FINANCIAL INSTITUTIONS TODAY

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

July 2023

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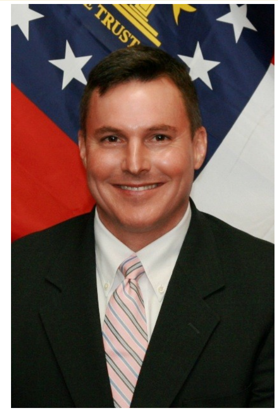
Department Management Changes



Senior Deputy Commissioner Steve Pleger retired at the end of July with more than 25 years of faithful service to the Department. After serving in the United States Marine Corps, Steve began his career with the Department in 1993. After a four-year break in service, where he worked for banks in Athens and Social Circle, Steve returned to the Department in April of 2000 as a Credit Specialist in the Large Institutions District. He was promoted to the Supervisory Examiner position in the Large Institutions District after approximately two years and, a little more than a year later, Steve was named the District Director in September of 2003.

On May 1, 2010, Steve was appointed to the position of Senior Deputy Commissioner. In this role, Steve's areas of responsibility included, but were not limited to, general administration and oversight of the Department; development of policies and procedures; oversight of information technology, security, and project management; and liaison to government agencies as well as various trade groups. As part of his duties, Steve served on the Board of Directors of the National Association of State Credit Union Supervisors ("NASCUS"), where he ultimately served multiple terms as chairman, and on the Federal Financial Institutions Examination Council's (FFIEC) State Liaison Committee. Steve also guided the Department through a period of transition and served as the Interim Commissioner during 2013.

Notwithstanding his title or his tangible achievements, Steve's greatest contribution was his impact on everyone that worked with him. Steve led by example at the Department and was always the first one to roll up his sleeves and take on the dreaded "other duties as assigned." Steve's generosity to his fellow co-workers and dedication to the Department cannot be replaced. We hope that you will now have the time for the golf course.

Congratulations on your well-earned retirement, Steve!

<u>Meet Senior Deputy Commissioner Bo Fears</u>

As of August 1, 2023, Deputy Commissioner for Legal Affairs Bo Fears will be the Senior Deputy Commissioner for the Department. Bo joined the Department in February of 2013 from the Georgia Attorney General's office where he worked in the commercial transactions and litigation division for approximately 16 years. Bo will continue to act as the Department's general counsel in this new role and, as a result, a number of the duties previously performed by Steve Pleger have been reassigned throughout the Department.

Congratulations, Bo!

Correspondent Fund Rule for Credit Unions

Rule 80-2-4-.01 was recently updated to require credit union management to implement concentration risk practices and establish risk limits for credit union deposits in one financial institution, which is structured similarly to Regulation F – Limitations on Interbank Liabilities. The Rule limits the deposit of credit union funds in any one financial institution that is less than adequately capitalized to 25% of net worth of the credit union unless otherwise approved by the Department. The Rule also provides that if the funds a credit union has deposited in a financial institution are fully and continuously insured by federal deposit insurance, then the credit union does not have to develop the policies and procedures required by this rule.

Policy Development

The Rule requires credit union policies and procedures to address credit and liquidity risks, including operational risks, in selecting financial institutions in which to deposit funds and terminating those relationships. The policy shall take into account actions to be taken in the event of any deterioration in the financial condition of the financial institution. Where the deposits at a financial institution exceed 25% of the credit union's net worth or the financial condition of the financial institution creates a significant risk that the financial institution may not be able to honor a withdrawal of the credit union's deposits, a credit union's policies and procedures shall limit the credit union's exposure to the financial institution, either by the establishment of internal limits or by other means. Limits shall be consistent with the risk undertaken, considering the financial condition of the credit union as well as the financial condition of the financial institution holding the credit union's deposits. Limits may be fixed as to amount or flexible, based on such factors as the financial condition of the credit union or the financial institution.

The policies and procedures established under this rule shall be reviewed and approved by the credit union's board of directors at least annually. The policy does not have to be stand-alone and can be included within an existing policy such as Liquidity, Capital, Investment Policies, etc.

Depository Financial Condition and Policy Limitation Monitoring

Where deposits at a financial institution exceed 25% of the credit union's net worth, the credit union's policies and procedures shall require periodic reviews of the financial condition of the financial institution. Factors bearing on the financial condition of the financial institution include the capital level, level of nonaccrual and past due loans and leases, level of earnings, and other factors affecting its financial condition. Where public information on the financial condition of the financial institution is available, a credit union may base its review of the financial condition of the financial institution on such information and is not required to obtain non-public information for its review.

A credit union shall monitor its deposits at a financial institution to ensure that its deposits ordinarily do not exceed the credit union's internal limits except for occasional excesses resulting from unusual market disturbances, market movements favorable to the credit union, increases in activity, operational problems, or other unusual circumstances. Generally, monitoring may be done on a retrospective basis. The level of monitoring required depends on the extent to which the amount of the deposits approaches the credit union's internal limits and the financial condition of the financial institution. A credit union shall establish appropriate procedures to promptly address deposits in excess of its internal limits.

