization and Corporate Structure of Commonwealth Bank

26 Section 200. Part A Applicability. Unless otherwise specified,

1 the provisions of this Part A of Chapter II shall apply only to
2 Commonwealth banks. For purposes of this Part, "bank" means a bank
3 chartered by the Commonwealth.

4 Section 201. General Corporate Powers.

5 (a) A Commonwealth bank may be organized to
6 exercise the powers provided in this Act and such
7 general corporate powers as are appropriate to its
8 purpose and contained in its charter.

9 (b) A Commonwealth bank shall, without specific
10 mention thereof in its charter, have all the powers
11 conferred by this Act and the following additional
12 general corporate powers:

13 (1) To continue perpetually as a
14 corporation,

15 (2) To sue and be sued, complain and
16 defend, in its corporate name.

17 (3) To have a corporate seal, which may
18 be altered at pleasure, and to use the same
19 by causing it or a facsimile thereof to be
20 impressed or affixed, or in any manner
21 reproduced.

22 (4) To make, alter, amend, and repeal
23 by-laws, not inconsistent with its charter
24 or with law, for the administration and
25 regulation of the affairs of the corporation.

1 (5) To elect or appoint and remove officers
2 and agents of the bank and to define their duties
3 and fix their compensation.

4 (6) To adopt and operate reasonable bonus
5 and pension plans for officers and employees.

6 (7) To make contributions to or for the use
7 or benefit of:

8 (A) the United States, any state,
9 territory, or political subdivision thereof,
10 or the District of Columbia or any possession
11 of the United States for exclusively public
12 purposes; or

13 (B) a corporation, trust or community
14 chest fund, or foundation created or organized
15 in the United States or of any state or
16 territory or of the District of Columbia, or
17 of any possession of the United States
18 including the Marshall Islands Federated
19 States of Micronesia and Palau and
20 organized and operated exclusively for
21 religious, charitable, scientific, veteran
22 rehabilitation service, literary or
23 educational purposes, or for the
24 prevention of cruelty to children or
25 animals, no substantial part of the net

1 earnings of which inures to the benefit of
2 any private shareholder or individual, and
3 no substantial part of the activities of
4 which is carrying on propaganda or otherwise
5 attempting to influence legislation; to the
6 extent authorized, approved or ratified by
7 action of the board of directors of the
8 corporation, except as otherwise specifically
9 provided or limited by its articles of
10 incorporation, or its by-laws or by
11 resolution duly adopted by its stockholders.

12 (C) In addition to its other powers,
13 a Commonwealth bank which is authorized by
14 its charter to exercise trust powers shall,
15 upon proper qualification under this Act,
16 have the power to act as a fiduciary in any
17 capacity, including but without limitation
18 as registrar or transfer agent, as fiscal
19 agent or attorney-in-fact and the power to
20 receive, manage and apply sinking funds.

21 (D) Any Commonwealth bank desiring
22 to engage in the business of banking in
23 the Commonwealth shall make application
24 for Charter and licenses to the Director
25 pursuant to Chapter II of this Act.

1 Section 202. Other Powers. A Commonwealth bank operating under
2 this Act shall, in addition to specific powers conferred by this Act,
3 have such powers as may be necessary to qualify as a trustee or
4 custodian under Northern Mariana Islands Retirement Fund, Marania
5 Public Land Trust Fund, Northern Mariana Islands Social Security Fund,
6 the Federal Self-Employed Individuals Tax Retirement Act of 1962, as
7 amended, and the Employee Retirement Income Security Act of 1974;
8 Provided, that any funds held in such capacity shall be invested only
9 in a savings account or time deposit of the institution.

10 Section 203. Capital Structure. A bank shall at all times have
11 paid-in-cash capital of not less than \$500,000.

12 Section 204. Incorporators. A Commonwealth bank may be organized
13 by three (3) or more persons, acting on their own behalf or by an
14 attorney licensed to practice in the Commonwealth.

15 Section 205. Shareholders. At all times fifty-one percent 51% or
16 more of the shares of any bank shall be owned legally and beneficially
17 by residents of the Commonwealth, and if the Marshall Islands, Federated
18 States of Micronesia, or Palau accord the privilege of owning bank
19 shares equivalent to the Commonwealth, then residents of the Marshall
20 Islands, Federated States of Micronesia or Palau shall be deemed to
21 hold shares as residents of the Commonwealth. To the extent
22 shareholders in banks are corporations or other entities then the
23 ultimate personal shareholder or owner must be considered in
24 determining residency for purposes of this Act. Retail state banks
25 licensed, having at least five resident employees, and doing business
26 open to the general public on the effective date of this Act shall be
27 deemed to have met the requirements under this Section.

1 Section 206. Notice of Intention.

2 (a) The incorporators shall file with the Director
3 a notice of intention to organize a Commonwealth bank.

4 The notice shall state:

5 (1) The name, residence and occupation
6 of each incorporator, and the amount of stock
7 subscribed and paid for by each.

8 (2) The name and address of an individual
9 within the Commonwealth to whom notice to all
10 the incorporators may be sent.

11 (3) The total capital, the number of
12 shares of each class and the par value of
13 the shares of each class of the proposed
14 Commonwealth bank.

15 (4) Whether it is intended that the
16 proposed Commonwealth bank shall have trust
17 powers.

18 (5) The municipality in which the
19 proposed Commonwealth bank is to be located.

20 (6) The requirement of Section 205 has or
21 will be complied with.

22 (b) The Director may order the incorporators not
23 to accept any stock subscriptions or to cease accepting
24 subscriptions if he shall determine that the notice does
25 not comply with the provisions of this section, or that

1 the incorporators are proceeding unlawfully or are not
2 acting in good faith. If the notice of intention or any
3 accompanying documents do not comply with the requirements
4 of this section, the Director shall within twenty (20) days
5 after the receipt thereof return them to the incorporators,
6 calling attention to the defect or defects therein.

7 (c) On every stock certificate of any bank chartered by
8 the Commonwealth the following notice shall appear "According
9 to the laws of the Commonwealth fifty-one (51%) or more of
10 the shares of any bank shall be owned by residents of the
11 Commonwealth as required in Section 205 of the Commonwealth
12 Banking Code of 1984."

13 (d) It shall be a criminal offense against this Act
14 to accept any stock subscription until thirty (30) days
15 after filing a notice of intention or in violation of an
16 order of the Director; and any such subscription shall be
17 enforceable only by the Director and only to the extent
18 he determines it to be necessary to protect depositors or
19 the public.

20 Section 207. Organization Expenses.

21 (a) Each subscriber at the time he subscribes to
22 the stock of a proposed Commonwealth bank shall pay in
23 cash a sum at least equal to five percent (5%) of the
24 par value of such stock into a fund to be used to defray
25 the expenses of organization. No organization expense

1 shall be paid out of any other funds of the bank. Upon
2 the grant of a charter any unexpended balance shall be
3 transferred to surplus. If no application for a charter
4 has been made within six (6) months of the filing of a
5 notice of intention, or any additional period allowed
6 by the Director, or if the application has been finally
7 denied, any unexpended balance shall be distributed
8 among the contributors in proportion to their respective
9 payments. The Director may require an account of
10 disbursements from the fund and may order the
11 incorporators to restore any sum which has been expended
12 for other than proper organization expenses.

13 (b) No payment shall be made from the organization
14 expense fund for securing subscriptions to stock.

15 (c) Organizational expenses may be counted as part
16 of paid-in capital under Section 203(a)(2).

17 Section 208. Application for Charter.

18 (a) After the capital stock has been fully
19 subscribed, the incorporators may apply to the Director
20 for the charter. The incorporators shall submit:

21 (1) A proposed charter in triplicate in
22 such form as the Director shall prescribe
23 containing the following information:

24 (A) the name of a Commonwealth bank;

1 (B) if the Commonwealth bank is to
2 exercise trust powers, a statement to that
3 effect;

4 (C) the island on which it is to be
5 located;

6 (D) the amount of capital, the number of
7 shares of each class, the relative preferences,
8 powers and rights of each class, the par value
9 of the shares of each class and the amount of
10 the paid-in surplus;

11 (E) a statement whether voting for
12 directors shall or shall not be cumulative
13 and the extent of the preemptive rights of
14 stockholders;

15 (F) such other proper provisions to
16 govern the business and affairs of the
17 Commonwealth bank as may be desired by the
18 incorporators.

19 (2) An application in such form and containing
20 such information as the Director requires, including
21 the following:

22 (A) the name, residence and occupation
23 of each subscriber and the number of shares
24 for which he has subscribed;

1 (B) the past and present connections
2 with any bank other than as a customer on
3 terms generally available to the public,
4 of each director and each subscriber to
5 more than five percent (5%) of the
6 capital stock;

7 (C) the address at which it is
8 proposed that the Commonwealth bank do
9 business, or, if such address is not
10 known, the area within the municipality
11 in which it is proposed that the business
12 be located.

13 (D) all information necessary to
14 sustain the applicant's burden of showing
15 the requirements of Section 210 subsections
16 (4) and (5) are met.

17 (b) If the application, the proposed charter or
18 any other accompanying documents do not comply with the
19 requirements of this Act, the Director shall within
20 twenty (20) days after the receipt thereof, return them
21 to the incorporators, calling attention to the defect or
22 defects therein. If such application, proposed charter
23 and accompanying documents, if any, are not so returned
24 by the Director within twenty (20) days of the receipt
25 thereof they shall be deemed to have been filed with the
26 Director.

1 (c) The incorporators shall mail such notice of
2 the application to each bank doing business in the
3 island in which the proposed bank is to be located,
4 and also to such persons and organizations as he
5 may designate. The Director shall also require
6 publication of the notice. The application shall be
7 public information.

8 Section 209. Public Hearing. In the event there are objections
9 to the application based on the fact the applicant does not meet the
10 requirements of this Commonwealth Banking Code, the Director shall
11 hold a hearing limited to issues necessary to determining whether the
12 application meets all the requirements of this Act.

13 Section 210. Determination on Application for Charter.

14 (a) When an application for a charter has been
15 filed with the Director, he shall make or cause to be
16 made a careful investigation and examination relative
17 to the following:

18 (1) The character, reputation, and financial
19 standing of the organizers or incorporators and
20 their motives in seeking to organize the proposed
21 Commonwealth bank.

