

**RULES  
OF THE  
TENNESSEE DEPARTMENT OF FINANCIAL INSTITUTIONS**

**CHAPTER 0180-16  
RULES PERTAINING TO INSURANCE**

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**0180-16-.01. SPECIAL RESERVE IN LIEU OF FIDELITY BOND.**

A state-chartered bank (“Bank”) which meets the requirements of this chapter may establish a special reserve fund in lieu of providing a good and sufficient fidelity bond on all active officers and employees, as required by T.C.A. § 45-2-403(a), as amended.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original Rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.02. CAPITAL TO ASSETS RATIO.** A Bank may not establish a special reserve fund for the purpose of providing the requisite statutory fidelity bond unless the bank’s adjusted total capital to adjusted total assets ratio meets or exceeds its peer group average, after transferring the reserve from the capital account, as shown by the most recent Uniform Bank Performance Report (UBPR) published from time to time by the Federal Financial Institutions Examination Council (FFIEC).

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original Rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.03. AMOUNT OF SPECIAL RESERVE.** The amount of the special reserve shall meet or exceed the suggested range of amounts for banks’ blanket bond coverage as scheduled from time to time by the American Bankers Association, Security and Risk Management Division. For convenience, this schedule is incorporated in this rule. The amounts shown are subject to the approval by the commissioner since the extent and methods of banking operations, even in banks of similar size, may warrant carrying higher amounts.

Minimum Amounts of Bankers Blanket Bond Required  
To Obtain Excess Fidelity Coverage  
By Deposit Size

Deposit Size* (Thousands of Dollars)	(Thousands of Dollars)	Minimum Underlying Amount of Bankers Blanket Bond (Thousands of dollars)
GROUP 1:	Less than 750	250
GROUP 2:	750 to 1,500	250
GROUP 3:	1,500 to 2,000	250
GROUP 4:	2,000 to 3,000	250
GROUP 5:	3,000 to 5,000	250
GROUP 6:	5,000 to 7,500	250
GROUP 7:	7,500 to 10,000	300

(Rules 0180-16-.03, continued)

GROUP 8:	10,000 to 15,000	375
GROUP 9:	15,000 to 20,000	450
GROUP 10:	20,000 to 25,000	525
GROUP 11:	25,000 to 35,000	675
GROUP 12:	35,000 to 50,000	825
GROUP 13:	50,000 to 75,000	1,050
GROUP 14:	75,000 to 100,000	1,275
GROUP 15:	100,000 to 150,000	1,800
GROUP 16:	150,000 to 250,000	2,500
GROUP 17:	250,000 to 500,000	3,750
GROUP 18:	500,000 to 1,000,000	6,000
GROUP 19:	1,000,000 to 2,000,000	9,000
GROUP 20:	2,000,000 and over	9,000

\*Average of total deposits reported in the latest June 30 and December 31 financial statements.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.04. FORM OF THE SPECIAL RESERVE.** The special reserve fund shall consist either of cash or of investment-quality securities not inconsistent with the provisions of T.C.A. § 45-2-607, or both. Such securities shall be rated in one of the four (4) highest investment grades by one or more recognized investment rating services approved by the commissioner for rating such investments. All such securities shall be marked to market value for the purpose of determining the amount of the special reserve. Income from such securities shall accrue directly to the Bank.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.05. TRUSTEE INSTITUTION.** The Bank shall select a federally-insured trustee institution satisfactory to the commissioner which shall hold the special reserve. The special reserve shall be held by the trustee financial institution in an escrow or safekeeping account which shall be solely used for the purpose of paying out legitimate claims to the Bank on account of any losses sustained by it as the result of any dishonesty, fraudulent or criminal act or omission committed or omitted by any active officers and employees acting independently or in collusion or combination with any person or persons.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.06. LEGISLATIVE INTENT.**

- (1) The special reserve shall not be subject to set-off or judicial process for the payment of any obligation of the Bank, it being the intent of the Tennessee General Assembly by passing Public Chapter 865, Acts of 1986 that the special reserve fund may be established in lieu of providing a good and sufficient fidelity bond on all active officers and employees as required by T.C.A. § 45-2-403.
- (2) In the event that the Bank shall be declared insolvent by the commissioner and closed pursuant to T.C.A. § 45-2-1502, the special reserve shall be included in the general assets of the Bank.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.07. SPECIAL RESERVE SUBJECT TO DISCRETION OF COMMISSIONER.** If, in the discretion of the commissioner, such a special reserve in lieu of fidelity bond is not the best interest of the bank, its depositors, or stockholders, permission to establish such fund may be withheld. If permission is denied, the commissioner shall within a reasonable time, state his objections in writing and give an opportunity to the bank to obviate such objections.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.08. REPORTING.**

- (1) On a form to be provided by the Department of Financial Institutions, the Bank shall submit during December an annual report to the commissioner on the status of the special reserve fund, including but not necessarily limited to:
  - (a) the market value of the reserve;
  - (b) the form of the reserve;
  - (c) any claims against the reserve paid during the prior twelve (12) month period; and
  - (d) the amount of any fees and costs of administering the fund.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.09. ANNUAL REVIEW BY BOARD; FUND TO BE REPLENISHED.**

- (1) The board of directors of the Bank shall at least annually review the amount of special reserve and the performance of the trustee financial institution giving due and careful consideration to all known elements and factors constituting such risk or hazard and shall prescribe at least annually the amount of such special reserve. The board's actions shall be recorded in the minutes of the board of directors and be subject to the approval of the commissioner.
- (2) When a legitimate claim is made against the special reserve, the board shall direct that the claim be paid from the fund. Within a reasonable time after the payment of any such claim, the board shall replenish the special reserve to the amount required by these rules and approved by the commissioner.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original rule filed August 13, 1986; effective November 29, 1986.

**0180-16-.10. SPECIAL RESERVE NOT CONSIDERED REGULATORY CAPITAL.** In no event shall the special reserve provided for by these rules be included in the calculation of regulatory capital.

*Authority:* T.C.A. §§ 45-1-107 and 45-2-403; Public Chapter 865, Acts of 1986. *Administrative History:* Original rule filed August 13, 1986; effective November 29, 1986.