FDIC Releases Financial Institution Letter on Estimated Uninsured Deposits

The Federal Deposit Insurance Incorporation (FDIC) has observed insured depository institutions are not reporting estimated uninsured deposits in accordance with the instructions to the Consolidated Reports of Condition and Income (Call Report). The FDIC issued a Financial Institution Letter (FIL) that provides examples of the inaccuracies being found in the Call Report. The FIL does not impact banks with less than $1billion in total assets that do not report estimated uninsured deposits. The FIL and additional information can be found here.

Cybersecurity & Infrastructure Security Agency Develops Factsheet for Free Tools for Cloud Environments

The Cybersecurity & Infrastructure Security Agency (CISA) has developed and published a factsheet to provide helpful guidance for businesses that are moving to cloud based environment platforms. The factsheet and additional resources can be found here.

Updated Guidance for Funding and Liquidity Risk Management

The regulatory authorities have updated the Interagency Policy Statement on Funding and Liquidity Risk Management on the Importance of Contingency Funding Plans. The update provides guidance for depository institutions to maintain actionable contingency funding plans that take into account a range of possible stress scenarios. Refer to here for a link to the update and additional resources.

Credit Union Service Organization Investment and Formation

The Department would like to remind credit unions of the following regulations concerning subsidiary and affiliate activities commonly carried out in credit union service organizations (CUSOs). In addition, recent Rule changes, which were effective on July 27, 2023, provide de minimis investment authority that does not require prior approval.

Investments in existing CUSOs

O.C.G.A. § 7-1-650(4)(E) provides that credit unions can invest in any other types of investments authorized by the Department. Relying on this provision, the Department enacted Rule 80-2-9-.01(1)(c)(8), which allows certain investments up to 15 percent of net worth as may be authorized for federally chartered credit unions subject to prior approval of the Department. Recently amended Rule 80-2-9-.01(7) permits a credit union to invest in an existing CUSO without Department approval if ownership is less than 10 percent of the aggregate CUSO ownership and the investment is less than 10 percent of the credit union's net worth. If the investment exceeds either level, the credit union must obtain prior approval from the Department before investing in the CUSO.

Formation of CUSOs

Department Rule 80-2-4-.03 addresses the investment of credit union funds in subsidiaries or affiliates. Rule 80-2-4-.03(1) identifies the permissible business activities of CUSOs that a credit union can invest in "unless otherwise precluded by law or regulation." Rule 80-2-4-.03(2) provides that prior to a newly created CUSO providing any financial services, an application must be submitted to the Department for its prior approval by the credit union that has the CUSO as a subsidiary or an affiliate. Rule 80-2-4-.03(3) provides that if there are multiple owners, the credit union with the largest ownership percentage must submit the application. Recently amended Rule 80-4-2-.03(4) permits a credit union to invest in a newly formed CUSO without Department approval if ownership is less than 10 percent of the aggregate CUSO ownership and the investment is less than 10 percent of the credit union's net worth. If the investment exceeds either level, the credit union must obtain prior approval from the Department before investing in the CUSO. If the credit union with the largest ownership percentage does not have to obtain approval from the Department, then the credit union, if any, that has an ownership percentage that triggers approval thresholds must obtain prior approval from the Department before investing in the newly formed CUSO.

Examination Process

Examiners will be reviewing CUSO activities and required approvals during scheduled safety and soundness examinations. If you have questions about any of the CUSO-related regulations outside of examination activities, please contact your Supervisory Manager.

Credit Union Dividend Payment Approvals—Law and Regulation Update

In light of recent rule and statutory changes, credit unions are no longer required to seek approval from the Department prior to paying interest on deposit and share accounts. Although prior to July 1, 2023, credit unions did have to obtain approval from the Department in certain circumstances to pay interest on deposit accounts, the changes that were implemented with the Department's housekeeping bill, HB55, and recently amended rules eliminated the need to obtain approval in those circumstances. HB55 removed interest paid on deposit accounts from the definition of dividends; therefore, the Department will no longer have to approve credit unions paying interest to their members.

Due to statutory changes in OCGA § 7-1-660, the Department will only need to approve extraordinary payments to members, such as earnings distributions related to a merger or annual payments to members, if the distributions meet the thresholds identified in Rule 80-2-3-.04. Under this Rule, the Department will need to approve a dividend (defined as a designated distribution of earnings other than the payable contracted rate of interest due to members and depositors in all deposit and share account categories) if: a) the proposed dividend is more than 50% of net income from the previous fiscal year; b) adversely classified assets exceed 80% of net worth; or c) the net worth ratio is less than 7%.

For any questions, please contact your Supervisory Manager or Deputy Commissioner for Supervision Melissa Sneed at msneed@dbf.state.ga.us.

