



# FINANCIAL INSTITUTIONS TODAY

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

January 2020

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## COMMERCIAL REAL ESTATE LOAN CONCENTRATION RISK MANAGEMENT

The FDIC's Fall 2019 Supervisory Insights provides an update on the extent of commercial real estate (CRE) lending exposure and provides CRE loan risk management trends at FDIC-supervised insured depository institutions. 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. The article details financial performance of CRE concentrated institutions and supervisory recommendations to strengthen risk management of the concentration, which are highlighted below.

### Financial Performance

Holding a significant level of CRE credits could heighten vulnerability to a CRE market downturn. As shown by June 30, 2019 Call Report data, lenders concentrated in CRE and acquisition, development, and construction (ADC) loans as compared to other lenders demonstrate higher levels of wholesale funding sources, lower levels of capital cushion, lower allowance for loan and lease loss coverage, and somewhat higher earnings. When evaluating asset quality metrics, CRE and ADC concentrated institutions have lower median past due and nonaccrual ratios than nonconcentrated institutions; however, these ratios are growing faster. Growth in concentrated portfolios can mask increasing risk as unseasoned loans may drive down delinquency ratios.

### Board and Management Oversight

Board and management oversight recommendations included inadequate establishment and monitoring of concentration limits and sub-limits, improvements in loan policy exception tracking and reporting, and concerns about strategic planning. In some instances, concentration limits or sub-limits were absent from written policies, and in other cases, management merely had increased the policy's concentration limits to avoid exceptions. In certain instances, concentration limits appeared inappropriate when considering factors such as existing concentration levels, strategic goals, or management's experience level. Untracked or poorly-tracked policy exceptions may lead to a credit culture and risk profile exceeding the risk tolerance established by the board of directors.

### Portfolio-level Sensitivity Analyses

Significant progress has been made in portfolio-level sensitivity analyses; however, in some cases, the analyses remain less evolved than necessary based on the CRE portfolio. Concerns center on the overall implementation or quality of the sensitivity analyses. Others relate to failure to fully consider the results for budgeting, capital planning, and strategic planning purposes.

### Portfolio Management

Recommendations to enhance risk management practices centered on establishing and monitoring limits for concentrations and pertinent sub-segments. Management information system recommendations often related to the quality and lack of granularity of portfolio stratifications produced. In addition, contingency planning was absent in some cases or it was too rudimentary for the complexity of the portfolio.

### Funding Strategies

Funding strategy recommendations center around improvements in the monitoring of funding sources supporting the CRE portfolio and its growth. Also, weaknesses in liquidity sensitivity analyses and contingency funding planning were noted and included the need for supportable and robust assumptions and expanded stress scenarios during sensitivity analysis.

### Underwriting

Recommendations for underwriting varied widely but were most commonly related to inadequate analyses on repayment capacity, including inadequate global debt service coverage. Some instances of generous interest-only terms or other relaxed structures (such as extended amortizations) were noted. Additionally, exceptions in underwriting policies were noted which emphasize the importance of implementing appropriate tracking and reporting mechanisms.

The article concludes that CRE concentrated institutions generally manage the risk adequately but there are instances where risk management frameworks can be improved. The link to the full article can be found [here](#).

## **2019 CONFERENCE OF STATE BANK SUPERVISORS NATIONAL SURVEY OF COMMUNITY BANKS WORKING PAPER**

Conference of State Bank Supervisors (CSBS) Senior Economist and Director of Research Thomas F. Siems, in conjunction with the Chief Economist at the National Federation of Independent Business, William C. Dunkelberg, and Jonathan A. Scott, a professor at Temple University, explored the issues of deposit growth and funding risk in a recent working paper. The working paper used data from the 2019 CSBS National Survey of Community Banks by taking the individual bank survey scores and matching respondents with relevant call reports to integrate financial performance into the analysis. The working paper is an effort to gain insight into the strategies and challenges institutions face. The working paper was released as part of three blogs and can be accessed as follows:

- [Community Bank Impediments to Attracting and Retaining Core Deposits](#)
- [A Tale of Two Strategies: Core Deposit Growth Versus Loan Growth](#)
- [Wholesale Funds: Source of Growth or Regulatory Scrutiny?](#)

## **FEDERAL RESERVE BOARD FINALIZES RULE TO SIMPLIFY AND INCREASE TRANSPARENCY FOR DETERMINING CONTROL**

On January 30, 2020, the Federal Reserve Board (FRB) finalized a rule to simplify and increase transparency for determining control of a banking organization. The final rule establishes a comprehensive and public framework to determine when a company controls a bank. The framework uses several factors to determine if a company has control over a bank. The key factors include the company's total voting and non-voting equity investment in the bank; director, officer, and employee overlaps between the company and the bank; and the scope of business relationships between the company and the bank. The rule clarifies and increases transparency by describing the combination of factors that would trigger control concerns. The rule will be effective April 1, 2020. Links to the summary of the new rule are located below.

