



DBF GUIDANCE FOR GEORGIA STATE-CHARTERED BANKS, BANK HOLDING COMPANIES, CREDIT UNIONS, AND TRUST COMPANIES

TO: Supervision Staff

CC: Georgia State-Chartered Banks and Credit Unions

FROM: Melissa Sneed
Deputy Commissioner for Supervision

SUBJECT: PRE-OPENING EXAMINATION PROCEDURES AND CHECKLIST

DATE: May 25, 2018

The pre-opening examination (POE) is the last major step of the chartering process for financial institutions. During this examination, the examiner is expected to determine whether the Board of Directors and management are adequately prepared to commence operations. The organizers' request for this examination should typically be made 30 days in advance of the examination target date, which date should precede financial institution opening by at least 10 business days.

While these guidelines are considered complete, the examiner is not limited to the specific material provided but may investigate any additional areas that are considered relevant. The examiner must convey comments to the district office and the appropriate Supervisory Manager with specific recommendations for correction of deficiencies prior to opening or a recommendation that the financial institution be permitted to open. If deficiencies are serious, the Department may delay the proposed opening date until correction has been completed. During the examination, the examiner will discuss deficiencies, recommendations, and suggestions with management.

The procedures and checklist for the POE present the basic format to be used. In requesting a POE, a financial institution warrants its readiness to commence business. Nevertheless, prior to the scheduled date of the POE, the examiner may wish to call or visit the financial institution to determine if it is prepared for the review. This interview may include discussion of the disposition of key policies and procedures and of the completeness of staff and facilities.

The charter application file should be reviewed and used during the POE. The charter file includes the original application materials and all correspondence. These items may be used by the examiner in reviewing the text of the original operating plan to determine if any significant changes have occurred. The materials in these files are considered confidential and should be afforded appropriate protection.

The charter file also includes the standard preliminary approval letter and the standard conditions to organize a financial institution. The standard conditions stress the most significant points that organizing groups and the financial institution must observe. A group may also be subject to special conditions based on their unique proposal. All conditions must be met prior to opening. The examiner should discuss any unmet conditions with the District Director and the appropriate Supervisory Manager.

The POE should detail the examiner's specific conclusions and should be forwarded to the District Director and then the Supervisory Manager as soon as possible after the examination is closed. At this stage of organization, organizers are generally anxious to commence business and may attempt to pressure the examiner in this regard. Examiners should not be unduly influenced by appeals for quick action. If deficiencies exist that call into question unsafe and unsound operating conditions, they should be resolved before the financial institution is allowed to commence operations. In this regard, the Department will be guided primarily by the conclusions of the examiner in deciding whether a financial institution may begin operation. In most cases, the financial institutions should not anticipate opening sooner than 10 business days after the commencement of the POE.

OVERVIEW

The POE should not be scheduled until the District has approved all policies, the Supervisory Manager has signed off on the Bylaws (and other standard conditions of approval), and the financial institution has been given permission to break escrow. An examiner will visit the financial institution at least 10 business days prior to the proposed opening date to determine whether the Board of Directors and management are prepared to commence operations. It is the District Director's responsibility to organize the POE and to provide the new financial institution with the Organizer's Request for Information, including a date by which it will be completed and submitted. Once the POE has been scheduled, the District Director should notify the Supervisory Manager, the Corporate Manager, and the Federal Agency Case Manager by e-mail. Additionally, once the Board meeting is scheduled and the opening date is firm, the District Director should notify the Supervisory Manager, Corporate Manager, and the Federal Agency Case Manager by e-mail so that the Department can prepare the Permit to Begin Business and the FDIC or NCUA can prepare the Certificate of Deposit Insurance.

The Department may decide, on an individual basis, to waive or perform an abbreviated POE for an organizing financial institution sponsored by an existing BHC. The Department's decision will be based primarily upon its prior knowledge of, and experience with, the corporate parent and its policies and procedures. At a minimum, each BHC-sponsored organizing financial institution that will not receive an on-site review must certify completion of certain

organizational procedures and file remaining corporate documents to be determined by the Department.

