

## Red Tape Review Rule Report

### (Due: September 1, 2025)

<b>Department Name:</b>	Iowa Division of Banking	<b>Date:</b>	August 29, 2025	<b>Total Rule Count:</b>	2
<b>IAC #:</b>	187	<b>Chapter/ SubChapter/ Rule(s):</b>	9	<b>Iowa Code Section Authorizing Rule:</b>	Chapter 524
<b>Contact Name:</b>	Zak Hingst	<b>Email:</b>	<a href="mailto:Zak.hingst@idob.state.ia.us">Zak.hingst@idob.state.ia.us</a>	<b>Phone:</b>	515-242-0332

**PLEASE NOTE, THE BOXES BELOW WILL EXPAND AS YOU TYPE**

#### What is the intended benefit of the rule?

The benefit of this rule is to establish prudential standards for banks interested in making loans secured by real estate or engaging in lease transactions so that banks engage in these activities in a safe and sound manner that does not jeopardize the financial condition of the bank or expose the bank to excessive risk of loss.

#### Is the benefit being achieved? Please provide evidence.

Yes, banks in Iowa have sufficient guidance regarding the requirements for making real estate loans and engaging in lease transactions in a safe and sound manner. The rule also gives the banks flexibility, subject to prudential limits, to make individual real estate loans or engage in individual lease transactions that do not fully conform to bank policy or these rules.

#### What are the costs incurred by the public to comply with the rule?

Banks incur costs to obtain evidence of title documents required to comply with this rule (attorney title opinions, Iowa Title Guaranty certificates, or title insurance policies).

#### What are the costs to the agency or any other agency to implement/enforce the rule?

The Division incurs staff time to review loans secured by real estate and leasing transactions for compliance with these rules.

#### Do the costs justify the benefits achieved? Please explain.

With respect to evidence of title requirements, the current benefits do not fully justify the costs because banks subject to different prudential regulations, either federal or in other states, are not required to obtain evidence of title in all cases. The Division proposes to reduce the number of transactions for which evidence of title is required in an effort to better align the costs and benefits of this rule.

Are there less restrictive alternatives to accomplish the benefit? ☒ YES ☐ NO

If YES, please list alternative(s) and provide analysis of less restrictive alternatives from other states, if applicable. If NO, please explain.

Regulations for national banks, and banks chartered under some other state laws, do not require banks to obtain evidence of title for loans secured by real estate. Banks operating under these regulations are still required to follow established principles of safe-and-sound banking, including ensuring the priority status of any real estate liens used as collateral to secure loans, but there are no regulations dictating that they obtain specific forms of evidence of title relating to real estate used as collateral. The Division proposes to reduce the number of transactions for which evidence of title is required in an effort to better align the costs and benefits of this rule.

The existing Iowa regulations, unlike many comparable state regulations, offer substantial flexibility by permitting banks, without any prior authorization or review by the superintendent, to make loans secured by real estate and engage in leasing transactions that do not conform to the safety-and-soundness requirements of the rule. The rule permits banks to make non-conforming real estate loans in an amount equal to 100% of the bank's aggregate capital and to engage in non-conforming lease transactions equal to 25% of the bank's aggregate capital. The rule also provides that the superintendent may authorize a bank to exceed these limits with respect to non-conforming transactions.

Does this chapter/rule(s) contain language that is obsolete, outdated, inconsistent, redundant, or unnecessary language, including instances where rule language is duplicative of statutory language? [list chapter/rule number(s) that fall under any of the above categories]

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Yes, the chapter contains language that duplicates statutory language and includes other unnecessary or outdated language as noted herein:

- 9.1 Real estate lending: Contains unnecessary language and existing language requiring banks to obtain evidence of title when making loans secured by real estate is unnecessarily broad.
- 9.2 Leasing: Contains unnecessary language.

**RULES PROPOSED FOR REPEAL (list rule number[s]):**

None.

**RULES PROPOSED FOR RE-PROMULGATION (list rule number[s] or include rule text if available):**

## CHAPTER 9

### INVESTMENT AND LENDING POWERS

Chapter exempt from chapter rescission pursuant to Iowa Code section [17A.7](#)

**187—9.1(17A,524) Real estate lending.** This rule applies to real estate loans originated by a state bank or acquired by purchase, assignment, or otherwise.

