



# FINANCIAL INSTITUTIONS TODAY

News and topics of interest to financial institutions regulated by the Department of Banking and Finance

Monthly Bulletin #1

January 2012

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## The Control Environment: Regulatory Standards for Loan Review (part 5 of a series)

*"We took risks. We knew we took them. Things have come out against us. We have no cause for complaint."*  
– Robert Frost

*"Risk comes from not knowing what you're doing."* – Warren Buffett

These quotes reflect the importance of having a complete understanding of the nature and extent of risks. Banks and credit unions are in the business of prudent risk taking, including credit risk taken through loans made to consumer and business borrowers. For the typical bank or credit union, credit risk through the lending process is by far the most material source of risk facing the institution. In the current cycle, excessive levels and/or poorly managed credit risk have been the primary killers of virtually every failed bank and the majority of failed credit unions across the country. An independent loan review function assesses the nature and extent of credit risk embedded in the loan portfolio with summary reporting providing the board of directors and senior management with critical information to implement timely course corrections when needed; it is a fundamental, essential component of an effective control environment and sound financial institution governance. This article focuses on regulatory standards and expectations for the independent loan review function.

An "Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL)" (Policy Statement) was issued on December 13, 2006, containing an attachment outlining regulatory expectations for an independent loan review function. The Policy Statement is applicable to all federally insured banks and credit unions. It specifies that the board of directors is responsible for "Reviewing management's assessment and justification that the loan review system is sound and appropriate for the size and complexity of the institution." While the Policy Statement itself focuses on maintaining an adequate ALLL, Attachment 1 to the Policy Statement goes into depth on regulatory standards for the loan review function due to its important connection to ALLL adequacy. It states that regardless of the structure, the loan review function should, at a minimum, be based on the following objectives:

- 1) Prompt identification of loans with potential credit weaknesses;
- 2) Appropriate grading or classification of loans promoting timely action to minimize credit losses;

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## The Control Environment: Regulatory Standards for Loan Review (part 5 of a series)

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- 3) Identification of adverse trends in the loan portfolio, as well as isolated segments of the portfolio, that affect collectability or potential problems;
- 4) Assess adequacy of, and adherence to, internal loan policies as well as compliance with applicable laws and regulations;
- 5) Evaluate activities of lending personnel including compliance with internal loan policy and approval processes;
- 6) Provide an objective and timely assessment of overall loan portfolio quality; and
- 7) Provide accurate and timely credit quality information for financial and regulatory reporting, including determination of an appropriate ALLL.

Similar to internal audit, loan review is only as good as the quality of personnel staffing the function. To be effective, loan review should be staffed by personnel with background, experience, and training capable of timely identification of material risks embedded within the financial institution's unique lending activities and strategies; with ability to clearly communicate the corrective actions needed; and stature within the organization to ensure that timely and appropriate corrective actions are implemented. To be effective, independence and objectivity of the loan review function is crucial. Some financial institutions may choose to outsource loan review activities to an independent outside party; an acceptable option, but responsibility for maintaining a sound loan review cannot be delegated. The loan review function should report directly to the board of directors, or a committee thereof, to ensure that loan review will perform its duties with impartiality and not be unduly influenced by managers of day-to-day operations.

An effective loan review function serves as an indispensable check and balance for the most material source of risk to banks and credit unions. Well designed, targeted reporting from this function informs sound decision making by executives and boards of directors thereby promoting healthy, successful financial institutions.

## DBF Outreach AND UPCOMING SPEAKING ENGAGEMENTS

- ❖ Commissioner Braswell participated on a regulatory panel at the CBA Regulation & Taxation Committee meeting on **February 2nd** at CBA Headquarters in Marietta, GA. Commissioner Braswell and Deputy Commissioner for Non-Depository Financial Institutions Rod Carnes will also be speaking at the Mortgage Bankers Day at the Capitol on **February 14th**.
- ❖ Deputy Commissioner for Legal and Consumer Affairs Judy Newberry and Deputy Commissioner for Supervision Kevin Hagler will be speaking on **February 17th** at the Institute of Continuing Legal Education in Georgia's [Banking and Finance Law Seminar](#) at Georgia Public Broadcasting. Judy will also be speaking on **February 22nd** at UGA's College of Family & Consumer Sciences day at the Capitol.

## Georgia State Small Business Credit Initiative

The Georgia Department of Community Affairs (DCA) has been awarded over \$47.8 million from the U.S. Department of Treasury through a new program called the State Small Business Credit Initiative that will be known as *Georgia* SSBCI. The *Georgia* SSBCI Programs are designed to partner with Georgia financial institutions, credit unions and Community Development Financial Institutions (CDFIs) to provide capital to small businesses (500 employees or less and loan amounts not to exceed \$5 million).

There are three *Georgia* SSBCI Programs: Georgia Capital Access Program (GCAP), Georgia Small Business Credit Guarantee (SBCG) and the Georgia Funding for CDFIs. These programs are intended to create private leverage through the initial use of public resources.