RESPONSIBILITIES

Supervision Division

Request that the appropriate District Director assign an experienced EIC to the POE.

The Corporate Manager or Supervisory Manager should notify the EIC of any special concerns about the financial institution, including any organizational matters or remaining conditions of approval that need attention.

Examiner Responsibilities

If applicable, review special instructions in the notification provided by the Supervision Division.

Confirm with the Corporate Manager that the pre-opening exam fee has been paid.

Review the charter application file, with special attention to the charter application's operating plan and the conditions of approval.

If applicable, call or visit the financial institution to determine if it is prepared for the review.

Within 10 business days of the anticipated opening date, conduct the POE to certify compliance with all standard requirements and special conditions in the approval letter. The EIC should contact the assigned District Director and Supervisory Manager immediately, if any of the conditions have not been or will not be met by the proposed opening date.

Determine whether the financial institution has:

- Adhered to the operating plan submitted in the charter application.
- Established satisfactory operational procedures and policies according to the Department's recommended Guidelines for Policy Development (District Director and/or Supervisory Manager may have reviewed policies and made recommendations - check to see that any recommended changes have been made and approved by the Board).
- Conducted a thorough review of EDP vendors for critical applications to assess their ability to provide quality service and contingency planning to insure continued service.

Reaffirm consistency of the operating plan with management's after opening.

Meet with management at the conclusion of the examination to inform them of the findings, deficiencies, recommendations, and suggestions with proposed management (and if necessary, the Board of Directors). Obtain a commitment for correction of any deficiencies and a follow-up date for confirmation that deficiencies have been adequately addressed.

Prepare a POE memo to the District Director, who will then forward the document by e-mail to the Supervisory Manager and the Federal Agency Case Manager to report the findings of the POE. In particular, report the following:

- Summarize findings especially those pertaining to deviations (positive or negative) from the operating plan on proposed operations.
- Include one of the following recommendations: (1) The financial institution should be permitted to open, or (2) Deficiencies should be corrected prior to opening. If any deficiencies are noted, the EIC should follow-up on these deficiencies to ensure that they have been corrected and provide notification to the District Director and Supervisory Manager recommending issuance of the permit to begin business.
- Contact the District Director and Supervisory Manager immediately if safety and soundness or control issues are outstanding that, in the opinion of the EIC, make opening as scheduled inadvisable.

Checklist for New Charters

Review these items in the context of the standard conditions and any special conditions of the preliminary approval and the approved operating plan. Note any discrepancies between the conditions and the plan and the proposed operations of the financial institution.

Performed by Supervisory Manager and/or Corporate Manager

The following items should be sent to the main office prior to opening. They should also be referenced or adopted in the minutes of meetings of the organizing Board of Directors and note the following actions taken:

Form 19-1: Request for Permit to Begin Business - completed and approved by the Corporate Manager with the POE fee of \$5,000

Form 19-2: Oaths of Office of organizing directors completed

Form 19-3: (a) Depository institutions (Correspondent institutions) named

Form 19-3: (b) Officers Elected and approved by the Department:

- President and CEO
- Chief Lending Officer
- Chief Operations Officer
- Any changes to top three executives since charter approval

Form 19-3: (c) Fidelity Carrier selected and coverage amount selected

Form 19-4: Report of Stock Ownership, Approve stock subscription list

Bylaws reviewed and accepted by Supervisory Manager and/or Corporate Manager

Performed by Investigating Examiner during on-site POE

Issuance of stock Certificates

Total Capital Funds:

Common Stock

Surplus

Expense Fund

Terms for stock solicitations set and offering circular approved by the Department for submission to potential subscribers. If any options/warrants to organizers are proposed, do they comply with Department's Policy Statement?

Letter of Assurance provided for Data Processing Servicer.

The Supervisory Manager has reviewed and approved any proposed officer contracts.

Board Resolution committing that no dividends or incentive bonuses be paid without the prior approval of the Department.

Board Resolution not to pay any fees to directors or committee members until the financial institution has earned a cumulative profit .