**9.1(1)** *Written policy.* The board of directors of a state bank shall formulate and maintain a written real estate lending policy that is appropriate for its size and the nature and scope of its operation. Each policy must be comprehensive and consistent with safe and sound lending practices. The standards and limits established in the policy must be reviewed and approved at least annually by the board. The real estate lending policy should reflect the level of risk that is acceptable to the board and should provide clear and measurable underwriting standards that enable the state bank's lending staff to evaluate all relevant credit factors. The real estate lending policy, at a minimum, should:

- a.* Identify the geographic area where the state bank will consider lending.
- b.* Establish loan portfolio diversification standards.
- c.* Set appropriate terms and conditions by type of real estate loan.
- d.* Establish loan origination and approval procedures.
- e.* Establish prudent underwriting standards which include clear and measurable loan-to-value limitations.
- f.* Establish review and approval procedures for exempted loans.
- g.* Establish loan administration procedures.
- h.* Establish real estate appraisal and evaluation programs.
- i.* Require the bank to monitor the portfolio and provide timely reports to the board of directors.
- j.* Establish procedures for conformance with secondary market investor requirements where applicable.

When formulating the real estate policy, the board should consider both internal and external factors, such as size and condition of the state bank, expertise of its lending staff, avoidance of undue concentrations of risk, compliance with all real estate-related laws and rules, and general market conditions.

**9.1(2)** *Loan-to-value limits.* The board of directors of the state bank shall establish its own internal loan-to-value (LTV) limits for real estate loans.

**9.1(3)** *In transit loans.* Real estate loans made for sale into the secondary market are considered in transit for a period of 90 days after being sold and are not considered risk assets for reserving purposes during this time period.

**9.1(4)** *Evidence of title.* The state bank shall obtain, when lending for the purpose of acquisition or for the purpose of refinance of acquisition of an interest in real estate which is an owner-occupied one- to four-family dwelling occupied or used or intended to be occupied for residential purposes, when a new mortgage, deed of trust, or similar instrument is filed, one of the following:

*a.* A written legal opinion by an attorney admitted to practice in the state in which the real estate is located showing marketable title in the mortgagor and describing any existing liens and stating that the state bank's mortgage, deed of trust, or similar instrument is a lien on the real estate. An Iowa title guaranty certificate issued by the Iowa title guaranty division of the Iowa finance authority satisfies this requirement.

*b.* Title insurance written by an insurance company licensed to do business in the state in which the real property is located describing any existing liens and insuring the title to the real property and the validity and enforceability of the mortgage, deed of trust, or similar instrument as a lien on the real property.

**9.1(5)** *Exceptions.* Because other factors significantly outweigh the need to apply the provisions of this rule in certain real estate transactions, the following transactions are exempt from this rule:

*a.* Loans guaranteed, insured, or for which a written commitment for such has been issued by the U.S. government or its agencies.

b. Loans guaranteed, insured, or for which a written commitment for such has been issued by the state of Iowa, a political subdivision, or agency thereof, provided that the state bank has determined that the guarantor or insurer has the financial capacity and willingness to perform under the terms of the agreement.

c. Acceptance of real estate as collateral to secure debts previously contracted in good faith.

d. Securities collateralized by real estate, but in which a state bank may invest pursuant to Iowa Code section [524.901](#).

e. With the prior approval of the superintendent, any other loans approved, issued, insured, or guaranteed by any other federal or state-sponsored program.

**9.1(6) *Exempted transactions.*** In addition to the exemptions set forth in [subrule 9.2\(5\)](#), it may be appropriate, in light of all relevant credit considerations, including community reinvestment factors, for state banks, in certain instances, to originate or purchase real estate loans that do not meet the requirements of this rule. State banks are allowed to make such loans; however, the aggregate amount of all real estate loans that fall into this category shall not exceed aggregate capital as reflected on the state bank's most recent consolidated report of condition, unless prior approval to exceed this limitation has been obtained from the superintendent. These exempted loans must be identified by the board of directors by name and outstanding balance and be reviewed by the board at least annually. Examiners, during the course of their examinations, will determine whether these exempted loans are adequately documented and appropriate in light of overall safety and soundness considerations. No real estate loans to directors, officers, or principal shareholders or their related interests shall be allowed in the exempted category of this subrule.

This rule is intended to implement Iowa Code section [524.905](#).