22 (2) The character, financial responsibility,
23 banking or trust experience, and business
24 qualifications of those proposed as officers of
25 the bank.

1 (3) The character, financial responsibility,
2 business experiences and standing in the community
3 of the prospective stockholders and of those
4 proposed as directors of the bank.

5 (4) The need in the island where the bank
6 would be located for banking or banking and trust
7 facilities, or additional banking or banking and
8 trust facilities, as the case may be, giving
9 particular consideration to the adequacy of
10 existing banking and trust facilities therein.

11 (5) The ability of the Commonwealth to
12 support the proposed bank, giving consideration
13 to (a) the competition offered by existing
14 banks and other financial institutions, (b) the
15 banking history of the Commonwealth, (c) the
16 opportunities for profitable employment of bank
17 funds as as indicated by the average demand for
18 credit, the number of potential depositors, the
19 volume of bank transactions, and the business
20 and industries of the territory, with particular
21 regard to their stability, diversification and
22 size; and (d) if the bank is to exercise trust
23 powers, the opportunities for profitable
24 employment of fiduciary services.

25 (6) That the requirements of Section 205
26 are met.

1 (7) Such other facts and circumstances
2 bearing on the proposed bank and its relation
3 to the Commonwealth as in the opinion of the
4 Director may be relevant.

5 (b) The Director shall compile a report of the
6 results of his investigation, together with all papers,
7 correspondence and information in his possession
8 relating to the application for a charter.

9 (c) Within ninety (90) days after the filing of
10 the application, the Director shall consider the
11 findings and all other relevant information available
12 to him, and shall in his discretion approve or
13 disapprove the application, but he shall not approve
14 the application until he has ascertained to his
15 satisfaction:

16 (1) That conditions in the Commonwealth
17 and on the island in which the bank would
18 transact business afford reasonable promise
19 of successful operation.

20 (2) That the bank is being formed for
21 no other purpose than the legitimate objects
22 contemplated by this Act.

23 (3) That the proposed capital is not
24 less than the minimum required under this Act.

1 (4) That those proposed as officers and
2 directors have sufficient experience, ability
3 and standing to afford reasonable promise of
4 successful operation.

5 (5) That the name of the proposed bank
6 does not resemble, so closely as to be likely
7 to cause confusion, the name of any other
8 bank transacting business in the Commonwealth
9 or which previously had transacted business in
10 the Commonwealth during the last twenty (20)
11 years; and

12 (6) That the applicants have complied
13 with all applicable provisions of this Act
14 including making a showing to allow the
15 Director to find a need for an additional
16 bank as set forth in Section 210 (4) and (5).

17 (d) If the Director shall approve the application
18 he shall grant a charter by indorsing his approval on all
19 copies thereof, retaining one copy in the department's
20 files, and returning one copy to the incorporators within
21 twenty (20) days of his action approving the application.

22 (e) If the Director shall disapprove the application
23 he shall make public such disapproval and shall mail notice
24 of such disapproval to the incorporators within twenty (20)
25 days after his action disapproving the application.

1 Section 211. Reimbursement of Officer, Director or Employee for
2 Expenses in Defending Suits. The by-laws of a Commonwealth bank may
3 provide that it shall indemnify every officer, director or employee,
4 his heirs, executors and administrators, against judgments resulting
5 from and the expenses reasonably incurred by him in connection with
6 any action based upon any alleged act or omission on his part as an
7 officer, director or employee of the Commonwealth bank, including
8 any action based upon any alleged act or omission on his part as an
9 officer, director or employee of the Commonwealth bank, except in
10 relation to matters as to which he shall be finally adjudged in such
11 action to be liable for his negligence or his misconduct, and except
12 that, in the event of a settlement, indemnification shall be provided
13 only in connection with such matters covered by the settlement as to
14 which the Commonwealth bank is advised by counsel that in the opinion
15 of counsel the person to be indemnified was not liable for such
16 negligence or misconduct. The foregoing right of indemnification shall
17 not be exclusive of other rights to which such officer, director or
18 employee may be entitled.

19 Section 212. Banking License.

20 (a) It shall be a criminal offense against this
21 Act for a Commonwealth bank to perform any act other
22 than to perfect its organization, obtain and equip a
23 place of business and otherwise prepare to do business
24 before receiving a banking license.

1 (b) Application for a banking license shall be
2 made to the Director and shall contain:

3 (1) A statement that the minimum capital
4 has been paid in.

5 (2) The name, address and business and
6 professional affiliations of each Director and
7 executive officer.

8 (3) The name and address of each stockholder
9 of a legal or beneficial interest of more than five
10 percent (5%) and the number of shares held by him.

11 (4) The address at which the bank will
12 operate.

13 (5) A statement that all of the by-laws
14 adopted have been attached as an exhibit to the
15 application.

16 (6) A verified statement that the bank meets
17 the requirements of Sections 205 and 235(g).

18 (7) Such other information as the Director
19 may require to enable him to determine whether
20 the conditions for the issuance of a banking
21 license have been met.

22 (8) An initial application fee of five
23 thousand dollars (\$5,000); Provided, that
24 the application fee shall be a one-time fee
25 applicable only to Commonwealth banks chartered
26 after the effective date of this Act.

1 (c) If the application for a banking license or
2 any accompanying documents do not comply with the
3 requirements of this Act the Director shall within
4 twenty (20) days after the receipt thereof return
5 them to the incorporators, calling attention to the
6 defect or defects therein. If the application and
7 accompanying documents are not so returned within
8 such twenty (20) day period they shall be deemed to
9 have been filed with the Director.

10 (d) The Director shall approve or deny the
11 application for a banking license within thirty (30)
12 days after the application is deemed complete. He
13 shall approve the application if:

14 (1) The minimum capital has been fully
15 paid in cash.

16 (2) Appropriate by-laws have been adopted.

17 (3) Any conditions imposed by the Director
18 in granting the charter have been fulfilled.

19 (4) The requirements of this Act have been
20 satisfied including the requirement of Section 205.

21 (e) If the Director shall approve such application
22 he shall within twenty (20) days of such action collect
23 an annual banking license fee of one thousand dollars
24 (\$1,000), issue the banking license, and mail the same
25 to the incorporators. If the Director shall deny the

1 application he shall within twenty (20) days of such
2 action mail a notice of denial to the incorporators,
3 stating therein the reason or reasons for denying the
4 application.

5 (f) If no application for a banking license is
6 filed within one year following the grant of a charter
7 or any additional period allowed by the Director for
8 good cause or if a banking license has been finally
9 denied, or if the bank shall fail to commence business
10 within one year after the issuance of a certificate of
11 authority or any additional period allowed by the
12 Director, the charter shall be forfeited, and the bank
13 shall be liquidated in accordance with the orders of
14 the Director. If an improper expenditure has been
15 made, the Director may order the persons who were
16 incorporators or directors at the time to restore the
17 sum by equal contributions.

18 (g) Notwithstanding compliance with the licensing
19 requirements of this Section, a Commonwealth Bank that
20 is a retail bank shall also comply with the provisions
21 of Part C of Chapter II of this Act.

22 Section 213. Amendment of Charter; Change of Location.

23 (a) A Commonwealth bank may apply to the Director
24 to amend its charter.

25 (b) An application for an amendment of the charter
26 changing the authorized capital or the number and par

1 value of the shares or to acquire or abandon trust
2 powers must be authorized by the vote of two-thirds
3 (2/3) of the outstanding voting stock voted at a
4 meeting of the stockholders. Any other application
5 may be authorized by the vote of a majority of the
6 outstanding voting stock voted at a meeting of the
7 stockholders.

8 (c) Notice of the application shall be sent to
9 such persons and organizations as the Director may
10 require.

11 (d) The Director shall approve an application:

12 (1) To change the name of the corporation if
13 the proposed name is not deceptive or misleading.

14 (2) To change the number and par value of
15 the shares without altering the total capital
16 unless such change will inequitably affect the
17 interest of any stockholder and the bank does
18 not have sufficient surplus and undivided
19 profits to pay dissenting shareholders the
20 fair value of their shares determined in
21 accordance with regulations of the Director.

22 (3) To increase the total capital by
23 increasing the amount of common stock, but an
24 amendment increasing the total capital shall not
25 become effective until the Director finds that
26 the new capital has been fully paid in cash.

1 (e) In making his determination the Director shall
2 be guided by the standards prescribed for the approval
3 of an application for a charter, insofar as they are
4 reasonably applicable.

5 Section 214. Directors and Officers.

6 (a) The affairs of a Commonwealth bank shall be
7 managed by a board of directors which shall exercise
8 its powers and be responsible for the discharge of its
9 duties. The number of directors, not less than five (5)
10 not more than twenty-five (25), shall be fixed by the
11 by-laws and the number so fixed shall be the board,
12 regardless of vacancies.

13 (b) The Board of Directors shall meet at least
14 semi-annually. Such meeting shall be in the Commonwealth.

15 Section 215. Deposit Insurance: Membership in Federal Reserve
16 System. Except for those banks covered by Section 216, a Commonwealth
17 bank which is also a retail bank shall obtain insurance of its
18 deposits by the United States or any agency thereof prior to
19 conducting any banking business and may acquire and hold membership
20 in the Federal Reserve System.

21 Section 216. Transition Provision.

22 (a) Commonwealth banks which have a valid banking
23 license meeting the present requirements of regulations
24 issued by the Department of Commerce and Labor covering
25 bank licensing, have at least five resident employees,

1 open to the general public, and are actively conducting
2 a banking business with at least 50 depositors and
3 borrowers as of the effective date of this Act shall
4 comply with Sections 203, 205, 212, and 214, and of
5 this Chapter as of February 1, 1984; Provided, the
6 Director may extend the time for compliance for up to
7 one year upon a showing of good cause. Such banks
8 need not comply with Section 215.

9 (b) If the Director certifies that Commonwealth
10 Government or private depositor insurance or bonding
11 is available to Commonwealth banks, they shall obtain
12 such bonding or insurance within six months of such
13 certification. In addition any such Commonwealth
14 bank may secure deposits of less than five thousand
15 (\$5,000.00) by obligations of the Governments of the
16 Commonwealth and the United States, its agencies, or
17 chartered corporations and such security shall have
18 the highest priority lien that the Commonwealth can
19 lawfully accord in the event of a bank failure or
20 bankruptcy.