Board Resolution committing that all commissions received from the sale of credit related insurance in connection with financing with the financial institution be received into the financial institution's income accounts.

Board Resolution adopting the following policies noting Board and Department approval dates:

- a) Loan Policy
- b) Investment Policy
- c) Liquidity and Funds Management Policy
- d) Sensitivity to Market Risk Policy
- e) Audit Policy
- f) Information Systems (IS) Policy
- g) Conflict of Interest Policy on Directors, Officers and Employees
- h) Retirement Policy for Directors
- i) Disaster Recovery/Contingency Plan
- j) Copy of the proposed Bylaws which will be submitted to the shareholders for approval/ratification
- k) Stock Certificate Receipt Policy

Where Applicable

New Directors added prior to opening approved by the Department

Organizer Stock Option/Warrant plans have been approved by the Department

Stock option plans to key employees and/or officers of the bank submitted and approved by the Department

All required conditions of the FDIC or NCUA approval have been met

If applicable, all required conditions of the FRB approval have been met

If applicable, mobile banking units or courier services activity has been approved

Determine that all conditions of the approval not already resolved by the Department have been adequately complied or addressed. Many areas of the approval letter may also be revised in the items that follow.

Board Minutes should reflect the approval of the following, where appropriate:

- Execution of oaths of Directors
- Election of the chairperson, secretary, and other officers of the board, and appointment of the president, CEO and other executive officers
- Ratification of the bylaws to be presented to the stockholders at the next stockholders meeting
- Election of the standing committees of the board
- Corporate seal and form for stock certificates adopted
- Selection of depository institution(s)
- Office locations authorized. Make certain that the financial institution is located at the location(s) approved. If there is any change, check for relocation approval. (**NOTE:** *This may or may not be disclosed in the Minutes.*)
- Adequate fidelity insurance authorized
- Detailed list of organization expenses reviewed and approved by the Board

Use the Department's Guidelines for Policy Development to determine if the financial institution has adopted adequate policies and procedures. Consideration should be given to any previous recommendations made by the Department.

Review major areas of operations, noting any areas not covered by policy statements, and appraise the adequacy of existing policies approved by the Board of Directors. Note any additional policies or procedures that may need to be developed.

Determine that the board has provided for an adequate loan review system.

Review the adequacy of regular reports to be presented at monthly board meetings.

Determine that provisions have been made for providing independent internal and external audit as required by Department Rules.

Determine that a list of insiders' business interests is maintained pursuant to Regulation O.

MANAGEMENT AND STAFF

Note that a consumer compliance and security officers have been specifically designated.

Note any areas of operation where lines of authority and reporting responsibility have not been clearly defined.

Review the number and experience of personnel relative to the expected volume of business. Determine what employee training programs are contemplated. Based on the information reviewed, does staffing appear adequate?

Specifically address any deficiencies in the following areas:

- Written operating and internal control procedures
- Adequate procedures to facilitate compliance with the Bank Secrecy Act
- Operating budgets and pro forma balance sheets prepared
- Appropriate forms to assist in operations and recordkeeping functions including an attorney review of all the depository agreements and forms to determine compliance with state and Federal laws
- Adequate procedures to facilitate compliance with the Community Reinvestment Act

Determine if management has entered into any written commitment to purchase “warehoused” loans held by another financial institution. If so, the financial institution has engaged in banking activities without appropriate authority and the directors and/or officers may be personally liable. If the agreement is informal, the case for engaging in banking activities may not be evident. However, personal liability may still be an issue. Such warehousing activities for loans or deposits should be reported to the Supervisory Manager for resolution prior to issuance of a Permit to Begin Business and included in the POE. **NOTE:** *Any loans reported as “warehoused” at another financial institution should meet the written loan policy and underwriting standards. Prior to purchasing any “warehoused” loan(s), management should perform the underwriting and maintain a complete file on the loans purchased.*

FIXED ASSETS AND ORGANIZATIONAL EXPENSES

Verify that the fixed asset investment complies with the conditions of approval and Department Rules, as well as consistent with amounts detailed in the application.

