



Department of Business Regulation

233 Richmond Street
Providence, RI 02903

Banking Bulletin Number 2003-2

Prohibited Net Branches & Net Branching Arrangements

The Department of Business Regulation (“Department”) Division of Banking (“Division”) is responsible for the licensing and regulation of various activities as described in R. I. Gen. Laws §19-14-1 *et seq.* and §19-14.1 *et seq.* (the “Licensing Statutes”), including lending and loan brokering activities.

It has come to the Division’s attention that some Rhode Island licensed lenders and loan brokers are engaging in prohibited types of “branch office” arrangements referred to as “net branches”. This Bulletin provides guidance and clarification regarding the Division’s requirements for branch offices of Rhode Island licensed lenders, small loan lenders and loan brokers.

Net Branch – A net branch is an office at which a lender, small loan lender or loan broker allows a separate company, lender, small loan lender or loan broker that does not hold a valid Rhode Island lender, small loan lender or loan broker license, to originate loans under the Rhode Island licensed lender, small loan lender or loan broker license.

Net Branch Arrangement – A net branch arrangement is an arrangement in which a Rhode Island licensed person or entity enters into an agreement whereby its designated branch manager has the appearance of ownership of the licensee by, among other things, sharing in the profits and/or losses¹, establishing, leasing or renting the branch premises, entering into other contractual relationships with vendors such as telephones, utilities, and advertising, having control of a corporate checkbook, and/or exercising control of personnel through the power to hire or fire such individuals. An entity may be considered to be utilizing a net branch if the net branch agreement requires the branch manager to indemnify the licensee for damages from any apparent, express, or implied agency representation by or through the branch’s actions or if the agreement requires the branch manager to issue a personal check to cover operating expenses whether or not funds are available from an operating account of the licensee.

The purpose of this bulletin is two-fold:

¹ A branch manager’s compensation that is based upon the net profit of the branch is an acceptable branch compensation arrangement if the Licensee collects the revenue from the branch, pays the branch expenses including the compensation of all employees of the Licensee main and branch offices, and then pays the branch manager the remaining revenues, if any, as a commission. The distinction between an acceptable and unacceptable branch compensation plan is whether the Licensee pays the expenses of the branch. If the Licensee pays the expenses, the arrangement is acceptable. If, however, the expenses are paid by the branch manager from a personal or non-Licensee account (or by some third party), the arrangement is prohibited.

1. For lenders and loan brokers currently licensed, the Division is issuing this Bulletin to clarify that “net branches” and “net branching arrangements” are prohibited. It is a violation of state law for a Rhode Island licensed lender, small loan lender or loan broker to pay, *directly or indirectly*, a fee to any person or entity not properly licensed pursuant to the Licensing Statutes.
2. For individuals or entities not yet licensed, please be advised that Rhode Island Law prohibits any individual or entity not properly licensed from receiving any fee(s) in connection with loan brokering activities described under the Licensing Statutes.

Please be aware that violations of Chapter 19-14-1 *et seq.* may result in serious penalties as delineated below:

1. For Rhode Island licensed lenders, small loan lenders and loan brokers, the Division may initiate a license revocation or suspension proceeding pursuant to R. I. Gen. Laws §§ 19-14-13 or 19-14-15 and/or seek forfeiture of interest, fees and charges pursuant to R. I. Gen. Laws §§ 19-14-26 and 19-14-26.1.
2. For individuals or entities not licensed, violations may result in the issuance of a cease and desist order by the Department pursuant to R. I. Gen. Laws §§ 19-14-23 and/or criminal penalties and fines pursuant to R. I. Gen. Laws §§ 19-14-23, 19-14-26 and 19-14-26.1. Lenders, small loan lenders and loan brokers should review their respective responsibilities under the Licensing Statutes carefully and act accordingly.

The Division will conduct field and/or desk examinations to ensure compliance with these provisions.

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