



# FINANCIAL INSTITUTIONS TODAY

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

Monthly Bulletin #9

September 2010

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## Sale of Other Real Estate

At a number of examinations, it has been noted that bank-financed sales of other real estate have not been accounted for in accordance with Generally Accepted Accounting Principles (GAAP). The primary accounting guidance on this topic is FASB Statement No. 66 (ASC 360/976), "Accounting for Sales of Real Estate." This standard, which applies to all transactions in which the seller provides financing to the buyer of the real estate, establishes the methods, which are more fully detailed below, to account for dispositions of real estate. Regardless of which method is used, any losses on the disposition of real estate should be recognized immediately.

The primary issue which has been noted by examiners is the use of the full accrual method in almost all cases of bank-financed sales. **This method may be used only when there is a down payment which is deemed sufficient according to FASB Statement No. 66.** In those cases where there is no down payment or the down payment is not sufficient, according to FASB Statement No. 66, an alternative to the full accrual method must be utilized. It is highly recommended that banks consult with their accounting firms for assistance in determining and implementing the appropriate methodology.

The various methods of accounting for the sale of other real estate, as established by FASB Statement No. 66, are as follows:

1. **Full Accrual Method** – This method recognizes a sale and corresponding loan. Any profit resulting from the sale is recognized in full. Several conditions must be met to apply the full accrual method including receipt of minimum down payment as set forth in the Appendix A to FASB Statement No. 66 and sufficient contractual loan payments to repay the loan over the customary loan term for the type of property involved.

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## HOLIDAY CLOSING

This is a reminder that the Department will be closed on Monday, October 11, 2010, for Columbus Day.

## Sale of Other Real Estate *(continued)*

*(Continued from page 1)*

2. **Installment Method** – This method recognizes a sale and corresponding loan. Any profits on the sale are recognized only as the bank receives payments from the purchaser/borrower. Interest income is recognized on an accrual basis, when appropriate. The installment method is used when the buyer's down payment is not adequate to allow use of the full accrual method, but recovery of the cost of the property is reasonably assured if the buyer defaults.
3. **Cost Recovery Method** – This method recognizes a sale and the corresponding loan, but all income recognition is deferred. Principal payments are applied as a reduction of the loan balance, and interest payments increase the unrecognized gross profit. No profit or interest income is recognized until either the aggregate payments by the borrower exceed the recorded amount of the loan or a change to another accounting method is appropriate (e.g. installment method). Consequently, the loan is maintained in nonaccrual status while this method is being used.
4. **Reduced-Profit Method** – This method recognizes a sale and corresponding loan. Similar to the installment method, any profit is apportioned over the life of the loan as payments are received. This method differs from the installment method in that profit recognition is based on the present value of the lowest level of periodic payments required under the loan agreement. This method is used in situations where the bank receives an adequate down payment, but contractual loan payments are insufficient to repay the loan over the customary loan term for the type of property involved.
5. **Deposit Method** – Under this method, a sale is not recorded and the asset continues to be reported as foreclosed real estate with no profit or interest income recognized. Payments received from the borrower are reported as a liability until sufficient payments or other events have occurred which allow the use of one of the other methods. This method is typically used in situations where a sale of the foreclosed real estate has not been consummated.

The preceding represents an abbreviated summary of the methods for reporting sales of foreclosed real estate. Again, please consult with your accountant for specific guidance and refer to either FASB Statement No. 66 or the latest Call Report instructions for a more complete description.

## DBF Outreach AND UPCOMING SPEAKING ENGAGEMENTS

- ❖ Commissioner Braswell will be speaking on a Regulatory Panel at the [GBA CEO Conference](#) at Callaway Gardens on **October 5th**.
- ❖ Deputy Commissioner for Non-Depository Financial Institutions Rod Carnes will be speaking at the 9th Annual Fall Affordable Housing Conference at the State Bar of Georgia Conference Center on **October 5th**. Mr. Carnes will also be speaking at the [GBA Compliance Conference](#) in Macon on **October 19th**, and at the 3rd Annual Real Estate Industry Day being held on **October 25th** at the Holiday Inn on Clairmont Road in Downtown Decatur, GA.