If the financial institution will rely on rental income to contribute to payment of occupancy expenses and such income is material, analyze the potential exposure as a result of the following:

- Terms of major leases
- Creditworthiness of lessee(s)
- Determine if there have been apparent fixed asset transactions with insiders or their interests that have not been disclosed. **NOTE:** *If answer is yes, determine whether disclosure was made in the offering circular.*

A detailed list of final organizational and pre-opening expenses should be reviewed. If the expenses vary significantly from the projections set forth in the offering circular, this should be discussed with the Supervisory Manager.

Review investments already made for legal and policy compliance.

INSURANCE

Verify that the financial institution has appraised the need for insurance coverage (fidelity, automobile, hazard, liability, etc.) and comment on any areas not adequately covered. Fidelity coverage should relate to the anticipated deposit size during the period the coverage is in effect.

The financial institution must have a minimum of \$1,000,000 Excess Fidelity Bond, generally available as a rider to the primary policy.

CAPITAL STOCK REVIEW

Determine that the bank has issued stock certificates and date that stock issuance will be completed. **NOTE:** *Stock certificates should be issued when or shortly after the bank breaks escrow. If stock offering remains open after breaking escrow, the remaining certificates should be issued one week after expiration of the offering. Certificates should be issued within a reasonable time after stock sale is completed after the initial issuance of stock certificates.*

Verify that stock certificates are serially prenumbered. Verify type of confirmation for hand pick-up or mail delivery (acceptable personal pick-up signature needed; mail positive confirmation with signed return receipt). **NOTE:** *Some banks may use computer software to keep track of and print the certificates. If so, the EIC should review controls needed to safeguard the issuance of certificates and the certificate numbers.*

Determine if a shareholders' ledger, together with adequate journals and records, is maintained. Reconcile final stockholders list with the stock certificate ledger/book. **NOTE:** *In practice, a complete name-by-name verification is rarely performed, but rather a decent size sampling is performed as a verification.*

Review the certificate of payment of capital stock and the certificate from the depository bank and determine that the capital funds have been deposited to the credit of the organizing bank. (Main goal is to determine that capital has been fully paid-in in cash).

Determine if management plans to finance or refinance the initial stock purchase made by organizers, directors, bank officers, and 10% or more shareholders.

OFFICE SYSTEMS AND FINANCIAL RECORDKEEPING

Review a list of applications that will be processed with electronic data processing equipment and ascertain that reports will be received without undue delay.

Obtain (or discuss with management) a listing of reports to be prepared for management and review it for adequacy to permit informed management decisions.

Review note forms, application forms, and documentary stamps to ensure that all necessary forms and stamps have been obtained in order to begin business. **NOTE:** *The examiner should verify that the financial institution has a supply of starter forms for all types of accounts, especially starter checking kits, on hand.*

It is recommended that the EIC have the financial institution staff walk him/her through the procedures used in setting up new accounts. This will allow the EIC to better determine the staff's knowledge of operational procedures and also give an indication as to whether or not

the computer system is working properly. Employee accounts are generally used for testing purposes at the time of the POE.

Verify the data processing system is operational, and ensure backup systems are in place.

Verify arrangements been made to order operating currency and coin for the first day of business.

NOTE: *Pre-opening form 19-3 listed correspondent financial institutions, and the EIC should determine whether or not correspondent accounts have been established.*

Ensure the disaster recovery and contingency plans and/or policies are adequate.

Ensure adequate space exists in a fireproof area for the safeguarding of vital systems and records and procedures have been established to ensure that these systems and records are maintained in the fireproof area. **NOTE:** *Includes vault for cash and negotiable instruments which meet regulatory and bonding company requirements.*

ON-SITE EVALUATION OF PREMISES

Verify that adequate security devices and procedures been installed and tested to ensure that they are operational. Verify that phone systems are operational.

Verify that furniture, fixtures, and equipment are installed. Ensure that equipment is operational.

Ensure that building construction is completed or is progressing satisfactorily for opening.