Federal Register Notice [here](#)  
Visual (PDF) [here](#)

## **SPEAKING ENGAGEMENTS**

Deputy Commissioner for Supervision Melissa Sneed participated in a Regulatory Panel Discussion at Vinings Bank on Wednesday, February 5, 2020, at 10:15 am for the Community Bankers Association Safety and Soundness RAP: *Bankers Regulatory Forum and Peer Group Meeting*. Event details can be accessed [here](#).

## **ACTION ON APPLICATIONS FOR THE MONTH**

The following is a summary of official action taken by the Department on applications by Georgia state-chartered financial institutions under Title 7, Chapter 1 of the O.C.G.A. and petitions for certificate of incorporation of financial institutions and other matters of interest during the month of January 2020:

### **APPLICATIONS FOR DISSOLUTION**

<b><u>FINANCIAL INSTITUTION</u></b>	<b><u>APPROVAL DATE</u></b>	<b><u>EFFECTIVE DATE</u></b>
The Citizens Bank Nashville, GA 31639	Pending	

### **APPLICATIONS FOR DE NOVO INSTITUTIONS**

<b><u>FINANCIAL INSTITUTION</u></b>	<b><u>APPROVAL DATE</u></b>	<b><u>BEGIN BUSINESS DATE</u></b>
Craft Bank Atlanta, GA	Pending	

### **APPLICATIONS TO ESTABLISH A BRANCH OFFICE**

<b><u>FINANCIAL INSTITUTION</u></b>	<b><u>BRANCH OFFICE</u></b>	<b><u>APPROVAL DATE</u></b>	<b><u>BEGIN BUSINESS DATE</u></b>
Pinnacle Bank Elberton	Dawsonville Hwy 545 Dawsonville Hwy, NW Gainesville, GA 30501 Hall County	01-02-2020	

### **APPLICATIONS FOR RESERVATION OF NAME**

<b><u>PROPOSED NAME</u></b>	<b><u>COUNTY</u></b>	<b><u>APPLICANT</u></b>
First Bank of Georgia	Whitfield County	Mr. W. Scott Sellers Executive VP First Bank P. O. Box 459 Dalton, GA 30722

### **APPLICATIONS TO CHANGE LOCATION**

<b><u>FINANCIAL INSTITUTION</u></b>	<b><u>CHANGE LOCATION OF</u></b>	<b><u>APPROVAL DATE</u></b>	<b><u>BEGIN BUSINESS DATE</u></b>
United Bank Zebulon	From: 855 N. Church Street Thomaston, GA 30286 Upson County  To: 1111 Highway 19 N. Thomaston, GA 30286 Upson County	12-17-2019	

### **FINANCIAL INSTITUTION MERGERS**

<b><u>FINANCIAL INSTITUTION (SURVIVOR)</u></b>	<b><u>MERGED INSTITUTION</u></b>	<b><u>APPROVAL DATE</u></b>	<b><u>EFFECTIVE DATE</u></b>
Newton Federal Bank Covington, GA	Affinity Bank Atlanta, GA	12-17-2019	01-10-2020

**ACTION ON APPLICATIONS FOR THE MONTH CONTINUED****FINANCIAL INSTITUTION MERGERS CONTINUED**

<b><u>FINANCIAL INSTITUTION (SURVIVOR)</u></b>	<b><u>MERGED INSTITUTION</u></b>	<b><u>APPROVAL DATE</u></b>	<b><u>EFFECTIVE DATE</u></b>
First-Citizens Bank & Trust Company Raleigh, NC	Gwinnett Community Bank Duluth, GA	12-13-2019	
Georgia's Own Credit Union Atlanta, GA	DOCOCredit Union Albany, GA	10-04-2019	01-01-2020
Georgia's Own Credit Union Atlanta, GA	Three Rivers Credit Union Bainbridge, GA	10-23-2019	
HALLCO Community Credit Union Gainesville, GA	Habersham Federal Credit Union Clarkeville, GA	01-23-2020	
Pinnacle Bank Elberton, GA	Southern Bank & Trust Clarkeville, GA	01-30-2020	

**APPLICATIONS TO ACQUIRE A FINANCIAL INSTITUTION**

<b><u>BANK HOLDING COMPANY</u></b>	<b><u>TO ACQUIRE</u></b>	<b><u>APPROVAL DATE</u></b>	<b><u>EFFECTIVE DATE</u></b>
Pinnacle Financial Corporation Elberton, GA	SBT Bancorp, Inc. Clarkeville, GA	1-30-2020	

The Department is the state agency that regulates and examines Georgia state-chartered banks, state-chartered credit unions, state-chartered trust companies, 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, check cashers, sellers-issuers of payment instruments, money transmitters, and international banking organizations.

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

**Our Vision** is to be a willing and able partner with our regulated entities in order to support vibrant economic growth and prosperity in Georgia.

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