The first of several seminars regarding the *Georgia* SSBCI Programs will take place on Thursday, March 15, 2012 at the UGA Tifton Campus Conference Center from 8:00 am to 12:00 noon. Although the target audience is the South Georgia lending community, all Georgia lenders are invited to attend. A separate seminar will be held for North Georgia lenders in the near future. Additional information will follow for registration.

For further information, contact Ross Avina at 404-679-1593 or by email at [ross.avina@dca.ga.gov](mailto:ross.avina@dca.ga.gov).



## Georgia Residential Mortgage Act Fee Reminder

The \$10.00 per loan fees required by O.C.G.A. Section 7-1-1011(b)(2) and Department Rule 80-5-1-.04 are due **no later than March 1, 2012**, for residential mortgage loans closed during the period July 1, 2011, through December 31, 2011. A \$10.00 fee will be due if the loan is a residential mortgage loan as defined in the Georgia Residential Mortgage Act (“GRMA”), and if a security deed, a modification of a security deed, or other form of modification of a security interest is recorded.

Financial institutions, mortgage licensees, and registrants that act as the *collecting agent* (including brokers that table fund and collect the fee) must submit the fees and file the fee statement before the deadline to avoid fines.

**Per Department Rule 80-5-1-.04(b), GRMA per loan fee reporting / remittance must be completed online through the Department’s secure website. Reporting is required even if no residential mortgage loans were made and no fees are due.** To avoid fines for failure to report / remit GRMA fees, reporting must be completed by the deadline noted above.

With the on-line payment process, the Department accepts either ACH drafts on a checking account or payments by Visa, MasterCard, AmericanExpress, or DiscoverCard credit cards. Reporting and fee payment must be done online from our secure website at: <https://bkgfin.dbf.state.ga.us/GRMAFee.html>.

## Action on Applications for the Month of January:

The following is a summary of official action taken on applications by State Financial Institutions under Chapter 7-1 of the Code of Georgia and petitions for Certificate of Incorporation of Financial Institutions and other matters of interest during the month of January 2012.

### APPLICATIONS TO ESTABLISH A BRANCH OFFICE

<u>FINANCIAL INSTITUTION</u>	<u>BRANCH OFFICE</u>	<u>APPROVAL</u>	<u>BEGIN BUSINESS</u>
Private Bank of Buckhead Atlanta	Decatur Branch Office 150 East Ponce de Leon Avenue Suite 120 Decatur, GA 30030 DeKalb County	01-19-2012	
Community Business Bank Cumming	Peachtree Parkway Branch Office 505 Peachtree Parkway Cumming, GA 30041 Forsyth County	01-19-2012	

### APPLICATIONS TO CHANGE LOCATION

<u>FINANCIAL INSTITUTION</u>	<u>CHANGE LOCATION OF</u>	<u>APPROVAL</u>	<u>EFFECTIVE</u>
Fidelity Bank Norcross	Jacksonville Branch Office From: 10151 Deerwood Park Boulevard Jacksonville, FL 32256 Duval County To: 9802 Baymeadows Road Jacksonville, FL 32256 Duval County	08-01-2011	01-30-2012

### NOTICE OF CHANGE IN NAME

<u>PREVIOUS NAME</u>	<u>NEW NAME</u>	<u>APPROVAL</u>	<u>EFFECTIVE</u>
Albany Federal Employees Credit Union Albany	Members United Credit Union	12-07-2011	01-01-2012

### FINANCIAL INSTITUTION MERGERS

<u>FINANCIAL INSTITUTION (SURVIVOR)</u>	<u>MERGED INSTITUTION</u>	<u>APPROVAL</u>	<u>EFFECTIVE</u>
Albany Federal Employees Credit Union Albany, GA	Members United Credit Union Columbus, GA	11-09-2011	01-01-2012
Peoples State Bank & Trust Baxley, GA	Citizens State Bank Kingsland, GA	Pending	
The Farmers Bank Forsyth, GA	The Bank of Perry Perry, GA	Pending	
The Farmers Bank Forsyth, GA	The Peoples Bank Covington, GA	Pending	

**FINANCIAL INSTITUTION****(SURVIVOR)**The Farmers Bank  
Forsyth, GA**MERGED INSTITUTION**Spivey State Bank  
Swainsboro, GA**APPROVAL**

Pending

**EFFECTIVE**Glennville Bank  
Glennville, GATippins Bank  
Claxton, GA

12-09-2011

01-01-2012

Bank of Upson  
Thomaston, GABank of Chickamauga  
Chickamauga, GA

Pending

Bank of Upson  
Thomaston, GAThe First National Bank of Polk County  
Cedartown, GA

Pending

Bank of Upson  
Thomaston, GAPeachtree Bank  
Maplesville, AL

Pending

**APPLICATIONS TO BECOME A BANK HOLDING COMPANY  
AND/OR TO ACQUIRE VOTING STOCK OF A FINANCIAL INSTITUTION****FORMATIONS ONLY****BANK HOLDING COMPANY**Sterne Agee Group, Inc.  
Birmingham, AL**TO ACQUIRE**SUM Financial Corporation  
Pearson, GA**APPROVAL**