21 Part B. General Licensing of Banks.

22 Section 230. Banking License Required. No person shall operate
23 a bank or engage in banking business from within the Commonwealth,
24 whether or not such business is carried on in the Commonwealth,
25 without having been issued such licenses as may be required by this

1 Act. Every person who knowingly and willfully violates the provisions
2 of this section shall be guilty of a misdemeanor punishable by a fine
3 not exceeding fifty thousand dollars (\$50,000) or imprisonment for a
4 period not exceeding one year or both.

5 Section 231. State, National, Micronesian, and Foreign Banks.
6 Subject to the approval of the Director pursuant to this Act, a state,
7 national, Micronesian, or foreign bank may establish an office in the
8 Commonwealth and engage in the business of banking in the Commonwealth;
9 Provided; it meets the requirements of a Commonwealth bank as found in
10 Sections 205, 209, and 210.

11 Section 232. Qualifications for Issuance of State or National
12 Bank License. The Director shall issue a banking license when a state
13 or national bank has complied with the following requirements:

14 (a) The Director has approved the application
15 submitted by the bank pursuant to Section 235.

16 (b) The annual license fee of \$1,000 has been paid
17 to the Director.

18 (c) The Director finds that the bank meets the
19 requirements found in Sections 205, 209, and 210.

20 Section 233. Qualifications for Issuance of a Foreign Bank
21 License. The qualifications, fees, and conditions of a foreign bank
22 license shall be pursuant to Chapter III of this Act.

23 Section 234. Qualifications for Issuance of a Commonwealth Bank
24 License. The qualifications, fees, and conditions for a Commonwealth
25 Bank license shall be pursuant to Section 212 of this Act.

1 Section 235. Application for Banking License. Except as
2 otherwise specifically provided in Sections 212 and 243 of this Act,
3 an application for any type of banking license shall be made to the
4 Director on forms furnished by the Director and in accordance with
5 the regulations of the Director. The application shall include the
6 following:

7 (a) The name of the applicant.

8 (b) The location of the principal place of
9 business of the applicant.

10 (c) A copy of the articles of incorporation,
11 by-laws, and corporate charter of the applicant.

12 (d) The name of one of the applicant's officer who
13 shall be the bank's authorized agent in the Commonwealth
14 and the name of an alternate officer who shall serve in
15 that capacity in the absence of the first nominee.

16 (e) Complete information and details with respect
17 to the character, criminal record, business activities,
18 financial affairs, and business associates of the
19 directors, officers, and shareholders owning more than
20 five percent (5%) of the stock of the applicant, which
21 information and details shall cover at least a 10-year
22 period immediately preceding the date of filing of the
23 application.

24 (f) A verified statement that the applicant has
25 complied with Section 205 of this Act.

1 (g) That the applicant in his initial license
2 application made a sufficient showing that the Director
3 found the application met the requirements of Section
4 210 of this Act unless the applicant was excused from
5 the finding by Sections 216 or 236 of this Act. If no
6 determination has been made under Section 210, the
7 applicant must file an application and meet all the
8 requirements of Sections 205, 209, and 210 of this Act.

9 (h) Such other information and details as the
10 Director may require.

11 (i) An application fee of five-thousand dollars
12 (\$5,000); Provided, that the application fee shall be
13 a one-time fee applicable only to state national, or
14 Micronesian banks applying for a banking license under
15 this section after the effective date of this Act.

16 Section 236. Transition of Existing License. Every state and
17 national bank which has a valid Commonwealth banking license has at
18 least five resident employees and is actively conducting business on
19 the effective date of this Act may continue conducting banking
20 business from within the Commonwealth without making application to
21 the Director pursuant to Section 235 of this Act. Such banks shall
22 no later than sixty (60) days from the effective date of this Act
23 satisfy the Director that they are in compliance with Section 232
24 (a) and (b) of this Act except such banks shall be deemed to meet
25 the requirements of Section 235(f) and (g). Banks subject to this

1 Section 236 shall comply with this Act and renew their licenses
2 pursuant to Section 252 including payment of annual renewal fees.
3 No application fee pursuant to Section 235 shall be required of
4 banks subject to this Section 236.

5 Part C. Special Licenses

6 Section 240. Retail Banking License Required. Any Commonwealth
7 chartered or state, national, Micronesian or foreign bank otherwise
8 licensed to do banking business in the Commonwealth may apply for a
9 retail license pursuant to this Part C. The purpose of a retail
10 license is to protect depositors and borrowers. No bank shall accept
11 or hold deposits except in compliance with and licensed pursuant to
12 this Part C. Every person who knowingly and wilfully violates the
13 provisions of this Section 240 shall be guilty of a misdemeanor
14 punishable by fine not exceeding fifty thousand dollars (\$50,000) or
15 imprisonment for a period not exceeding one year or both.

16 Section 241. Qualification for Retail Banking License. A
17 Commonwealth-chartered bank or a state, national, or foreign bank
18 shall be issued a retail banking license by the Director upon proof
19 of the following:

- 20 (a) Capital stock paid-up-in-cash of not less
21 than five hundred thousand dollars (\$500,000);
22 (b) Insurance of deposits of less than five
23 thousand dollars (\$5,000) by the United States or
24 any agency thereof including but not limited to the
25 Federal Deposit Insurance Corporation unless exempted
26 by Section 216 of this Act;

1 (c) Payment of an annual license fee of one
2 thousand dollars (\$1,000.00);

3 (d) Compliance with Section 205 of this Act.

4 Section 242. Applications for Special Licenses. Application for
5 retail and other special licenses required in this Part C shall be
6 made to the Director on forms furnished by the Director in accordance
7 with regulations of the Director and shall include the following:

8 (a) The name of the applicant;

9 (b) Whether a retail or other special license is
10 sought;

11 (c) Copies of existing licenses and charters if
12 the application is for a retail banking license;

13 (d) The location of the principal place of
14 business within the Commonwealth;

15 (e) A verified statement the applicant is in
16 compliance with Section 205 of this Act.

17 (f) Such other information as the Director may at
18 his discretion require.

19 Section 243. Transition.

20 (a) Any state, national, or Micronesian bank
21 operating as a retail bank at the effective date of
22 this Act provided such bank meets the Section 236 of
23 this Act shall comply with the license and fee
24 requirements of this Part C simultaneously with the
25 next annual renewal of banking licenses required
26 pursuant to Section 252 of this Act.

1 Part D. Restrictions on Licenses

2 Section 250. Assignment of Bank License. No banking license
3 shall be purchased by a bank broker, or assigned in whole or in part
4 without the prior approval of the Director.

5 Section 251. Posting and Inspecting of Licenses. All licenses
6 issued under the provisions of this Act shall be posted by the licensee
7 and kept posted at all times in a conspicuous place in the bank for
8 which such license was issued until replaced by a succeeding license.
9 In addition, licensed retail banks shall post in a conspicuous place
10 in the bank the nature of the required deposit insurance.

11 Section 252. Annual Fees; Renewal of Licenses.

12 (a) A bank shall pay an annual fee of one thousand
13 dollars (\$1,000) to the Director for issuance of any
14 type of banking license and for each renewal thereafter.

15 (b) Subject to the power of the Director to deny,
16 revoke, suspend, condition, or limit licenses, any
17 license in force shall be renewed by the Director upon
18 proper application for renewal and payment of license
19 fees as required by law and the regulations of the
20 Director. The Director may require by regulation such
21 other information as he deems necessary and consistent
22 with this Act for renewal. A bank license shall be
23 valid for one year from the date of its issuance and
24 must be renewed on or before its expiration date.

1 Part E. Merger, Consolidation, Conservation, Liquidation,
2 Disolution, and Reorganization

3 Section 260. Regulations for Mergers, Liquidations, and Other
4 Significant Events.

5 (a) The Director shall provide by regulation
6 administrative procedures and depositor protections for
7 banks which desire to undertake mergers, conversions,
8 or consolidations.

9 (b) The Director shall provide by regulation
10 administrative procedures and depositor protections for
11 the liquidation, dissolution, and reorganization of banks.

12 Part F. Branch Banks

13 Section 270. Branch Banks. A bank engaging in the banking
14 business in the Commonwealth may operate such branch banks as the
15 Director determines is in the public interest according to the
16 standards set forth in Section 210 (4) and (5) of this Act. State
17 banks may only operate branches in the Commonwealth if the state
18 or territory of their incorporation authorizes a Commonwealth bank
19 to engage in branch banking in its territory and that such bank
20 demonstrates that the branch is in the public interest and meets
21 the criteria set forth in Section 210 (4) and (5) of this Act.

22 CHAPTER III

23 Foreign Banking Corporations and Foreign Exchange

24 Part A. Foreign Banking Corporations

25 Section 300. Foreign Banking Corporations. The Director may
26 specifically provide for the operation of foreign banking corporations

1 within the Commonwealth provided such foreign bank meets the
2 requirements for a Commonwealth bank. The Director may establish
3 by regulation such conditions and restrictions upon the business of
4 foreign banking corporations as he deems consistent with this Act
5 and in the public interest. Notwithstanding compliance with any
6 regulations, conditions, or restrictions promulgated pursuant to this
7 Section, any foreign bank that is a retail bank must also be licensed
8 pursuant to Part C of Chapter II of this Act and must in its initial
9 application have met the requirements of Sections 205, 208, 209, and
10 210 of this Act.

11 Section 301 - 339. [RESERVED.]

12 Part B. Foreign Exchange

13 Section 340. Foreign Exchange. The Director may specifically
14 provide for the operation of the business of selling foreign currency
15 notes or receiving money for the purpose of transmitting the money or
16 its equivalent to foreign countries. The Director may establish by
17 regulation such conditions and restrictions upon the foreign exchange
18 business as he deems consistent with this Act and in the public
19 interest.

20 CHAPTER IV

21 Examination and Reports

22 Section 400. Required Reports.

23 (a) Annual Report. The Director may examine the
24 condition of any bank conducting banking business from
25 within the Commonwealth at any time each bank shall
26 annually submit consolidated written financial statements

1 and a separate annual report covering the financial
2 condition and activities of the bank from within the
3 Commonwealth. The documents shall be signed by the
4 bank's chief financial officer and certified to be true
5 and correct and in accordance with generally accepted
6 accounting principles by a firm of independent certified
7 public accountants. Only summary examinations and
8 reports shall be required in respect of fiduciary
9 activities which are subject to court accountings. A
10 report of examination shall be sent by the Director to
11 the bank examined.