## Appraisal and Evaluation Requirements for Loans

Apparent violations of Part 323 have been frequently cited in reports of examination due to the failure to obtain updated appraisals or evaluations as required by regulation at loan renewal. Given deteriorating real estate market conditions experienced in Georgia over the last few years, it is prudent to reassess real estate collateral positions prior to extending additional credit or renewing a loan. FDIC Regulation Part 323 identifies when real estate-related transactions require the services of a state certified or licensed appraiser. Subsection 323.3(b) addresses transactions requiring an appropriate evaluation consistent with safe and sound banking practices when the services of a state certified or licensed appraiser is not otherwise required.

A useful resource on appraisal regulations is the federal regulatory agencies' frequently asked questions (FAQ) issued March 22, 2005, which can be found in FDIC Financial Institution Letter 20-2005. Refer to the Uniform Standards of Professional Appraisal Practice (USPAP) established by the Appraisal Standards Board for additional guidance regarding appraisal standards.

For those circumstances where an evaluation will suffice, the FDIC Risk Management Manual of Examination Policies states in Section 3.2 / Loans that, at a minimum, an evaluation should:

- Be written;
- Include the preparer's name, address, and signature, and the effective date of the evaluation;
- Describe the real estate collateral, its condition, its current and projected use;
- Describe the source(s) of information used in the analysis;
- Describe the analysis and supporting information; and
- Provide an estimate of the real estate's market value, with any limiting conditions.

## Department Issues Proposed Rulemaking and Provides Opportunity to Comment

On September 23, 2010, pursuant to the provisions of the Georgia Administrative Procedures Act, Official Code of Georgia Annotated (O.C.G.A.) Chapter 50-13 and by authority of O.C.G.A. § 7-1-61, O.C.G.A. § 7-1-663; O.C.G.A. § 7-1-1012, and other cited statutes, the Georgia Department of Banking and Finance (Department) gave notice of its intent to adopt new and amended rules.

The proposed changes are in part responsive to law changes during the 2010 legislative session. Comments to the Department must be received by **Monday, October 25, 2010**, at the close of business.

You may view or download the Proposed Rules from our website on the Laws and Regulations page at (<http://dbf.georgia.gov>) or directly from: [http://dbf.georgia.gov/vgn/images/portal/cit\\_1210/59/63/163361399DBFProposedRules\\_9-23-2010.pdf](http://dbf.georgia.gov/vgn/images/portal/cit_1210/59/63/163361399DBFProposedRules_9-23-2010.pdf)

### NCUA Regional Town Hall Meeting to Discuss New Corporate Rule and Legacy Asset Plan:

Credit union representatives are encouraged to participate in the NCUA's Regional Town Hall Meeting to discuss the future of the corporate credit union system. NCUA Chairman Debbie Matz will host a Town Hall in Atlanta from 1:30 - 4:30 PM on **Tuesday, October 12th**. The Town Hall will be held at the **JW Marriott Atlanta Buckhead**, it is free of charge, and open to all credit union stakeholders. Interested persons can register for the event at the NCUA's website located at: <http://www.regonline.com/builder/site/Default.aspx?eventid=897871>

## Action on Applications for the Month of September:

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 September 2010.

### FINANCIAL INSTITUTION CONVERSIONS

<u>PREVIOUS NAME</u>	<u>CONVERTED TO</u>	<u>APPROVAL</u>	<u>EFFECTIVE</u>
Georgia Federal Credit Union	Georgia United Credit Union Duluth Gwinnett County	Pending	

### APPLICATIONS TO ESTABLISH A BRANCH OFFICE

<u>FINANCIAL INSTITUTION</u>	<u>BRANCH OFFICE</u>	<u>APPROVAL</u>	<u>BEGIN BUSINESS</u>
Georgia Commerce Bank Atlanta	Peachtree Road Branch Office 2970 Peachtree Road NW, Suite 100 Atlanta, GA 30305 Fulton County	09-21-2010	
Synovus Bank Columbus	Kia Branch Office 7777 Kia Parkway West Point, GA 31833 Troup County	08-24-2009	09-20-2010

### APPLICATIONS TO CHANGE LOCATION

<u>FINANCIAL INSTITUTION</u>	<u>CHANGE LOCATION OF</u>	<u>APPROVAL</u>	<u>EFFECTIVE</u>
United Community Bank Blairsville	From: Spruce Pine Branch Office 12300 South Highway 226 Spruce Pine, NC 28777 Mitchell County To: 800 Summit Avenue Spruce Pine, NC 28777 Mitchell County	09-08-2010	
Synovus Bank Columbus	From: Baytree Branch Office 1731 Norman Drive Valdosta, GA 31601 Lowndes County To: 1518 Baytree Road Valdosta, GA 31602 Lowndes County	09-14-2010	

