



BULLETIN

No. B-87-2
(Revision of B-87-1)

June 15, 1987

The Tennessee Department of Financial Institutions has reviewed the following open-end management investment companies' prospectuses. In the opinion of the Commissioner, the "mutual funds" listed in Appendix A appear to meet the statutory criteria for permissible investment by state-chartered banks as set out by T.C.A. §45-2-607(a)(12) and (13) [As amended by Public Chapter 86, Acts of 1987]. The Tennessee General Assembly recently amended the law to permit state banks to invest in mutual funds to the same extent as national banks domiciled in Tennessee, subject to regulation by the Commissioner. The limit of a state bank's investment in mutual funds, the portfolios of which are composed of investments permitted in item (12) (adjustable rate preferred stock) shall be limited in any one (1) company to not more than ten percent (10%) of the bank's capital, surplus, and undivided profits and in all such companies to not more than 50% of capital, surplus and undivided profits.

The Comptroller of the Currency has issued Banking Circular dated November 21, 1986, titled "National Bank Investment in Investment Companies Composed Wholly of Bank Eligible Investments." Until such time as regulations may be promulgated by the Commissioner, the OCC regs may be relied upon as guidelines for investment parameters.

The Department reminds the Boards of Directors of all state banks that it remains the responsibility of a bank's directorate to ensure that any particular investment is a proper holding for the bank's investment portfolio. Each holding of shares of an investment company must be reviewed at least quarterly in order to determine whether that particular investment company continues to be appropriate for the bank's investment portfolio. The Department endorses no particular investment vehicle.

A state bank's investment in the adjustable rate preferred stock of any one (1) company shall not exceed ten percent (10%) of the bank's capital and surplus (which includes undivided profits), and the total investment in all preferred stocks shall not exceed fifty percent (50%) of the bank's capital, surplus and undivided profits.

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Also included in this BULLETIN is a list of those mutual funds which have been reviewed by the Department and which, in the opinion of its legal counsel, do not meet the statutory criteria for investment by state banks (Appendix B)

The attached lists will be reviewed periodically and you will receive updates as funds are added to either list.

All state financial institutions will be required to follow the FDIC formula when filing Call Reports concerning mutual funds and preferred stock investments. That formula requires that the bank mark these investments to the lower of cost or of market each quarter and to show any loss as an adjustment to the undivided profits account. Additionally, recoupment of prior losses may be reflected as an adjustment to the undivided profits account. Appropriate entries must be made to the bank's books to correspond with these Call Report statements.

CONTACTS FOR FUTURE INFORMATION:

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PUBLIC CHAPTER NO. 86
HOUSE BILL NO. 567

By Webb, Ridgeway, Byrd, Herron

Substituted for: Senate Bill No. 306

By Cooper, Moore

AN ACT relative to investments of state banks and to amend Tennessee Code Annotated, 45-2-607.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 45-2-607 (a) (12) is amended by deleting the words "capital and surplus" wherever they appear and by substituting the words "capital, surplus and undivided profits".

SECTION 2. Tennessee Code Annotated, Section 45-2-607 (a) (13) is amended by deleting subsection (B) and by substituting instead the following:

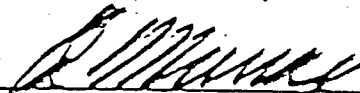
(B)

(i) The bank's investment in the shares or certificates of such open-end investment companies shall be permitted to the same extent such investments are permitted to national banks domiciled in Tennessee, subject to limiting regulations promulgated by the commissioner pursuant to the Uniform Administrative Procedures Act, Tennessee Code Annotated, Title 4, Chapter 5, for the purpose of safety and soundness,

(ii) The bank's investments in the share or certificates in open-end investment companies, the portfolios of which are composed of investments permitted in item (12) shall be limited in any one (1) company to not more than ten percent (10%) of the bank's capital, surplus and undivided profits and in all such companies to not more than fifty percent (50%) of the bank's capital, surplus and undivided profits; and"

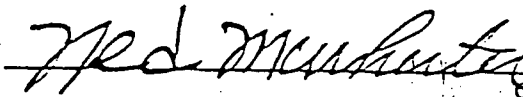
SECTION 3. This Act shall take effect on April 1, 1987, the public welfare requiring it.

PASSED: March 23, 1987


SPEAKER OF THE HOUSE OF REPRESENTATIVES


SPEAKER OF THE SENATE

APPROVED this 6th day of April 19 87


GOVERNOR

Appendix A

Open-End Investment Companies which Appear to Meet the Requirements of T.C.A. §45-2-607(a)(12) and (13)

1. Prudential-Bache Government Plus Fund
2. Merrill Lynch Institutional Intermediate Fund
3. U. S. Government High Yield Trust, a Series of Criterion
4. Kemper U. S. Government Securities Fund
5. Putnam High Income Government Trust
6. Putnam U. S. Government Guaranteed Securities Income Trust
7. Colonial Government Securities Plus Trust
8. First Trust U. S. Government Fund
9. Putnam GNMA Plus Trust
10. Franklin U. S. Government Securities Fund
11. Van Kampen Merritt U. S. Government Fund, Inc.
12. Alliance Bond Fund/U. S. Government Portfolio
13. Colonial Enhanced Mortgage Trust
14. Treasury First, Inc.
15. Federated Intermediate Government Trust
16. Federated Short Intermediate Government Trust
17. Federated GNMA Trust
18. MFG Government Securities High Yield Trust
19. MFG Government Guaranteed Securities Trust
20. Premier GNMA Fund
21. Dean Witter Government Securities Plus
22. Dean Witter U. S. Government Securities Trust
23. Lord Abnett U. S. Government Securities Fund
24. Criterion Limited Term Institutional Trust
25. Criterion U. S. Government Institutional Trust
26. Sears Government Investment Trust
27. Prudential-Bache Government Plus Fund II
28. Kemper Government Securities Trust GNMA Portfolio

Appendix B

Open-End Investment Companies Which Do Not Appear to Meet the Requirements of T.C.A. §45-2-607(a)(12)(13).

1. Pilgrim Adjustable Rate Fund
2. Geico Adjustable Rate Preferred Fund
3. Hutton Investment Series (8 Series, Rev. 11/85)
4. Flagship Corporate Cash Management
5. Franklin Corporate Cash Management Fund
6. Dreyfus Corporate Cash Trust
7. Vanguard Qualified Dividend Portfolio III
8. Putnam Corporate Cash Trust
9. Pilgrim Preferred Fund
10. Colonial Corporate Cash Trust I
11. Colonial Corporate Cash Trust II
12. Fidelity Corporate Trust/Auction Preferred Portfolio
13. Fidelity Corporate Trust/Adjustable-Rate Portfolio
14. Fidelity Qualified Dividend Fund