12 (b) Bank Related Corporation. The Director may
13 annually examine any corporation, the majority of the
14 stock of which is owned by or which is found by the
15 Director to be controlled by a bank licensed by the
16 Commonwealth.

17 (c) Substitute Reports. The Director may accept
18 the reports of state, national, Federal Reserve, Federal
19 Deposit Insurance Corporation, Federal Savings and Loan
20 Insurance Corporation examiners or nationally recognized
21 auditing firm found by the Director to be capable of
22 auditing a bank in lieu of a separate examination.

23 Section 401. Notice of Sale of Stock. Every bank shall within
24 sixty (60) days notify the Director of any sale or transfer of ten
25 percent (10%) or more of the voting stock in the bank and shall

1 provide the information required in Section 235(e) as to the transferee
2 of the shares, in addition the bank must certify that the bank is in
3 continuing compliance with Section 205 of this Act.

4 Section 402. Audit Fees. The Director shall charge an
5 examination fee based on cost per hour per examiner and other related
6 reasonable expenses for any banks examined by the Director or his
7 staff. Such fees shall be established by regulation and shall be paid
8 to the General Fund.

9 Section 403. Powers and Duties of Director in Connection with
10 Examinations.

11 (a) In the performance of his functions under this
12 law and subject to the provisions of subsection (b) of
13 this section herein, the Director shall be entitled at
14 all reasonable times to have access to such books,
15 records, vouchers, documents, cash and securities of
16 any bank, and to call upon the manager or any officer
17 designated by the manager of any bank for such
18 information or explanation as the Director may
19 reasonably require for the purpose of enabling it
20 to perform its functions under this law.

21 (b) The Director shall only have access to the
22 account of a customer of a bank or to any information,
23 matter, or thing relating to or concerning the affairs
24 of any customer of a bank only pursuant to Chapter VII
25 of this Act.

1 Section 404. Penalties for Violation of Sections 400 through 403.

2 (a) Any person who knowingly and wilfully fails
3 to comply with any requirement of Sections 400 through
4 403 herein shall be guilty of a misdemeanor punishable
5 by a fine not exceeding fifty thousand dollars (\$50,000)
6 and imprisonment for a term not exceeding one year;
7 Provided, that if the act or omission was intended
8 to defraud, the person shall be guilty of a felony
9 punishable by a fine not exceeding one hundred
10 thousand dollars (\$100,000) and imprisonment for a
11 term not exceeding two (2) years.

12 Section 405. Preservation of Bank Records.

13 (a) Every bank shall retain its business records
14 for such periods as are or may be prescribed by or in
15 accordance with the terms of this section.

16 (b) Each bank shall retain permanently the minute
17 books of meetings of its stockholders and directors, its
18 capital stock ledger and capital stock certificate ledger
19 or stubs, its general ledger, its investment ledger, its
20 copies of bank examination reports, and all records which
21 the Director shall in accordance with the terms of this
22 section require to be retained permanently. The Director
23 in his discretion may require that certain records be
24 reproduced and stored in a safe deposit either within or
25 without the Commonwealth.

1 (c) All other bank records shall be retained for
2 such periods as the Director shall from time to time
3 require by regulations classifying all records kept
4 by banks and prescribing the period for which records
5 of each class shall be retained. Such periods may
6 be permanent or for a lesser term of years. Such
7 regulations may from time to time be amended or
8 repealed. Prior to issuing any such regulation the
9 Director shall consider:

10 (1) Actions at law and administrative
11 proceedings in which the production of bank
12 records might be necessary or desirable.

13 (2) Commonwealth, State, and Federal
14 statutes of limitation applicable to such
15 actions or proceedings.

16 (3) The availability of information
17 contained in bank records from other sources.

18 (4) Such other matters as the Director
19 shall deem pertinent in order that its
20 regulations will require banks to retain
21 their records for as short a period as is
22 commensurate with the interests of bank
23 customers and shareholders and of the people
24 of the Commonwealth in having bank records
25 available.

1 Section 501. Hearings. The Director shall conduct hearings
2 pursuant to the provisions of Title 17 of the Trust Territory Code
3 prior to ordering any action under Section 500 where the legal rights,
4 duties, or privileges of specific banks are conditioned, limited,
5 suspended or revoked.

6 CHAPTER VI

7 Retail Banking Practices

8 Part A. Accounts

9 Section 600. Chapter Applicability. Unless otherwise specified
10 the provisions of this Chapter VI apply to all banks and banking.

11 Section 601. Interest on Accounts. A bank may maintain deposit
12 accounts and pay interest on balances therein at rates which need not
13 be uniform.

14 Section 602. Payment of Items. So long as the balance in any
15 account subject to withdrawal by or upon the order of a depositor
16 shall equal or exceed the amount of any item presented for payment, a
17 bank may select from items which in the aggregate exceed the balance,
18 the items to be paid in any order convenient to the bank.

19 Section 603. Transactions Outside the Regular Banking Hours or on
20 Holidays. Nothing in any law of the Commonwealth shall in any manner
21 whatsoever affect the validity of or render void or voidable, the
22 payment, certification, or acceptance of a check or other negotiable
23 instrument or any other transaction by a bank because done or
24 performed on any holiday or half-holiday or during any time other than
25 regular banking hours; Provided, that nothing herein shall be construed
26 to compel any bank to operate outside of normal business hours.

1 Section 604. Deposit of Minor; School or Institutional Deposits.

2 (a) A bank may operate a deposit account in the
3 name of a minor or in the names of two or more persons,
4 one or more of whom are minors, with the same effect
5 upon its liability as if such minors were of full age.

6 (b) Subject to such regulations as the Board may
7 prescribe for the protection of depositors, a bank may
8 contract with the proper authorities of any elementary
9 or secondary school, or of any institution caring for
10 minors, for the participation by the bank in any school
11 or institutional thrift or savings plan, and it may
12 accept deposits at such a school or institution, either
13 by its own collector or by any representative of the
14 school or institution who becomes the agent of the bank
15 for such purpose.

16 Section 605. Deposits in Two Names.

17 (a) When a deposit has been made or shall hereafter
18 be made, in any bank in the names of two (2) persons,
19 payable to either, or payable to either or survivor,
20 such deposit, or any part thereof, or any interest or
21 dividend thereon, may be paid to either of said persons,
22 whether the other be living or not; and the receipt of
23 acquittance of the person so paid shall be a valid and
24 sufficient release and discharge to the bank for any
25 payment so made.

1 (b) No bank so paying any such survivor shall
2 thereby be liable for any estate, inheritance or
3 succession taxes due this Commonwealth.

4 Section 606. Deposits in Trust.

5 (a) Whenever any deposit shall be made in any bank
6 by any person in trust for another, and no other or
7 further notice of the existence and terms of a legal and
8 valid trust shall have been given in writing to the bank;
9 in the event of the death of the trustee, the same, or
10 any part thereof, together with the dividends or interest
11 thereon, may be paid to the person for whom the deposit
12 was made.

13 (b) No bank so paying any such survivor shall
14 thereby be liable for any estate, inheritance, or
15 succession taxes due this Commonwealth.

16 Section 607. Final Adjustment of Statement of Account.

17 (a) When a statement of account has been rendered
18 by a bank to a depositor accompanied by vouchers, if
19 any, which are the basis for debit entries in such
20 account, or the depositor's passbook has been wirtten
21 up by the bank showing the condition of the depositor's
22 account and delivered to such depositor with like
23 accompaniment of vouchers, if any, such account shall
24 after the period of one year from the date of its
25 rendition, in the event no objection thereto has been

1 theretofore made by the depositor, be deemed finally
2 adjusted and settled and its correctness conclusively
3 presumed and such depositor shall thereafter be barred
4 from questioning the correctness of such account for
5 any cause.

6 (b) Nothing herein shall be construed to relieve
7 the depositor from the duty now imposed by law of
8 exercising due diligence in the examination of such
9 account and vouchers, if any, when rendered by the bank
10 and of immediate notification to the bank upon discovery
11 of any error therein, nor from the legal consequences
12 of neglect of such duty; nor to prevent the application
13 of Sections 3406 and 4406 of the Northern Marianas
14 Commercial Code to cases governed thereby.

15 (c) A statement of account may be rendered to a
16 depositor by mailing such statement with supporting
17 vouchers, if any, to his address as shown on the books
18 of the bank.

19 Section 608. Adverse Claim to Bank Deposit. Notice to any bank
20 of an adverse claim to a deposit standing on its books to the credit
21 of any person shall not be effectual to cause the bank to recognize
22 the adverse claimant unless the adverse claimant shall also either
23 procure a restraining order, injunction, or other appropriate process
24 against the bank from a court of competent jurisdiction in a cause
25 therein instituted by him wherein the person to whose credit the

1 deposit stands is made a party and served with summons or shall
2 execute to the bank in form and with sureties acceptable to it, a bond,
3 indemnifying the bank from any and all liability, loss, damage, costs
4 and expenses, for and on account of the payment of such adverse claim
5 or the dishonor of the check or other order of the person to whose
6 credit the deposit stands on the books of the bank; Provided, that
7 this Section shall not apply in any instance where the person to whose
8 credit the deposit stands is a fiduciary for such adverse claimant,
9 and the facts constituting such relationship are also the facts
10 showing reasonable cause for relief on the part of the claimant
11 that the fiduciary is about to misappropriate the deposit, are
12 made to appear by the affidavit of such claimant.

13 Section 609. Powers of Attorney.

14 (a) A bank may continue to recognize the authority
15 of an attorney authorized in writing to operate, in whole
16 or in part, the account of a depositor, until it receives
17 written notice of the revocation of his authority.

18 (b) Written notice of the death or adjudication of
19 incompetency of such depositor shall constitute written
20 notice of revocation of the authority of his attorney.

21 (c) Notwithstanding that a bank has received
22 written notice of revocation of the authority of such
23 attorney, it may, until thirty (30) days after receipt
24 of such notice, pay any item made, drawn, accepted or
25 indorsed by such attorney prior to such revocation;
26 Provided, that such item is otherwise properly payable.

1 (d) No bank shall be liable for damages, penalty
2 or tax by reason of any payment made pursuant to this
3 section.