Pending

**NOTIFICATION OF APPROVAL OF  
APPLICATION TO SERVE A RESIDENTIAL GROUP COMMON BOND****CREDIT UNION**FOCUS Credit Union  
Chattahoochee, FL**RESIDENTIAL GROUP COMMON BOND**

Decatur County, GA

**APPROVAL**

01-04-2012

Dupont Community Credit Union  
Hixson, TN

Walker County, GA

01-17-2012

**CHECK CASHER LICENSES ISSUED**

<b><u>CITY</u></b>	<b><u>APPLICANT NAME</u></b>	<b><u>TRADE NAME</u></b>
Rome	Advanced Title Pawn of Rome LLC	Advanced Title Pawn
Albany	* Ajaykumar C. Bhavsar	TEJ Food Store
Gainesville	Casanova Enterprises, Inc.	
Columbus	Classic Systems, Inc.	Tax Central
Douglasville	Dnovel Enterprises, Inc.	Discount Check Cashing
Tifton	* Dola Krupa, LLC	Clean Scene Laundry
Chamblee	FNL, LLC	El-Bueno Food Mart
Macon	* Galaxy Development Group, LLC	Fast Trip
Garden City	HS & KJ Enterprise, Inc.	Garden City Package Shop
Ellenwood	IQRA 1 Enterprises, Inc.	Rex Road Amoco
Valdosta	* Jai Gahnpati, Inc.	Gas N Go
Valdosta	* Jai Matahji, Inc.	AB Food
Macon	* Kennedy Drugs, Inc.	Kennedy Drugs
Gainesville	* Lalit R. Chhadua	Chevron Food Mart #12
Jonesboro	MMXLV, LLC	
Albany	Melody B. Milton	Quick Cash Check Cashing
Morrow	Munasa, Inc.	Mt. Zion Food Mart
Wadley	* Niran LLC	EZ Quick Stop
Athens	* Pinal Corporation	Quick Pantry
Macon	* Radhika Investment, Inc.	Fort Hawkins Convenience Store
Marietta	Riverside Food & Gas, Inc.	Roswell Check Cashing
Norcross	SJP Investment, LLC	
Cordele	Sandra C. Pate	Fast Stop
Jesup	* Shri Shiva, Inc.	
Atlanta	* Sikders, Inc.	Global Newsstand
Augusta	* Soo Han Yun	Lucky Store
Atlanta	Toddler World, LLC	Moreland Check Cashing
Fitzgerald	US Check Cashing LLC	US Check Cashing
Thomasville	* Vaishanavi, LLC	Rose City Liquors

\* =Registered (O.C.G.A. 7-1-700 et al)

**MONEY TRANSMITTER LICENSES ISSUED**

<b><u>MONEY TRANSMITTER</u></b>	<b><u>APPROVAL</u></b>
Pronto Money Transfer Inc. Manhattan Beach, CA	01-30-2012
USFOREX Inc. Wilmington, DE	01-30-2012

## CUSTOMER SERVICE STARS FOR THE MONTH OF JANUARY

It is the Department's goal to provide excellent customer service by meeting and exceeding the expectations of our customers. Along those lines, we would like to recognize the following individuals and teams for going above and beyond in serving our customers:

**Financial Examiner George Campbell and his examination team (District 1)** – The Department received comments from a customer stating: “We appreciate the knowledgeable, efficient and amiable way our exam was conducted by George Campbell and his colleagues. Thank you again for the Department's willingness to assist us in answering our questions as we have worked to address areas of concern. The Department continues to be one of our valuable partners in the successful operation of our credit union. The state–chartered credit unions in Georgia are fortunate to count on their supervisory agency as a trusted resource.”

**Senior Assistant Financial Examiner Aaron Fisher and his examination team (District 1)** – The Department received comments from a customer stating: “The bank would like to commend Examiner-in-Charge Aaron Fisher and his team for the cooperative and professional manner in which this exam was conducted.”

**Applications Analyst Irene Harper and Supervisory Manager Larry Shelley (Mortgage)** – The Department received comments from a customer stating: “I would like to let your department know that our company is licensed in 19 states and of all licensing departments that I work with, the Georgia DBF is the most efficient and helpful! Mrs. Irene Harper is always responsive and helpful. Mr. Larry Shelley is always helpful, courteous and extremely prompt with assistance. I absolutely enjoy working with your team and I wish other states would take notice and learn about customer service from you!”

**CONGRATULATIONS AND GREAT JOB TO THIS MONTH'S  
CUSTOMER SERVICE STARS!!**



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The Department is the state agency that regulates and examines banks, credit unions, and trust companies chartered by the State of Georgia. The Department also has regulatory and/or licensing authority over mortgage brokers/processors, lenders and loan originators, money service businesses, international banking organizations, and bank holding companies conducting business in Georgia.

Our **Mission** is to promote safe, sound, competitive financial services in Georgia through innovative, responsive regulation and supervision.

Our **Vision** is to be the best financial services industry regulator in the country – Progressive. Proactive. Service-Oriented.

**We're on the Web!**

**Visit our website at:  
[dbf.georgia.gov](http://dbf.georgia.gov)**

*Our Motto is: "Safeguarding Georgia's Financial Services"*

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