Annual Assessments Notices—Banks, Credit Unions, and Holding Companies

The bank and credit union annual assessments are due no later than September 30, 2023. An email will be sent to each institution's primary contact from GADBF@micropact.com at the beginning of September with the annual assessment invoice. The Department will initiate an ACH debit for the assessment fee for regulated banks and credit unions unless stated otherwise in the body of the assessment notice.

The assessment fee for holding companies will need to be paid through the Department's online portal. Holding company assessments are due no later than September 15th. If you do not receive the annual assessment invoice email at the beginning of September or have any questions on using the online portal, please contact Director for Supervision Kevin Vaughn at kvaughn@dbf.state.ga.us or Business Analysis Director Heather Ensminger at hensminger@dbf.state.ga.us.

Second Quarter 2023 Community Bank Sentiment Index Released

The Conference of State Bank Supervisors (CSBS) released the second quarter 2023 Community Bank Sentiment Index (CBSI) results on July 6, 2023, based on data collected from community banks across the nation during the month of June. The results showed a sentiment index of 73 points, which is a decrease of ten points from the previous quarter. This index number is the lowest since the survey began in 2019.

"Community banker sentiment has been pessimistic for six straight quarters. They are navigating the effects of higher interest rates that have stressed liquidity, lending growth, and fixed-rate securities portfolios. Moreover, following the high-profile bank failures earlier this year, community bankers are more concerned about regulatory overreach," said CSBS Chief Economist Tom Siems.

The CBSI captures on a quarterly basis what community bankers nationwide think about the future. Participant answers are analyzed and compiled into a single number; an index reading of 100 indicates a neutral sentiment. Anything above 100 indicates a positive sentiment, and anything below 100 indicates a negative sentiment.

Second Quarter 2023 Community Bank Sentiment Index Released—Continued

Key findings from the second quarter 2023 results include:

- In a special question, 95% of community bankers believe the U.S. economy is currently in a recession.
- Community banker sentiment has been pessimistic for six straight quarters.
- All seven components that comprise the CBSI decreased from the previous quarterly survey. At 68, the profitability component had the greatest quarterly decline for the third consecutive quarter, falling 14 points from Q1 2023 and down 33 points from one year ago.
- Community bankers rated the following as their top concerns for 2023: government regulation, cyberattacks, inflation, federal debt/deficit, and the cost/availability of labor.

For more on the CBSI, visit https://www.csbs.org/cbindex

Speaking Engagements

Commissioner Kevin B. Hagler is scheduled to be a part of the regulatory panel at the Georgia Bankers Association's President/CEO, Bank Counsel, and Bank Account Conference. The Conference will be held at the JW Marriot Savannah Plant Riverside District from September 24 – 26, 2023. For more information on the Conference, please click here.

Deputy Commissioner for Supervision Melissa Sneed will be speaking at the Community Bankers Association of Georgia's Advanced BSA/AML Compliance School. The Compliance School will be held August 21 – 25, 2023. Additional information on the Compliance School can be found here.

Director for Supervision Kevin Vaughn will be participating on a regulatory panel at the Community Bankers Association of Georgia's Cyber Risk Conference on Friday, August 18, 2023. Additional information on the Cyber Risk Conference 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

FINANCIAL INSTITUTION	BRANCH OFFICE	APPROVAL DATE	EFFECTIVE DATE
Rabun County Bank Clayton, Georgia	389 Washington Street Clarkesville, Georgia 30523	07/03/2023	
Georgia United Credit Union Duluth, Georgia	300 West Emery Street Suite 201 Dalton, Georgia 30720	07/14/2023	

APPLICATIONS FOR FINANCIAL INSTITUTION MERGERS

SURVIVOR	MERGED INSTITUTION	APPROVAL DATE	EFFECTIVE DATE
Georgia's Own Credit Union Atlanta, Georgia	Health Center Credit Union Augusta, Georgia	04/10/2023	07/01/2023
Oconee State Bank Watkinsville, GA	Elberton Federal Savings and Loan Association Elberton, GA	05/10/2023	07/31/2023
Georgia Heritage Federal Credit Union Savannah, GA	G.P.A. Credit Union Garden City, GA	Pending	
Georgia United Credit Union Duluth, GA	North Main Credit Union Cornelia, GA	03/30/2023	07/01/2023

APPLICATIONS TO CHANGE LOCATIONS

FINANCIAL INSTITUTION		CHANGE LOCATION OF	APPROVAL DATE	EFFECTIVE DATE
Metro City Bank Doraville, GA	From:	9888 Bellaire Boulevard Suite 147 Houston, Texas 77036	07/20/2023	
	To:	6689 West Sam Houston Parkway South Houston, Texas 77072		

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Department of Banking and Finance
2990 Brandywine Road, Suite 200
Atlanta, Georgia 30341-5565
Phone: (770) 986-1633

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.