4 Section 610. Payment from Account when no Executor or
5 Administrator has Qualified.

6 (a) Where no executor or administrator of a
7 deceased depositor has qualified and given notice of his
8 qualifications to a bank, it may in its discretion and
9 at any time after thirty (30) days from the death of the
10 depositor pay out of all accounts maintained with it by
11 him in his individual capacity all sums which do not
12 exceed five thousand dollars (\$5,000.00) in the aggregate
13 (1) to the executor named in any will known to the bank
14 or (2) in the absence of knowledge of a purported will
15 naming a surviving executor to (A) the surviving spouse,
16 (B) the next of kin, or (C) a creditor for expenses of
17 the last illness or funeral, in the above order or
18 priority in the case of conflicting claims.

19 (b) A bank may in its discretion and at any time
20 after sixty 60 days from the death of a depositor, whose
21 residence address according to the books of the bank is
22 outside the Commonwealth, pay the balance of his accounts,
23 not exceeding five thousand dollars (\$5,000.00) in the
24 aggregate, to an executor or administrator who has
25 qualified in another territory or state unless the bank

1 has received written notice of the appointment of an
2 executor or administrator in the Commonwealth.

3 (c) No bank shall be liable for damages, penalty
4 or tax by reason of any payment made pursuant to this
5 section.

6 Section 611. Transmitting Money: Foreign Exchange.

7 (a) Any bank may accept money for transmissions
8 and may transmit money.

9 (b) Any bank may buy and sell foreign exchange to
10 the extent necessary to meet the needs of customers.

11 Section 612. Dormant and Inactive Accounts and Unclaimed Funds.

12 (a) In the event a savings account is inactive for
13 ten (10) years and the passbook has not been presented
14 for the posting of earned interest during the period,
15 a bank may transfer the balance of such account to
16 the Treasurer of the Commonwealth for the account of
17 the depositor. For the purposes of this section, an
18 account shall be considered inactive if no deposits or
19 withdrawals are made from such account.

20 (b) In the event a savings account is inactive for
21 five (5) years, and the passbook has not been presented
22 for the posting of earned interest during the period, a
23 bank may cease paying interest on the account until
24 advised by the depositor or his representative that the
25 account is active.

1 (c) In the event a checking account is inactive
2 for two (2) years and the depositor cannot be located,
3 a bank may transfer the balance of the account to the
4 Treasurer of the Commonwealth for the account of the
5 depositor.

6 (d) Prior to transferring the balance of any
7 accounts to the Treasurer of the Commonwealth as
8 provided in Paragraphs (a) and (c) of this section, the
9 Director shall notify the depositor in writing that such
10 funds shall be transferred to the Treasurer of the
11 Commonwealth within sixty (60) days from the date of
12 notification, and such transfer shall not occur prior
13 to the sixty (60) day period. If the whereabouts and
14 address of the depositor cannot be ascertained, the
15 Director shall publish notice in a newspaper of general
16 circulation for sixty (60) days to the effect that such
17 funds shall be transferred to the Treasurer of the
18 Commonwealth and such transfer shall not occur prior
19 to the 60-day period.

20 (e) In the event a bank holds unidentified
21 deposits or other funds for three (3) years, the owner
22 of which cannot be determined by the bank, a bank may
23 transfer the balance of such account to the Treasurer
24 of the Commonwealth for the account of the depositor, in
25 the event such depositor is determined at a later date.

1 (f) In the event a bank holds exchanges, bank
2 drafts, cashier's checks, or drafts which have not been
3 presented for payment for ten (10) years, a bank may,
4 if the owner cannot be located, transfer the balance of
5 such account to the Treasurer of the Commonwealth for
6 the account of the owner in the event such owner is
7 located at a later date.

8 (g) In the event a bank holds unidentified loan
9 payments for three (3) years, a bank may transfer the
10 balances of such account to the Treasurer of the
11 Commonwealth for the account of the payor, in the event
12 such payor is later determined.

13 (h) Prior to transferring funds to the Treasurer
14 of the Commonwealth pursuant to the provisions of this
15 section, the transferring bank may deduct all sums or
16 costs due the bank, including cost of publication or
17 other notice required by this section. Receipt by the
18 Treasurer of the Commonwealth for such deposits shall
19 be a full discharge to the transferring bank of all
20 liabilities to the depositor or owner of such funds.

21 (i) The Treasurer of the Commonwealth upon
22 receiving sums of money pursuant to this section shall
23 furnish the transferring bank with a receipt for such
24 sums transferred, and shall deposit such sums in the
25 General Fund.

1 (j) The Treasurer of the Commonwealth shall
2 maintain accurate records of such sums in accordance
3 with regulations adopted by the Director. Such sums may
4 be claimed at any time by the rightful owner or owners
5 of such sums upon furnishing proof satisfactory to the
6 Treasurer of the Commonwealth of their right to such
7 funds. Funds deposited with the Treasurer of the
8 Commonwealth pursuant to this section shall not accrue
9 interest. The Treasurer of the Commonwealth shall not
10 be liable for damages or penalties for any payment to a
11 claimant of funds deposited pursuant to this section.

12 (k) The Director may adopt such rules and
13 regulations as may be necessary to implement the
14 provisions of this section.

15 Section 613. Disclosure Requirement. Each retail bank shall
16 comply with the Truth in Lending Act and all laws obligatory on the
17 Commonwealth.

18 Section 614. Fees and Other Charges. Fees and other charges
19 assessed by a retail bank for depositor and other customer services
20 shall be made available to the depositor or customer.

21 Part B. Safe Deposit and Safekeeping

22 Section 620. Definitions for Part B. As used in this Part:

23 (a) "Lessee" means a person contracting with a
24 lessor for the use of a safe deposit box.

(b) "Lessor" means a bank, trust company, or subsidiary renting safe deposit facilities, and includes a safe deposit company organized and operating under the jurisdiction of the Department solely for the purpose of leasing safe deposit facilities.

(c) "Safe Deposit Box" means a safe deposit box, vault, or other safe deposit receptacle maintained by a lessor and the rules relating thereto apply to property or documents kept in safekeeping in the bank's vault.

Section 621. Authority to Engage in Leasing Safe Deposit Facilities: Subsidiary Company.

(a) Subject to such regulations as the Director may prescribe, a bank, trust company or safe deposit company may maintain and lease safe deposit boxes and may accept property or documents for safekeeping if, except in the case of night depositories, it issues a receipt therefor.

(b) A Commonwealth bank or trust company may own stock in safe deposit companies.

Section 622. Access by Fiduciaries. Where a safe deposit box is made available by a lessor to one or more persons acting as fiduciaries, the lessor may, except as otherwise expressly provided in the lease or the writings pursuant to which such fiduciaries are acting, allow access thereto as follows:

(1) By any one or more of the persons acting as executors or administrators.

1 (2) By any one or more of the persons
2 otherwise acting as fiduciaries when authorized
3 in writing signed by all other persons so acting.

4 (3) By any agent authorized in writing
5 signed by all of the persons acting as fiduciaries.

6 Section 623. Effect of Lessee's Death or Incompetence. Where a
7 lessor without knowledge of the death or of an adjudication of legal
8 incompetence of the lessee, deals with his agent pursuant to a written
9 power of attorney signed by such lessee, the transaction binds the
10 ' lessee's estate and the lessee.

11 Section 624. Lease to Minor. A bank may lease a safe deposit
12 box to, and in connection therewith deal with, a minor with the same
13 effect as if leasing to and dealing with a person of full legal
14 capacity.

15 Section 625. Search Procedure on Death. A lessor shall permit
16 the person named in a court order for the purpose, or if no order has
17 been served upon the lessor, the spouse, a parent, an adult descendant
18 or a person named as an executor in a copy of a purported will produced
19 by him, to open and examine the contents of a safe deposit box leased
20 by a decedent or any documents delivered by a decedent for safekeeping,
21 in the presence of an officer of the lessor; and the lessor, if so
22 requested by such person, shall deliver:

23 (1) Any writing purporting to be a will of
24 the decedent to the court having jurisdiction of
25 the decedent's estate according to his residence
26 declared in such writing; and

1 (2) Any writing purporting to be a deed to
2 a burial plot or to give burial instructions to
3 the person making the request for a search; and

4 (3) Any document purporting to be an
5 insurance policy on the life of the decedent to
6 the beneficiary named therein.

7 But no other contents shall be removed,
8 pursuant to this section until an executor or
9 administrator qualifies and makes claim to
10 the contents.

11 Section 626. Adverse Claims to Contents of Safe Deposit Box.

12 (a) An adverse claim to the contents of a safe
13 deposit box, or to property held in safekeeping, is not
14 sufficient to require the lessor to deny access to its
15 lessee unless:

16 (1) The lessor is directed to do so by
17 a court order issue in an action in which the
18 lessee is served with process and named as a
19 party by a name which identifies him with the
20 name in which the safe deposit box is leased
21 or the property held, or

22 (2) The safe deposit box is leased or
23 the property is held in the name of a lessee
24 with the addition of words indicating that the
25 contents or property is held in a fiduciary

1 capacity, and the adverse claim is supported
2 by a written statement of facts disclosing that
3 it is made by or on behalf of a beneficiary
4 and that there is a reason to know that the
5 fiduciary will misappropriate the trust
6 property.

7 (b) A claim is also an adverse claim where one of
8 several lessees claims, contrary to the terms of the
9 lease, an exclusive right of access, or where one or
10 more persons claim a right of access as agents or
11 officers of a lessee to the exclusion of others as
12 agents or officers, or where it is claimed that a
13 lessee is the same person as one using another name.
14 Section 627. Special Remedies for Nonpayment of Rent.

15 (a) If the rental due on a safe deposit box has
16 not been paid for one (1) year, the lessor may send a
17 notice by registered mail to the last known address of
18 the lessee stating that the safe deposit box will be
19 opened and its contents stored at the expense of the
20 lessee unless payment of the rental is made within
21 thirty (30) days. If the rental is not paid within
22 thirty (30) days from the mailing of the notice, the
23 box may be opened in the presence of an officer of the
24 lessor and of a notary public who is not a director,
25 officer, employee, or stockholder of the lessor. The

1 contents shall be sealed in a package by the notary
2 public who shall write on the outside the name of the
3 lessee and the date of the opening. The notary public
4 shall execute a certificate reciting the name of the
5 lessee, the date of the opening of the box, and a list
6 of its contents. The certificate shall be included in
7 the package and a copy of the certificate shall be
8 sent by registered mail to the last known address of
9 the lessee. The package shall then be placed in the
10 general vaults of the lessor at a rental not
11 exceeding the rental previously charged for the box.

