



FINANCIAL INSTITUTIONS TODAY

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

APRIL 2023

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COMMERCIAL REAL ESTATE LOAN CONCENTRATION RISK MANAGEMENT

The Department is closely monitoring Commercial Real Estate (CRE) and Acquisition, Development, and Construction (ADC) portfolios, as Georgia banks, on average, carry CRE concentrations greater than the national average. CRE has historically been negatively impacted during times of economic stress and recession. As previously communicated in the January 2020 and August 2022 bulletins, the Department will continue to monitor CRE and ADC concentrations pursuant to the interagency supervisory guidance entitled “*Concentrations in Commercial Real Estate Lending Sound Risk Management Practices.*” Given the uncertain long-term impacts of changes in work and commerce in the wake of the pandemic, the effects of rising interest rates, lowered appraised values, and inflationary pressures, examiners will be increasing their focus on CRE transaction testing during examinations. Examiners will be testing newer CRE credits, credits within stressed sub-categories and geographies, and credits with payments vulnerable to rising rates and rising costs. Off-site monitoring and targeted outreach will also continue as part of the supervisory oversight program.

When prudently undertaken and consistent with safe and sound banking practices, CRE and ADC lending remains an important aspect of meeting banking needs within a community; however, CRE loan concentrations can expose an institution to unacceptable risk if not properly managed and monitored, even when CRE loans are prudently underwritten as part of the initial transactions. Supervisory responses will not depend solely on credit quality metrics, as growth in concentrated portfolios can mask increasing risk as unseasoned loans may drive down delinquency ratios.

Management should consider regulatory guidance and publications. The [FDIC's Summer 2022 Supervisory Insights](#), which highlights expectations and specific exam observations and weaknesses in governance, credit underwriting, and risk management practices; credit rating systems; market analysis; management information systems; and stress testing and sensitivity analyses. Additionally, the [FDIC's Fall 2019 Supervisory Insights](#) detail supervisory recommendations in the areas of financial performance; board and management oversight; portfolio-level sensitivity analysis; portfolio management; funding strategies; and underwriting.

Specific expectations detailed within these resources include:

- Establish and monitor concentration limits and sub-limits, loan policy exception tracking and reporting, and strategic planning.
- Implement a meaningful portfolio-level sensitivity analyses that considers the results in budgeting, capital planning, and strategic planning purposes.
- Utilize effective management information systems that include data quality and granularity of portfolio stratifications.
- Implement effective contingency planning.
- Establish funding strategies that monitor funding sources supporting the CRE portfolio and its growth. Include liquidity sensitivity analyses and contingency funding planning that includes supportable and robust assumptions and expanded stress scenarios during sensitivity analysis.

- Implement underwriting practices that include adequate analyses on repayment capacity, including adequate global debt service coverage. Outline risk parameters and limitations for repayment structures that include generous interest-only terms or other relaxed structures (such as extended amortizations). All exceptions in underwriting policies must be appropriately tracked and reported.

Management should also consider appropriate capital positions that adequately provide for strategic plans and the risk profile of the institution. Management must obtain the necessary additional capital prior to execution of the business model. Additionally, while owner-occupied CRE is removed for some regulatory reporting measures, management should realistically evaluate risk of this portfolio segment, as prior history has shown the level of risk in owner-occupied real CRE is aligned to risk in non owner-occupied CRE. Examining the effectiveness of governance and risk management practices within the CRE portfolio will remain a supervisory priority.

While underlying credit metrics are currently strong, management should consider the balance of the allowances for credit losses (ACL) given the implementation of new CECL standards and potential future economic uncertainties. With the implementation of any new model, underlying assumptions play a key role in its effectiveness, which typically takes a few model runs to fully understand the key assumptions. Even though most institutions have been running parallel models for preparation of the new standard with little impact to current ACL balances, these parallel runs have been performed in a benign credit cycle. Management should ensure the ACL balance reflects not only underlying specific credit risk in the loan portfolio, but qualitative factors of the broader economic environment.

2023 CSBS NATIONAL SURVEY OF COMMUNITY BANKS

The 2023 National Survey of Community Banks is now available to be completed. This survey is a vital component of the Community Banking Research Conference hosted by the Conference of State Bank Supervisors (CSBS), the Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC). The results from the survey have enabled community banks to inform policymakers and researchers about the opportunities and challenges facing community bankers.

The survey takes approximately 20-30 minutes to complete and responses may be entered during multiple sessions between now and June 30th. For reference purposes, a PDF of the 2023 Annual Survey questions is available [here](#). The link to complete the survey is provided [here](#) and below.