**NOTICE OF CHANGE IN NAME**

<b><u>PREVIOUS NAME</u></b>	<b><u>NEW NAME</u></b>	<b><u>APPROVAL</u></b>	<b><u>EFFECTIVE</u></b>
Atlanta Business Bank Atlanta	Affinity Bank	08-20-2010	09-28-2010
Bank of Upson Thomaston	SouthCrest Bank	Withdrawn 09-24-2010	

**APPLICATIONS FOR RESERVATION OF A NAME**

<b><u>PROPOSED NAME</u></b>	<b><u>COUNTY</u></b>	<b><u>APPLICANT</u></b>
Georgia United Credit Union	Gwinnett County	Mr. James W. Stevens Kilpatrick Stockton, LLP 1100 Peachtree Street, Suite 2800 Atlanta, GA 30309

**FINANCIAL INSTITUTION MERGERS**

<b><u>FINANCIAL INSTITUTION (SURVIVOR)</u></b>	<b><u>MERGED INSTITUTION</u></b>	<b><u>APPROVAL</u></b>	<b><u>EFFECTIVE</u></b>
Alma Exchange Bank & Trust Alma, GA	Peoples State Bank & Trust Baxley, GA	Withdrawn 09-08-2010	
Alma Exchange Bank & Trust Alma, GA	Citizens State Bank Kingsland, GA	Withdrawn 09-08-2010	
Alma Exchange Bank & Trust Alma, GA	Pineland State Bank Metter, GA	Withdrawn 09-08-2010	
Georgia's Own Credit Union Atlanta, GA	Chevron Southern Credit Union Atlanta, GA	08-24-2010	09-30-2010
Health Center Credit Union Augusta, GA	Richmond Community Federal Credit Union Gracewood, GA	Pending	
The Southern Federal Credit Union Fayetteville, GA	Georgia Peach Credit Union Atlanta, GA	09-20-2010	
Bank of Upson Thomaston, GA	Peachtree Bank Maplesville, AL	Withdrawn 09-24-2010	
Bank of Upson Thomaston, GA	Bank of Chickamauga Chickamauga, GA	Withdrawn 09-24-2010	
Bank of Upson Thomaston, GA	The First National Bank of Polk County Cedartown, GA	Withdrawn 09-24-2010	

**APPLICATIONS TO BECOME A BANK HOLDING COMPANY  
AND/OR TO ACQUIRE VOTING STOCK OF A FINANCIAL INSTITUTION**

**FORMATIONS ONLY**

**BANK HOLDING COMPANY**

Heritage Financial Group, Inc.  
Baltimore, MD

**TO ACQUIRE**

HeritageBank of the South  
Albany, GA

**APPROVAL**

Pending

**CHECK CASHER LICENSES ISSUED**

<b><u>CITY</u></b>	<b><u>APPLICANT NAME</u></b>	<b><u>TRADE NAME</u></b>
Forest Park	AR Financial Services Inc.	
Albany	* Anjale Enterprises, Inc.	Quickway Food Mart
West Point	* Bok Dan Yim	Hershey Convenient Store
Duluth	* Bornaly, Inc.	Food Mart
Duluth	Dalomais, Inc.	El Paisa Check Cashing
Irwinville	* Deep Kishan Investments, Inc.	Quick Change #50
Bainbridge	Donovan R. Griffin	Junior Mall
College Park	* EJP Enterprise, LLC	Stone Gate Bottle Shop
Douglasville	* GA I Exteriors, LLC	
Warrenton	* Harlem Foods, Inc.	Gurley's IGA
Ashburn	* J. S. Khodiyar, LLC	Quick Stop #3
Athens	* JD & Sons's, LLC	Union Store
Tifton	* Jay Shree Khodiyar, Inc.	Quick Stop
Covington	Perpetual Enterprises, Inc.	Checkers
Fort Valley	Pramukh 88, Inc.	Knoxville Tobacco Mart
Doraville	* Tienda Guamex	
Atlanta	* Uma Shree, Inc.	Busy Bee Grocery

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

**MONEY TRANSMITTER LICENSES ISSUED**

**MONEY TRANSMITTER**

American Express Prepaid Card Management Corp.  
Phoenix, AZ

**APPROVAL**

09-03-2010

Keefe Commissary Network, L.L.C.  
St. Louis, MO

09-13-2010

**GEORGIA  
DEPARTMENT OF  
BANKING AND FINANCE**

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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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