Pre-opening Request List - New Charters

At least 10 business days prior to the proposed opening date, a pre-opening examination will be conducted by examiners of the Department. Please have the following records and information available on the first day of the examination. NOTE: All pre-opening forms must be submitted and the pre-opening examination fee of \$5,000 must be paid 30 days before the pre-opening examination can be scheduled.

- 1) Board of Directors' and Committee minutes books, reflecting all meetings held and including any resolutions required by the Department's approval letter.
- 2) Provide a listing of all officers, directors and committee members.
- 3) Provide a copy of the stock warrant register, recording the number of options issued, exercised and outstanding.
- 4) Stock ledger and stock certificate book.
- 5) Evidence that all required stock has been subscribed and amount of capital fully paid in.
- 6) Evidence that all required policies have been formally approved by the Board of Directors.
- 7) Evidence that the required officers have been elected by the directorate (President, Corporate Secretary, Auditor, Chief Lending Officer, Chief Operations Officer, and Security Officer).
- 8) Evidence that the appropriate committees have been established and properly elected/approved by the Board of Directors.
- 9) Evidence that the blanket bond coverage has been obtained, including a copy of the policy.
- 10) Evidence that the hazard insurance coverage on premises and equipment has been obtained, including a copy of the policy. Also, provide any other insurance policies obtained.
- 11) Provide a current balance sheet reflecting capital distributions in accordance with the Department's approval letter.
- 12) A detailed general ledger.
- 13) A complete listing of income and expenses, to date.
- 14) A detailed accounting of fixed assets, including a listing of remaining fixed asset purchases yet to be capitalized. Provide any lease and servicing agreements, as well. Any material changes in fixed assets from what was proposed in the application should be detailed to the examiner. (Examples would be cost overruns that might be compensated for by decreasing square footage, and any increases and decreases in proposed investment in fixed assets.)

- 15) A detailed listing of any costs/expenses categorized as Organizational Costs.
- 16) A detailed listing of securities/investments already purchased.
- 17) Evidence that the necessary data processing arrangement have been made, including courier services, delivery schedules, special telephone lines, etc.
- 18) If the financial institution is to be on-line with its service bureau, has this system been checked and found operational?
- 19) Evidence that the correspondent accounts have been established and that sufficient funds are in the account.
- 20) Has all equipment been tested for operational soundness? (For example, is the proof machine operational? Has a back-up plan been established for processing work if it is not operational on opening day?)
- 21) Does the institution have on hand a supply of all the necessary forms to begin business? (For example, signature agreements, note forms for all types of loans, certificate of deposit forms, etc.)
- 22) Have the necessary documentary stamps been obtained? (i.e., NSF, No Account, etc.)
- 23) Are the phone system and the security system operational? Has the security system (alarms, cameras, etc.) been fully tested and certified as fully operational by a qualified individual? Please provide a letter attesting to the certification of these systems.
- 24) Has an attorney reviewed all the depository agreements and certificate forms and all note forms for compliance with all state and federal laws and for adequate protection in the courts? Please have a letter attesting to such review.
- 25) Have proper internal procedures been established to ensure that all necessary records are in fact maintained in a fireproof area?
- 26) Has the financial institution verified its routing number with the Federal Reserve Bank of Atlanta? Provide a copy of such verification.
- 27) Provide a schedule of operating hours.
- 28) Please have all deposit insurance signs displayed at each paying and receiving teller station.
- 29) Provide a copy of the cash items register.
- 30) Provide a copy of the internal and external audit program.

- 31) Provide a copy of any employee contracts.
- 32) Provide a copy of the business plan, including the first year budget. Also, please indicate any significant deviations from the original information which was submitted during the charter investigation.
- 33) Provide information concerning any non-deposit products which management plans to offer.
- 34) Provide for review any and all contracts with third parties.
- 35) Does the bank plan to provide loans to organizers, directors, bank officers, and 10% or more shareholders to refinance/payoff loans made to purchase stock as part of the initial stock sale to capitalize the bank?