Before starting, it would be beneficial to gather the following 2022 expense amounts for your bank (Call Report Schedule RI-E) and to estimate the percentage of each expense category that is directly associated with regulatory compliance:

- Personnel expenses
- Data processing expenses
- Legal fees and expenses
- Accounting and auditing expenses
- Consulting and advisory expenses

Survey Link: https://frbstlspra.gov1.qualtrics.com/jfe/form/SV_2sHt4JtalnrxC6

Survey Close Date: June 30, 2023

If you have any questions regarding this survey, then please contact Deputy Commissioner for Supervision Melissa Sneed at msneed@dbf.state.ga.us.

INTERAGENCY POLICY STATEMENT ON ALLOWANCES FOR CREDIT LOSSES

The Office of the Comptroller of the Currency, the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration issued a revised Interagency Policy Statement on Allowances for Credit Losses in April 2023. The revision removed references to Troubled Debt Restructurings. In addition, the Policy Statement describes the measurement of expected credit losses in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 326 and includes processes for the design, documentation, and validation of expected credit losses. The policy statement also addresses internal controls over these processes, the maintenance of appropriate allowances for credit losses, the responsibilities of Boards of Directors and management, as well as examiner reviews of allowances for credit losses. The full Policy Statement may be viewed [here](#).

SPEAKING ENGAGEMENTS

Deputy Commissioner for Supervision Melissa Sneed will be participating in the Community Bankers Association of Georgia's 2023 Banker Regulatory Forum Q2 (Safety and Soundness) in Macon, Georgia on Tuesday, May 23, 2023. Details of the event can be accessed [here](#).

ACTION ON APPLICATIONS FOR THE MONTH

The following is a summary of official action taken by the Department on certain applications by Georgia state-chartered financial institutions, petitions for certificate of incorporation of financial institutions, and other matters of recent interest:

APPLICATIONS TO ESTABLISH A BRANCH OFFICE

<u>FINANCIAL INSTITUTION</u>	<u>BRANCH OFFICE</u>	<u>APPROVAL DATE</u>	<u>EFFECTIVE DATE</u>
The Claxton Bank Claxton, GA	2591 Highway 17, Suite 201 Richmond Hill, GA 31324	08/31/2022	04/03/2023
PeoplesSouth Bank Colquitt, GA	1805 Russell Parkway Warner Robins, GA 31088	04/13/2023	

APPLICATIONS TO CHANGE LOCATION

<u>FINANCIAL INSTITUTION</u>		<u>APPROVAL DATE</u>	<u>EFFECTIVE DATE</u>
CGR Credit Union Macon, GA	From: 104 North Houston Road Warner Robins, GA 31093 To: 1110 Highway 96 Kathleen, GA 31047	04/03/2023	
The Southern Credit Union Fayetteville, GA	From: 232 Bullsboro Road Newnan, GA 30263 To: 6 Jefferson Parkway, Suite E Newnan, GA 30263	04/20/2023	

APPLICATIONS FOR FINANCIAL INSTITUTION MERGERS

<u>SURVIVOR</u>	<u>MERGED INSTITUTION</u>	<u>APPROVAL DATE</u>	<u>EFFECTIVE DATE</u>
Georgia's Own Credit Union Atlanta, GA	Health Center Credit Union Augusta, GA	04/10/2023	
Georgia United Credit Union Duluth, GA	North Main Credit Union Cornelia, GA	04/10/2023	
MembersFirst Credit Union Decatur, GA	Savastate Teachers Federal Credit Union Savannah, GA	Pending	

APPLICATIONS TO FORM A BANK HOLDING COMPANY

<u>BANK HOLDING COMPANY</u>	<u>TO ACQUIRE</u>	<u>APPROVAL DATE</u>	<u>EFFECTIVE DATE</u>
Tandem Bancorp, Inc. Tucker, GA	Tandem Bank Tucker, GA	April 27, 2023	

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The Department is the state agency that regulates and examines Georgia state-chartered banks, state-chartered credit unions, state-chartered trust companies, international banking organizations, and bank holding companies that own Georgia state-chartered financial institutions. The Department also has responsibility for the supervision, regulation, and examination of Merchant Acquirer Limited Purpose Banks chartered in Georgia.

In addition, the Department has regulatory and/or licensing authority over mortgage brokers, lenders and processors, mortgage loan originators, consumer installment loan companies, check cashers, sellers-issuers of payment instruments, and money transmitters.

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