#### **187—9.2(17A,524) Leasing.**

**9.2(1) *Definitions.*** For purposes of this rule, the term:

“*Aggregate rentals payable*” means the total of minimum lease payments (net of unearned income) that the lessee is obligated to make or can be required to make plus any guarantee of the residual value or of rental

payments beyond the lease term by an eligible guarantor, provided the guarantor is financially capable of discharging the obligation.

*“Full payout lease”* means one in which the lessor’s service is limited to the financing of the asset, with the lessee paying all other costs, including maintenance and taxes, and has the option of purchasing the asset at the end of the lease for a nominal price. The lease shall be fully amortized over the term of the lease or lifetime of the asset, whichever is less.

*“Inception”* means the date of the lease agreement or commitment, if earlier, or the date the lease is purchased by the state bank. For purposes of this definition, a commitment shall be in writing, signed by the parties in interest to the transaction, and specifically set forth the principal terms of the transaction. However, if the property covered by the lease is a fixture yet to be constructed or has not been acquired by the lessor at the date of the lease agreement or commitment, the inception is the date that construction of the property is completed or the property is acquired by the lessor. The inception date of a lease assumed in a business combination accounted for as a purchase is the date the combination is recorded for accounting purposes.

*“Independent third-party appraiser”* means an individual not involved with the lease transaction, except as the appraiser, with no direct or indirect interest, financial or otherwise, in the property appraised or the parties involved with the transaction. The bank shall take appropriate steps to ensure the appraiser exercises independent judgment and that the appraisal is adequate.

*“Lease servicer”* means an entity that collects monthly principal and interest payments from the lessee and then forwards the payments to the purchasing institution or maintains lease records for a fee.

*“Leasing company”* means an enterprise that makes leases or assembles leases for resale to a bank. Leases acquired by a state bank from an affiliated leasing company will be treated for purposes of this rule the same as if the lease was originated by the bank itself. The provisions of Iowa Code section [524.1101](#) apply when determining if an affiliate relationship exists.

*“Lessee”* means the party using the leased property.

*“Lessor”* means the party owning the leased property.

*“Residual value”* means the estimated fair value of the leased property at the end of the lease term.

**9.2(2)** *General direct and purchased lease guidelines.*

a. The board of directors of the state bank shall formulate and maintain a written lease policy that is appropriate for the size, nature and scope of the bank’s operation. Each policy must be comprehensive and consistent with safe and sound banking practices. The standards and limits established in the policy must be reviewed and approved at least annually by the board. The bank’s lease policy, at a minimum, should:

- (1) Identify acceptable lease servicers and lessors (purchased leases only).
- (2) Establish aggregate volume of paper to be purchased from approved servicers and lessors (purchased leases only).
- (3) Identify geographic area where the bank will consider purchasing or originating leases.
- (4) Establish lease portfolio diversification standards.
- (5) Set appropriate terms and conditions by type of leases.
- (6) Establish lease origination and approval procedures.
- (7) Establish prudent underwriting standards.
- (8) Establish lease administration procedures.
- (9) Establish appraisal and evaluation programs.
- (10) Monitor the portfolio and provide timely reports to the board of directors.
- (11) Set forth permitted exceptions to the policy.

When formulating the lease policy, the board should consider both internal and external factors, such as size and condition of the state bank, expertise of the lending staff, avoidance of undue concentrations of risk, and general market conditions.

b. Whether the bank is serving as lessor or acquiring a lease through purchase, a bank employee shall perform an independent credit analysis of the lessee.

*c.* The bank or an affiliated leasing company shall obtain collateral values, lien status, lease agreements, participation agreements, and title documentation within 45 calendar days from inception with original documentation being maintained in the bank's or affiliated leasing company's credit files.

*d.* A bank employee, an officer of an affiliated lease originator, or an independent third-party appraiser shall conduct at inception, and at least annually thereafter, an inspection of the leased tangible personal property, unless prior approval to waive the inspection requirements has been obtained from the superintendent.

For a lease to a governmental unit, the bank shall conduct an inspection at inception or maintain written verification by an official of the governmental unit to confirm the existence of the leased property.

*e.* Ongoing documentation requirements to support the lease are the same as if the bank had made a direct loan to the lessee for purchase of the asset being leased.

*f.* The lease shall be a full payout lease that is a noncancelable obligation of the lessee with the obligation serving the same purpose as other forms of bank financing. For purposes of this rule, a lease to a governmental unit which contains a fiscal funding clause would be considered a noncancelable lease if the likelihood of exercise of the fiscal funding clause is assessed as being remote.