12 (b) If the contents of the safe deposit box have
13 not been claimed within two (2) years of the mailing of
14 the certificate, the lessor may send a further notice
15 to the last known address of the lessee stating that,
16 unless the accumulated charges are paid within thirty
17 (30) days, the contents of the box will be sold at
18 public auction at a specified time and place, or, in the
19 case of securities listed on a stock exchange, will be
20 sold upon the exchange on or after a specified date and
21 that unsalable items will be destroyed. The time, place
22 and manner of sale shall also be posted conspicuously on
23 the premises of the lessor and advertised once in a
24 newspaper of general circulation in the Commonwealth.
25 If the articles are not claimed, they may then be sold
26 in accordance with the notice.

1 The balance of the proceeds, after deducting accumulated
2 charges, including the expense of advertising and
3 conducting the sale, shall be deposited to the credit of
4 the lessee in any account maintained by him, or if none,
5 shall be deemed a deposit account with the bank or trust
6 company operating the safe deposit facility, or in the
7 case of a subsidiary safe deposit company, a bank or
8 trust company owning stock therein, and shall be
9 identified on the books of the bank as arising from the
10 sale of contents of a safe deposit box. When any such
11 deposit is surrendered as unclaimed deposits, the lessor
12 shall also send to the Director a copy of the certificate
13 and an itemized statement of the amount received and the
14 deductions. Any items remaining unsold may be destroyed.

15 (c) Any documents or writings of a private nature,
16 having little or no apparent value need not be offered
17 for sale, but shall be retained, unless claimed by the
18 owner, for the period specified for unclaimed deposits,
19 after which they may be destroyed.

20 Part C. Trust Business

21 Section 630. Qualification and Fiduciary powers: Deposit of
22 Securities.

23 (a) It shall be a criminal offense against this Act
24 for a bank to act as fiduciary unless it is authorized by
25 its charter to exercise trust powers and has qualified by

1 depositing with the Director evidences of indebtedness
2 acceptable to him which:

3 (1) Are payable to bearer or recorded
4 in the Director's name;

5 (2) Constitute readily marketable legal
6 investments for funds held by a bank as a
7 fiduciary; and

8 (3) Have a value equal to ten percent
9 (10%) of the minimum capital and surplus
10 requirements set forth in Section 203 of this
11 Act.

12 (b) A bank shall have the right to receive the
13 income on evidences of the indebtedness deposited with
14 the Director as long as the bank continues to conduct
15 its business in the ordinary course.

16 (c) A bank which fails to maintain its deposit in
17 conformity with this section shall, upon order of the
18 Director, resign its fiduciary positions.

19 (d) Upon liquidation, abandonment of trust, or
20 resignation from all fiduciary positions, the deposit
21 shall be made available for the ratable satisfaction of
22 claims involving fiduciary accounts. Any surplus
23 remaining after the satisfaction of all such claims
24 shall be returned to the bank.

1 Section 631. Fiduciary Bond or Oath Excused. No oath or bond
2 shall be required of a bank to qualify upon appointment as a
3 fiduciary, unless the instrument creating a fiduciary position
4 expressly otherwise provides.

5 Section 632. Identification and Segregation of Fiduciary Assets;
6 Investment and Deposit of Cash; Nominee for Securities.

7 (a) A bank holding any asset as a fiduciary shall:

8 (1) Segregate all such assets from any
9 other assets of the bank and from the assets
10 of other trusts, except as may be expressly
11 provided otherwise by law or by the writing
12 creating the trust.

13 (2) Record such assets in a separate set
14 of books maintained for fiduciary activities.

15 (b) Cash held by a bank as fiduciary may be
16 deposited to credit of the bank as such fiduciary, and
17 the funds may be invested as provided for in Section
18 633. The Director may pursuant to regulation provide
19 what investments cash held by the bank as a fiduciary
20 may be invested in.

21 (c) A bank, when acting in the Commonwealth as a
22 fiduciary or a co-fiduciary with others, or as an agent
23 for other fiduciaries, may with the consent of its
24 co-fiduciary or co-fiduciaries, if any (who are hereby
25 authorized to give such consent), or the fiduciaries,

1 for whom it is acting, cause any investment held in
2 any such capacity, to be registered and held in the
3 name of a nominee or nominees of such bank. Such bank
4 shall be liable for the acts of any such nominee with
5 respect to any investment so registered. The records
6 of such bank shall at all times show the trust for
7 which any such investment is held and the securities
8 shall be in the possession and control of such bank
9 and be kept separate and apart from the assets of
10 such bank.

11 Section 633. Investment of Funds Held as Fiduciary. A bank
12 acting as fiduciary shall have the same investment powers as an
13 individual fiduciary under like circumstances.

14 Section 634. Common Trust Funds. A bank or trust company may
15 create one or more common trust funds in which individuals may
16 participate and invest.

17 Part D. Loans, Investments, and Miscellaneous

18 Section 640. Loans.

19 (a) A bank may lend at a lawful rate of interest
20 on the security of the personal obligation of the
21 borrower.

22 (b) A retail bank may lend on the security of
23 tangible and intangible personal property subject to
24 regulations issued by the Director.

1 (c) A retail bank may lend at a lawful rate
2 of interest on the security of a first mortgage on
3 improved or unimproved real estate, when:

4 (1) The loan is fully guaranteed or
5 insured by the United States or an agency
6 thereof whether the insurance is payable in
7 cash or in obligations of the United States; or

8 (2) The real estate is located within
9 the Commonwealth or any State or Territory of
10 the United States. The Director may issue
11 regulations set requirements for real estate
12 as collateral for loans.

13 (d) A bank may make the following loans which
14 shall not be deemed loans on the security of real
15 estate or leasehold interests therein within the
16 meaning of this Act.

17 (1) A loan to provide working capital
18 to an industrial or commercial enterprise.

19 (2) A loan under Title 1 of the National
20 Housing Act.

21 (3) A loan on a leasehold mortgage, payment
22 of which is guaranteed under the National Housing
23 Act or any Act of Congress.

24 Section 641. Investments.

25 (a) In addition to other investments expressly

1 authorized by this Act a retail bank may purchase (or
2 discount):

3 (1) Obligations which satisfy the
4 requirements of this Act for loans and are
5 acquired in full.

6 (2) Obligations of the United States, or
7 states of the United States.

8 (3) Obligations of the International Bank
9 for Reconstruction and Redevelopment.

10 (4) Obligations of a subdivision or
11 instrumentality of a state or territory of the
12 United States, an authority organized under
13 state or territorial law, an interstate compact
14 or by substantially identical legislation
15 adopted by two (2) or more states.

16 (5) Obligations of a corporation chartered
17 by the Commonwealth, United States or a state or
18 territory thereof.

19 (6) Obligations of a corporation chartered
20 by the Marshall Islands, Federated States of
21 Micronesia or Palau; Provided, the Director finds
22 that obligations of Commonwealth corporations
23 are accorded similar borrowing rights.

24 (b) Retail bank may invest an amount not exceeding
25 ten percent (10%) of its capital in the stock of a
26 corporation exclusively engaged in a trust brokerage and

1 insurance company business and maintaining its offices
2 on the premises used by the bank or another bank also
3 owning part of its capital stock, and an amount not
4 exceeding thirty-three and one third (33 1/3) of its
5 capital in the stock and obligations of a corporation
6 owning the premises occupied by the bank for the
7 transaction of its business.

8 (c) A bank may purchase or sell without recourse
9 any security upon the order of a customer and for his
10 account.

11 (d) A bank or trust company may purchase and sell
12 participations in:

13 (1) One or more evidences of indebtedness
14 and agreements for the payment of money; and

15 (2) Pools of evidence of indebtedness and
16 agreements for the payment of money subject to
17 regulations by the Director.

18 (e) A bank, subject to regulation as provided by
19 the Director, may acquire and lease personal property
20 pursuant to a binding arrangement for the leasing of
21 such property to a customer upon terms requiring payment
22 to the bank, during the minimum period of the lease, or
23 rental which in the aggregate will exceed the total
24 expenditures by the bank for or in connection with the
25 ownership, acquisition, maintenance and protection of
26 the property.

1 (f) Obligations of the Commonwealth Government
2 or its instrumentalities.

3 Section 642. Acceptances.

4 (a) Retail banks may accept:

5 (1) A draft which has not more than six
6 (6) months sight to run, exclusive of days of
7 grace, and is drawn to finance the purchase of
8 goods with maturity in accordance with the
9 original terms of purchase, or is secured by
10 shipping documents transferring or securing
11 title to goods or by receipt of a licensed or
12 bonded warehouse or elevator transferring or
13 securing title to readily marketable,
14 nonperishable staples.

15 (2) A draft which has not more than
16 three (3) months sight to run, exclusive of
17 days of grace, and is drawn by a bank outside
18 the continental limits of the United States
19 for the purpose of furnishing dollar exchange
20 for trade.

21 (b) A retail bank may issue a letter of credit, but
22 unless the authority conferred to draw upon the bank or
23 its correspondents is limited to such drafts as a bank is
24 authorized by this section to accept, the amount of the
25 credit outstanding at any one time shall be deemed to be a
26 loan to the person for whose account the credit was issued.

1 Section 643. Diversification of Loans and Investments.

2 (a) The Director may issue regulations on the
3 diversification of loans and investments.

4 Section 644. Acquisition of Property to Satisfy or Protect

5 Previous Loan. A bank may take property of any kind to satisfy or
6 protect a loan previously made in good faith and in the ordinary
7 course of business. Property acquired in satisfaction of a loan shall
8 be held subject to the following limitations:

9 (1) Real estate. A bank may hold title
10 to real estate subject to all the restrictions
11 of the Commonwealth Constitution regarding the
12 ownership of real property by persons not of
13 Northern Marianas descent.

14 (2) The property shall be entered on
15 the books at cost or fair market value,
16 whichever is less, and property which the
17 bank is not otherwise authorized to acquire
18 shall be charged off at a rate of not less
19 than five percent (5%) per annum for real
20 estate and twenty percent (20%) per annum
21 for other property or at such lower rate not
22 less than five percent (5%) and ten percent
23 (10%) respectively, as the Director may allow.

