

BUREAU OF FINANCIAL INSTITUTIONS
Department of Professional and Financial Regulation
State of Maine



ORDER GRANTING A WAIVER OF CERTAIN SECTION 468
RESTRICTIONS ON TRANSACTIONS WITH AFFILIATES TO
QUADS TRUST COMPANY

QUADS Trust Company (“QTC”), a Maine-chartered nondepository trust company organized pursuant to 9-B M.R.S.A. Chapter 121, has requested that the Bureau of Financial Institutions (“Bureau”) issue an Order exempting QTC from the requirements of 9-B M.R.S.A. Section 468(3). Section 468 imposes various restrictions on transactions by a financial institution with its affiliates. However, Section 468(6) also states that the Superintendent may establish exceptions or different requirements for limited purpose institutions organized pursuant to Part 12, which includes nondepository trust companies.

QTC is a wholly-owned subsidiary of QUADS Financial Group, Inc. (“QUADS”), a service provider to the retirement plan industry. QUADS operates through a series of wholly-owned subsidiaries to provide complete services for retirement plans. The subsidiaries, and their primary functions, include:

- ❖ **QUADS Trust Company:** Custody services for qualified programs;
- ❖ **Qualified Investors Management Corporation:** Administrative and recordkeeping services; and
- ❖ **House of Securities:** Registered broker-dealer.

Section 468 was established to limit the risks to a financial institution from transactions with its affiliates. The law, which closely mirrors long-established federal law, requires all transactions between a financial institution and its affiliates to be on market terms (i.e., on terms and conditions that are substantially the same, or at least as favorable to the financial institution, as those prevailing at the time for comparable transactions with unaffiliated companies) and limits certain credit and investment-related transactions to a percentage of the financial institution’s capital. Additionally, Section 468 requires extensions of credit to, or on behalf of, an affiliate to be appropriately secured.

QTC has requested a temporary waiver of the Section 468 requirements so that it may advance funds to QUADS to be used for working capital purposes. The Board of QUADS has

**Order Granting a Waiver of Certain Section 468 Restrictions on
Transactions With Affiliates to QUADS Trust Company**
Page 2

approved a multi-million dollar refinancing plan consisting of both debt and equity financing. The debt financing is expected to be completed no later than August 31, 2005 and the Board of QUADS has agreed to repay the advance from QTC as soon as the debt financing is closed. If the proposed inter-company advance were deducted from QTC's capital, QTC's net capital would remain in excess of the Bureau's capital guidelines for nondepository trust companies.¹ In addition, QTC will maintain restricted bank deposits in excess of the Bureau's capital guidelines for nondepository trust companies.

In light of the interrelationship among QTC, QUADS and other affiliates, the short term nature of the waiver, the restricted bank deposits, the Bureau's acknowledged examination powers vis-à-vis inter-company transactions, and the absence of federal deposit insurance-related concerns, the Bureau hereby waives the quantitative limitations and the collateral requirements set forth in Section 468(3) and establishes the following requirements for QTC:

1. Until the earlier of August 31, 2005 or the closing of the debt financing, net Tier 1 capital, defined as Tier 1 capital less total receivables from affiliates, shall not be less than \$400,000.
2. Until the earlier of August 31, 2005 or the closing of the debt financing, net Tier 1 capital, as defined in #1 above, shall not be less than the sum of (1) 10 basis points (0.10%) of discretionary assets and (2) 5 basis points (0.05%) of nondiscretionary assets.
3. Upon the earlier of August 31, 2005 or the closing of debt financing, QUADS and all other affiliates shall pay in full any loans or receivables owed QTC.
4. On an ongoing basis, QTC shall maintain restricted cash of not less than \$400,000. QTC shall not reduce its restricted cash below \$400,000 without the prior written approval of the Superintendent.
5. If QTC fails to maintain net Tier 1 capital in the minimum amount specified above in Conditions #1 and #2, QTC shall be deemed to have inadequate capital and the Bureau shall have the authority to take any action authorized by Regulation #27.
6. Any transaction conducted between QTC and its affiliates must be on terms and conditions that are consistent with safe and sound banking practices.

This waiver may be revoked or amended at the Bureau's discretion.

¹ The Bureau generally requires nondepository trust companies to maintain Tier 1 capital, as defined in Regulation 27, of not less than the sum of (1) 10 basis points (0.10%) of discretionary assets and (2) 5 basis points (0.05%) of nondiscretionary assets.

**Order Granting a Waiver of Certain Section 468 Restrictions on
Transactions With Affiliates to QUADS Trust Company**
Page 3

Any person aggrieved by this Order shall be entitled to a review of the Order in accordance with the Maine Administrative Procedure Act, Title 5, Chapter 375, subchapter IV, by filing a request for hearing within thirty days after receiving a copy of this Order.

By order of the Superintendent, effective June 30, 2005.

Lloyd P. LaFountain III
Superintendent

Gardiner, Maine
June 30, 2005