



STATE OF VERMONT
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF BANKING
MONTPELIER 05602
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BANKING BULLETIN #2 (Revised)

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ILLEGAL LOAN PRACTICE

Because of several inquiries recently received by the Department, it has come to our attention that a number of lenders have inadvertently been using an illegal standard for the extension of certain types of credit. Title 9 V.S.A., Section 43, reads:

"Deposit requirement prohibited

A lender shall not, as a condition to granting or extending a loan, require a borrower to keep or place any sum on deposit with the lender or nominee of the lender."

This statute applies equally to all lenders doing business in Vermont, regardless of charter. It does not, however, apply to loans they make under 9 V.S.A., Section 46 - only those loans made under 9 V.S.A., Section 41.

The Department recognizes that lenders may adjust credit standards in periods of high loan demand and tight money. However, the law is direct and unambiguous. Requiring that a deposit be made before granting this type of credit is illegal.

If there is any possibility in your institution that loan officers might be unclear about this law, we encourage you to duplicate and circulate this revised bulletin.


James A. Guest
Commissioner of Banking and Insurance