24 Section 645. Acquisition of Banking Premises and Equipment.

25 (a) A bank may acquire real estate and equipment
26 and improve real estate to be used in the transaction

1 of its business in the Commonwealth and may rent any
2 space so acquired in a building in excess of its
3 present actual need.

4 (b) The rate of depreciation of property so
5 acquired shall be in accord with generally accepted
6 accounting principles.

7 Section 646. Sale of Assets in Ordinary Course. A bank may sell
8 any asset in the ordinary course of business, or, with the approval of
9 the Director, in any other circumstance, but the sale of all or
10 substantially all of the assets of a bank or of a department thereof
11 shall be governed by regulation of the Director.

12 Section 647. Borrowing. A bank may borrow money and issue
13 evidence of indebtedness, subject to such regulations as the
14 Director may issue.

15 Section 648. Pledge of Assets. A bank may pledge its assets to:

16 (1) Enable it to act as agent for the sale
17 of obligations of the United States.

18 (2) Secure borrowed funds.

19 (3) Secure deposits.

20 Section 649. Indorsement and Signature Guaranty.

21 (a) A bank may assume secondary liability as an
22 endorser of a negotiable or nonnegotiable instrument
23 which it owns or has received for collection or that of
24 the guarantor of the genuineness of a signature.

1 (b) A guaranty of the signature means only that
2 (1) the signature is not forged; (2) the signer is the
3 holder or has the authority to sign in the name of the
4 holder; and (3) the signer has legal capacity to sign.
5 A guaranty of the signature does not otherwise guarantee
6 his rightfulness of the particular transfer. A bank may
7 disclaim all or any part of the foregoing obligation in
8 its guaranty.

9 CHAPTER VII

10 Confidentiality

11 Section 700. Confidentiality of Information. All information
12 not required to be published elsewhere by any other authority to whose
13 jurisdiction a licensee shall be subject, and all information other
14 than that required by the provisions of this Act to be made public by
15 the Director or whose disclosure is made pursuant to court order, shall
16 not be disclosed by any person employed or retained by the Department,
17 or any licensee into whose possession it shall come except as follows:

18 (a) All reports and information that have come into
19 the possession of the Director or the Department whether
20 required by this Act or not, shall be preserved for three
21 (3) years and thereafter until the Director orders them
22 destroyed.

23 (b) The Director and every employee of the
24 Department shall maintain the secrecy of all information
25 they receive as to matters relating to this Act or any

1 licensee or applicant for a license which comes into
2 their knowledge and they shall not communicate such
3 matters to any person outside the Department except
4 for the purpose of carrying into effect this Act and
5 only as provided by this Act.

6 (c) No employee, agent, representative of or
7 person retained by the Department shall be required
8 to produce in any court any matter or relating to the
9 licensees or applicants for a license pursuant to
10 this Act coming under his notice in the performance
11 of this duties in relation to the Department except
12 when it is necessary to so do for the purpose of
13 carrying into effect any provision of this Act.

14 (d) The Attorney General or his delegate may
15 inspect all relevant records of any taxpayer who
16 brings an action to set aside or review an action
17 of the Director or against whom an action or criminal
18 proceeding has been instituted pursuant to this Act.

19 (e) Any person who knowingly violates any
20 provision of this Section 700 shall be guilty of a
21 misdemeanor and shall be punished by a fine of not
22 more than fifty thousand dollars (\$50,000) or
23 imprisonment for a period of not exceeding one (1)
24 year, or both such fine and imprisonment.

1 Section 701. Disclosure by the Director. The Director shall
2 make the following disclosure of information supplied to it by an
3 applicant or a licensee:

4 (a) The annual audited financial statements of
5 each bank by publishing same in a newspaper of general
6 circulation in the Commonwealth on or before sixty (60)
7 days following the close of the end of the licensee's
8 business year;

9 (b) Such statistical information as will assist
10 the Government of the Commonwealth in planning and other
11 functions of government.

12 Section 702. Right to Privacy. The right to privacy and the
13 right to financial privacy protected by the Covenant incorporating
14 the terms of Constitution of the United States and the Article I,
15 Section 10, of the Constitution of the Commonwealth of the Northern
16 Mariana Islands of every customer of every bank shall be respected
17 by each director, officer, agent, employee or any person employed or
18 retained in any capacity by the bank within or without the
19 Commonwealth and they nor any one of them shall disclose any
20 financial record of any customer that may come into their possession
21 to any governmental authority or any other person, except in full
22 compliance with the provisions of Section 703 of this Act. However
23 nothing shall preclude a bank from sharing credit information normally
24 shared between lenders nor sharing information with its chosen auditor
25 as is necessary to conduct a bank audit according to generally
26 accepted accounting principles.

1 Section 703. Financial Privacy Act Adopted. The United States
2 Right to Financial Privacy Act of 1978, Chapter 35 of Title 12 of
3 the United States Code, Public Law 95-630, is adopted as a statute
4 of the Commonwealth in its entirety except that for purposes of
5 application as a Commonwealth statute "government authority" as used
6 in U.S. Public Law 95-630 means any agency or department of the
7 Commonwealth or any officer, employee, or agent thereof.

8 CHAPTER VIII

9 Off- Shore Banks

10 Section 800. License required.

11 (a) Before any person may operate an Off-Shore
12 Bank in the Commonwealth, a written license issued by
13 the Director shall be obtained, except as specifically
14 exempted by Subsection (b) of this section. Knowing
15 and willful violation of this section shall be
16 punishable by a civil fine not exceeding \$50,000.00 or
17 imprisonment for a period not exceeding one year or both.

18 (b) Every bank which has an Off-Shore Banking
19 License upon the effective date of this Act is exempt
20 from the requirement of this section, but upon the
21 expiration of its Off-Shore Banking License or for a
22 period of one year from the effective date of this
23 Act whichever is first the bank shall pay the fee
24 then imposed for renewal of an Off-Shore Banking
25 License, at which time it shall be issued an

1 Off-Shore Banking License; Provided, that it has
2 then complied with all other requirements of Section
3 801 of this Act. Off-Shore Banks shall be exempt
4 from any other bank licensing provisions of this Act.
5 Section 801. Requirements for issuance of license. The Director
6 shall promptly issue an Off-Shore Banking License when the applicant
7 has met the following requirements:

8 (a) It is duly incorporated under the laws of
9 the Commonwealth and has filed with the Director a
10 certified copy of its Articles and By-Laws.

11 (b) It has submitted an application for an
12 Off-Shore Banking License including proof of its
13 paid-in capital, stock ownership, and management in
14 such form as the Director may require.

15 (c) It has complied with all applicable
16 requirements of the Commonwealth relating to
17 domestic corporations.

18 (d) It has paid the license fee for an
19 Off-Shore Bank of \$5,000 for its first year of
20 operation and thereafter an additional \$5,000 for
21 each successive year of operation; Provided, that
22 the maximum license fee shall be \$25,000. The term
23 of an Off-Shore Bank license shall be for one
24 calendar year.

1 (e) It has provided the names, addresses, and
2 such other information regarding holders of five
3 percent or more of an Off-Shore Bank's stock as the
4 Director may reasonably require. In complying with
5 this requirement, a review of the financial and
6 criminal background of substantial stockholders for
7 a period of seven years prior to the application by
8 a reputable agency engaged in the business of
9 investigation shall be sufficient.

10 (f) It has at all times not less than the
11 following capital structure:

12 (1) Capital consisting of common stock
13 as follows:

14 Paid-in-in-cash of not less than 500,000
15 dollars.

16 (2) Paid-in surplus amounting to not less
17 than 200,000 dollars.

18 (g) Its manager or agent residing in the
19 Commonwealth has taken an oath that he will diligently
20 and honestly administer the affairs of the corporation
21 and will not knowingly or willfully violate or permit
22 to be violated any of the provisions of law applicable
23 to the corporation. The oath shall be subscribed by
24 the manager or agent taking it and shall be transmitted
25 to the Director and filed in his office.

1 Section 802. Duty to report transfer. Upon any transfer of
2 stock in an Off-Shore Bank which results in the ownership of more
3 than 10% of the stock by a person for whom a report pursuant to
4 Section 801(e) has not been done within the calendar year preceding
5 such transfer, the Off-Shore Bank shall provide a report pursuant to
6 the requirements of Section 801(e) within 30 days of the transfer.
7 Failure to comply with this section shall be grounds for suspension
8 of an Off-Shore Banking License.

9 Section 803. Reporting requirements; preservation of confidences.

10 (a) Each Off-Shore Bank shall submit to the
11 Director a report of its condition as of January 1 and
12 June 1 of each year. The reports shall contain the names
13 and addresses of the bank's beneficial shareholders and
14 such other information as the Director may reasonably
15 require to ascertain whether or not the Off-Shore Bank is
16 being operated in accordance with this Act. The reports
17 shall be personally signed by the resident agent of the
18 Off-Shore Bank.

19 (b) No information provided in compliance with this
20 Act or obtained by the Director in the performance of his
21 duties shall be furnished by the Director to any third
22 party, except upon request of federal or local law
23 enforcement or tax collection agencies, court order,
24 subpoena, other judicial process, or the express written
25 consent of the persons involved. The names of the

1 beneficial shareholders of an Off-Shore Bank shall be
2 public information.

3 (c) The records of an Off-Shore Bank and its
4 individual customers shall be confidential. An Off-Shore
5 Bank shall not furnish to third parties records of any
6 transaction between it and any of its borrowers, lenders
7 or other customers except upon court order, subpoena,
8 other judicial process, or the express written consent
9 of all parties involved in the transaction. No process
10 shall require disclosure sooner than 15 days from the
11 date of service of such process upon the Off-Shore Bank.

12 (d) This Section shall not preclude the exchange
13 of information between lenders and off-shore banks in
14 the normal course of the credit business.

15 (e) Every person who knowingly and willfully
16 violates the provisions of this section shall be guilty
17 of a misdemeanor punishable by a fine not exceeding
18 \$2,000 or imprisonment for a period not exceeding one
19 year or both.

20 Section 804. Prohibited act. An Off-Shore Bank shall not make
21 loans, accept deposits, or borrow funds in any form from a resident of
22 the Commonwealth.