*g.* Property covered by the lease is limited to tangible personal property, excluding livestock. In addition, a state bank may purchase or construct a municipal building, and, as holder of legal title, lease the same to a municipality or other public authority having resources sufficient to make payment of all rentals as they become due. The lease agreement shall address liability issues and provide that upon its expiration the lessee will become owner of the building or facility.

*h.* The lease shall require rental payments to be made on a periodic basis, but at least annually.

*i.* The term of a lease shall not exceed seven years if made to a nongovernmental unit or ten years if made to a governmental unit without the prior approval of the superintendent.

*j.* Aggregate rentals payable by the customer under leases of personal property shall conform to the limits imposed by Iowa Code section [524.904](#).



k. All lease receivables shall be booked in accordance with the instructions for preparation of the consolidated reports of condition and income.

l. Unguaranteed residual value established by the lessor for any lease, whether originated by the state bank or acquired through purchase, shall not exceed 25 percent of the original cost of the leased property. The amount of any estimated residual value guaranteed by a manufacturer, the lessee, or a third party which is not an affiliate of the bank may exceed 25 percent of the original cost of property where the bank has determined and can provide full supporting documentation that the guarantor has the resources to meet the guarantee.

While this guideline prohibits unguaranteed residual values that exceed 25 percent of the original cost, the estimated residual value shall be reasonable in relation to the type of property leased so the primary risk taken by the bank is the creditworthiness of the lessee and not the market value of the leased property. All estimated residual values shall be reviewed at least annually.

If the state bank carries the estimated residual value on its books and a review of the estimated residual value results in a lower estimate than had been previously established, the accounting for the transactions shall be revised using the new estimate. The resulting reduction in the net investment shall be recognized as a loss in the period in which the estimate is changed. An upward adjustment of the residual value shall not be made.

m. Consumer leases, whether originated or purchased by a state bank, shall conform to Iowa Code section [537.3202](#) and Chapter 5 of the Truth-in-Lending Act (15 U.S.C. 1601 et seq.).

n. If an affiliate of a state bank is regarded as the originator of a lease, the affiliate is subject to the provisions of Iowa Code section [524.1105](#).

**9.2(3)** *Specific purchased lease guidelines.*

a. If the obligations acquired carry full recourse endorsements, guaranty, or an agreement to repurchase of the lessor or servicer negotiating the sale of the leases, then the endorser, guarantor, or repurchaser shall also be deemed to be a customer of the bank. This customer's obligation would be limited to 15 percent of aggregate capital of the state bank.

b. The bank shall obtain on any lease servicer, at least annually, financial information or evidence of insurance coverage for errors, omissions, and fraudulent acts, and evaluate this information to determine the creditworthiness of the lease servicer. The bank shall maintain on file documentation that this insurance coverage is in an amount sufficient for the volume of leases being serviced by the lease servicer.

**9.2(4)** *Specific direct leasing guidelines.* Acceptable methods of accounting for investment tax credits shall be used.

**9.2(5)** *Exempted transactions.* In some instances it may be appropriate, in light of all relevant credit considerations, to originate or purchase leases that do not conform with the requirements of [9.3\(2\)](#) “c,” “d,” and “e.” The outstanding aggregate rentals payable of all originated and purchased leases that fall into this category shall not exceed 25 percent of aggregate capital as reflected on the state bank’s most recent consolidated report of condition, unless prior approval to exceed this limitation has been obtained from the superintendent. These exempted leases shall be identified by the board of directors by name and outstanding balance and reviewed by the board at least annually. Examiners, during the course of their examinations, will determine whether these exempted leases are adequately documented and appropriate in light of overall safety and soundness considerations. No leases to directors, officers, or substantial shareholders or their related interests shall be allowed in the exempted category of this subrule.

This rule is intended to implement Iowa Code section [524.908](#).

**\*For rules being re-promulgated with changes, you may attach a document with suggested changes.**

#### METRICS

Total number of rules repealed:	0
Proposed word count reduction after repeal and/or re-promulgation	91
Proposed number of restrictive terms eliminated after repeal and/or re-promulgation	16

#### ARE THERE ANY STATUTORY CHANGES YOU WOULD RECOMMEND INCLUDING CODIFYING ANY RULES?

No.