23 Section 805. Accounts to be kept. An Off-Shore Bank shall
24 record in the Commonwealth, for accounting purposes, all its loans,
25 borrowings and business transactions, in the English language.

1 (4) Has an interest adverse to the bank
2 unless such interest is promptly and fully
3 disclosed in writing to its board of directors
4 or trustees.

5 Section 1003. Unlawful Gratuity or Compensation; Transactions
6 of Persons Connected with Commonwealth Bank.

7 (a) It shall be unlawful for an affiliate of a
8 bank or for an officer, director or employee of a bank
9 or affiliate of a bank:

10 (1) To solicit, accept or agree to
11 accept, directly or indirectly, from any
12 person other than the institution any
13 gratuity, compensation or other personal
14 benefit for any action taken by the
15 institution or for endeavoring to procure
16 any such action.

17 (2) To have any interest, directly or
18 indirectly, in the proceeds of a loan or of a
19 purchase or sale made by the bank, unless such
20 loan, purchase or sale is expressly authorized
21 by this Title or by rule of the Board and is
22 approved in advance by vote of two-thirds (2/3)
23 of all the director of the bank, any interested
24 director or trustee taking no part in such vote.

1 (3) To have any interest, direct or
2 indirect, in the purchase at less than its
3 face value of any evidence of indebtedness
4 issued by the institution.

5 (4) To discount or make any loan, directly
6 or indirectly, upon any note or other evidence
7 of indebtedness known to have been offered to
8 the institution for discount or as security for
9 a loan and to have been refused by it.

10 (b) In this section the term "affiliate" shall
11 include:

12 (1) Any person who holds a majority of the
13 stock of a bank or has been determined by the
14 Board to hold a controlling interest therein,
15 any other corporation in which such person owns
16 a majority of the stock and any partnership in
17 which he has an interest.

18 (2) Any corporation in which the
19 institution or an officer, director or employee
20 thereof holds a majority of the stock and any
21 partnership in which such person has an interest.

22 (3) Any corporation of which a majority of
23 the directors are officers, directors or employees
24 of the institution or of which officers, directors,
25 trustees or employees constitute a majority of the
26 directors of the institution.

1 reimburse directly or indirectly any person by whom such fine,
2 penalty, or judgment has been paid, except in settlement of its own
3 liability or in connection with the acquisition of property against
4 which such judgment is a lien, or as provided in this Act.

5 Section 1007. Unlawful Use of Words "Safe Deposit". It is a
6 criminal offense against this Act for any person to use the words
7 "safe deposit", "safety deposit", or other words deceptively similar
8 thereto, in connection with the rental of storage space, or in the
9 title or name under which business was done, except (1) a person
10 subject to the jurisdiction of the Department; or (2) a manufacturer
11 or dealer in safe deposit facilities or equipment; or (3) an
12 association, the membership of which is composed of officers or
13 institutions subject to the jurisdiction of the Department of
14 Commerce and Labor or of the banking department of other territories
15 or states.

16 Section 1008. Unlawful Operation of Bank. It shall be unlawful
17 for any person to operate a bank without a valid license.

18 Section 1009. Unlawful Solicitation or Negotiation for Off-shore
19 Bank Loans. It shall be unlawful for any person who is an officer,
20 employee or agent in the Commonwealth of any off-shore bank to
21 actively solicit or negotiate with any person for a loan with that
22 off-shore bank.

23 Section 1010. Unauthorized Disclosure of Information.

24 (a) Except for the purpose of the performance of
25 his duties, compliance with any public law, or when

1 lawfully required to do so by any court of competent
2 jurisdiction, no government employee or other person
3 shall disclose any information relating to the affairs
4 of a bank or of any customer of a bank which he has a
5 acquired in the performance of his duties or the exercise
6 of his functions unless the bank or customer consents in
7 writing to the disclosure.

8 (b) Every person who knowingly and wilfully violates
9 the provisions of this section shall be guilty of a
10 misdemeanor punishable by imprisonment not exceeding one
11 year or by a fine not exceeding five thousand dollars
12 (\$5,000) or both.

13 Section 1011. Prohibited Off-shore Acts. An off-shore bank
14 shall not make loans, accept deposits or borrow funds in any form
15 from a resident of the Commonwealth or a corporation chartered by
16 the Commonwealth.

17 Section 1012. Criminal Sanctions, Violations of Rules and Orders.

18 (a) Any corporate entity responsible for an act or
19 omission of a duty imposed by this Act shall be guilty:

20 (1) Of a misdemeanor punishable by a
21 fine not exceeding fifty thousand dollars
22 (\$50,000.00).

23 (2) If the act or omission was intended
24 to defraud, of a felony punishable by fine not
25 exceeding one hundred thousand dollars
26 (\$100,000.00).

1 (b) knowing and willfull violation of this Act
2 by an individual shall be a misdemeanor if the amount
3 involved is less than one thousand dollars (\$1,000.00).
4 Knowing and willfull violations where the sum involved
5 exceeds one thousand dollars (\$1,000.00) shall be a
6 felony. An individual convicted of a misdemeanor under
7 this Act shall be imprisoned for not more than six (6)
8 months or fined not more than one thousand dollars
9 (\$1,000) or both. An individual convicted of a felony
10 under this Act shall be imprisoned for not more than
11 two years or fined not more than twenty-five thousand
12 dollars (\$25,000) or both. Any prohibited act or
13 offense against this Act not otherwise specified is a
14 misdemeanor.

15 (c) An officer, director, employee, agent or
16 attorney of a bank shall be responsible for an act or
17 omission of the institution declared to be a criminal
18 offense against this Act whenever, knowing that such act
19 or omission is unlawful, he participates in authorizing,
20 executing, ratifying or concealing such act, or in
21 authorizing or ratifying such omission or, having a duty
22 to take the required action, omits to do so.

23 A director shall be deemed to participate in any
24 action of which he has knowledge taken or omitted to be
25 taken by the board of which he is a member unless he
26 dissents therefrom in writing and promptly notifies the
27 Director of his dissent.

1 interest of preventing injurious credit expansions and contractions.
2 The Director may also impose additional filing fees, penalties and
3 interest for such actions as the late renewal of a license.

4 Section 1101. Effect on Existing Banks. All Commonwealth banks
5 and, to the extent applicable, all banks carrying on banking business
6 from within the Commonwealth shall hereafter be operated in accordance
7 with the provisions of this Act, subject to the provisions of Sections
8 216 and 243 and to the extent that the provisions of this Act are not
9 inconsistent with and do not infringe upon paramount federal laws
10 governing banks.

11 Section 1102. Annual Report. The Director shall report to the
12 Governor and the Legislature within sixty (60) days after the end of
13 each fiscal year. The report shall include a summary of all major
14 changes in the banking business since his last previous report and a
15 statement of the most recent reported condition of each bank. The
16 Director may also make recommendations for banking legislation.

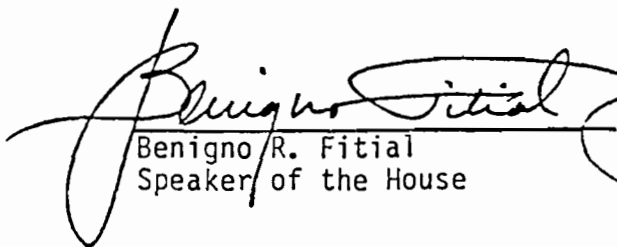
17 Section 1103. Appeals from Determinations of the Director. Any
18 person aggrieved by a determination or failure to act of the Director
19 may appeal the matter to the Commonwealth Trial Court. The Court shall
20 uphold the action of the Director if it is supported by evidence found
21 in the record taken as a whole. The Court may hold a trial de novo on
22 disputed issues of fact.

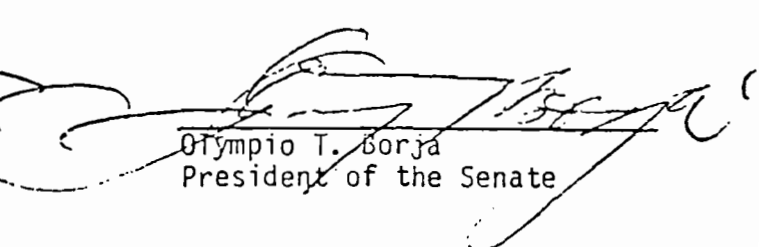
23 Section 1104. Severability. If any provision of this Act or any
24 rule or regulation promulgated hereunder, or the application of any
25 such provision, rule or regulation to any person or circumstance shall

1 be provision, rule or regulation to any person or circumstance shall
2 be held invalid by a court, the remainder of this Act or any rules or
3 regulations promulgated pursuant thereto or the application of such
4 provisions, regulations or rules to persons or circumstances other
5 than those to which it is held invalid, shall not be affected thereby.


6 Section 1105. Repealer. Sections 104(p) and 503(d)(1) and (2)
7 of Public Law 3-11 and Sections 101 through 106 of Title 29 of the
8 Trust Territory Code are hereby repealed in its entirety. Banks and
9 off-shore banks shall be exempt from the provisions of Section 503 of
10 Public Law 3-11. All banking regulations previously promulgated by
11 the Commonwealth or any agent, or instrumentality thereof shall be
12 null and void as of the effective date of this Act.

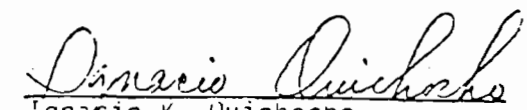
13 Section 1106. Effective Date. This Act shall take effect upon its
14 approval by the Governor, or upon its becoming law without such approval.


Benigno R. Fitiaf
Speaker of the House

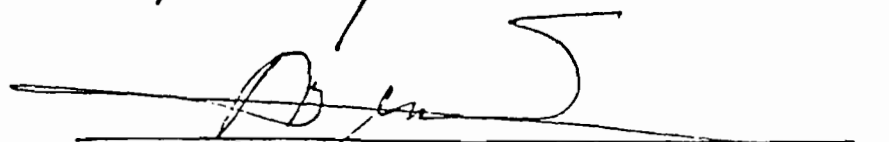

Olympio T. Borja
President of the Senate

ATTEST:


Herbert S. Del Rosario
Chief Clerk


Ignacio K. Quichocho
Senate Legislative Secretary

February 6, 1984


Pedro P. Tenorio
Governor
Commonwealth of the Northern Mariana Islands