



# FINANCIAL INSTITUTIONS TODAY

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

Monthly Bulletin #1

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## Outsourcing Risk Management

*"Risk comes from not knowing what you're doing." – Warren Buffett*

This quote reflects the importance of having a complete understanding of the nature and extent of risks. Increasing complexity in the financial services industry combined with challenges to profitability and traditional business models are prompting many banks and credit unions to seek new and creative solutions. Although not new, outsourcing is one such solution that offers the opportunity to leverage resources of third-parties to gain efficiencies in implementation. However, outsourcing risk management, or failing to have personnel in-house with sufficient experience and expertise to fully understand the risks and rewards of a new product, service, or initiative prior to its undertaking, is an unsafe and unsound practice. Many risks involved in third-party arrangements are the same as if the institution were engaged in those activities directly, but some risks are actually heightened by the involvement of a third-party.

FDIC Financial Institutions Letter (FIL) 44-2008 "Guidance for Managing Third-Party Risk" is a useful resource addressing the potential risks of third-party relationships and outlining regulatory expectations. The guidance identifies four basic elements of third-party risk management: risk assessment, due diligence, contract structure/review, and oversight. It is clearly stated in the guidance that **an institution's board of directors and senior management are ultimately responsible for managing activities conducted through third-party relationships and identifying and controlling the risks arising from such relationships to the same extent as if the activity were handled within the institution.** In other words, an institution should only engage in an activity (in-house or outsourced) with full understanding of the risks and how to control those risks, i.e. in-house risk management capabilities. That understanding begins with basic knowledge or instruction at the board level, supplemented by in-house experience and expertise at the staff level. Indemnity agreements may be properly used to mitigate risks of third-party relationships, but they do not insulate the institution from its ultimate responsibility to operate in a safe and sound manner in compliance with applicable laws and regulations.

NCUA Letter No. 07-CU-13 "Evaluating Third-Party Relationships" notes that utilizing the skills of qualified third-parties may serve as an avenue for credit unions to expand service offerings, increase efficiencies, or reach new members. However, the letter goes on to state that

*(Continued on page 2)*

## Outsourcing Risk Management *(continued)*

outsourcing functions without appropriate due diligence and oversight may result in undue risk taking. The credit union is ultimately responsible for safeguarding member assets and ensuring sound operations, irrespective of whether or not a third-party is involved. Third-party risk management principles outlined in the letter align to those set forth in FDIC FIL 44-2008, reflecting a consistent regulatory standard for insured financial institutions of all type. The Department has noticed a recent increase in interest by credit unions in third-party loan origination and servicing arrangements, including the purchase of participation interests in loans. While such arrangements may serve as a useful avenue for improving a credit union's earning asset mix and revenues, the Department expects sufficient in-house experience and expertise within the credit union to adequately identify and understand as well as provide for oversight and control of the risks undertaken.

Understanding risks, whether engaged directly or through a third-party arrangement, is fundamental to the safe and sound operation of a bank or credit union. That understanding starts with in-house experience and expertise, which allow for prudent risk taking and effective risk management through the identification, measurement, monitoring, and control of risks. Banks and credit unions are in the business of prudent risk taking and risk management, but risks can only be prudently undertaken and managed if properly understood. Outsourcing activities and process to third-parties may improve a bank's or credit union's efficiency and enhance its capabilities, but outsourcing risk management is unsafe and unsound.

## Meet Deputy Commissioner Oscar "Bo" Fears



Bo Fears

Oscar "Bo" Fears joined the Department on February 1, 2013, as the new Deputy Commissioner for Legal and Consumer Affairs. Since September of 1997, Bo has worked at the Georgia Department of Law. His most recent position was the Section Leader for the Business and Finance Section of the Commercial Transactions and Litigation Division.

While at the Attorney General's Office, he handled litigation, transactional and advice matters for a variety of entities of the State of Georgia. His practice involved a number of areas of law including banking, bankruptcy, contracts, procurement, and securities. He has provided general representation to a number of entities of the State, including the Georgia Department of Banking and Finance, the Office of State Treasurer, and Department of Audits and Accounts.

Bo received a B.A. in history from Emory University in 1993 and received his J.D. from the University of Texas School of Law in 1996.

### REMINDER: Annual Bank Holding Company Assessments Due

This is a reminder that per Department Rule [80-5-1-.02\(3\)](#), each bank holding company supervised by or registered with the Department shall pay an annual registration fee of \$1,000 plus \$500 for each Georgia nonbank subsidiary corporation owned by the bank holding company on June 30 preceding the due date of January 31 of each year. **Online reporting and fee payment was due by no later than close of business on January 31, 2013.** Holding companies that have not already done so should go to <https://bkqfin.dbf.state.ga.us/HCAssessments.html> and pay by either ACH draft or credit card.

## Senior Deputy Commissioner Steve Pleger Appointed to NASCUS Board of Directors



Steve Pleger

On January 29, 2013, the National Association of State Credit Union Regulators (NASCUS) announced the appointment of Senior Deputy Commissioner Steve Pleger to the NASCUS Board of Directors to fill an unexpired term.

“NASCUS is pleased to welcome Steve to the NASCUS Board of Directors, an exemplary group of state regulators who continue to successfully guide NASCUS' strategic direction,” said NASCUS Chairman Orla Beth Peck, the supervisor of credit unions for the Utah Department of Financial Institutions. “We are grateful to have his depth of state regulatory experience on the NASCUS Board.”

Steve is filling the unexpired term ending in September that was previously held by Linda Charity, former Director of the Florida Division of Financial Institutions.

## Georgia Residential Mortgage Act Fee Reminder

The \$10.00 per loan fees required by O.C.G.A. Section 7-1-1011(b)(2) and Department Rule 80-5-1-.04 are due **no later than March 1, 2013**, for residential mortgage loans closed during the period July 1, 2012, through December 31, 2012. A \$10.00 fee will be due if the loan is a residential mortgage loan as defined in the Georgia Residential Mortgage Act (“GRMA”), and if a security deed, a modification of a security deed or other form of modification of a security interest is recorded. Financial institutions, mortgage licensees and registrants that act as the *collecting agent* (including brokers that table fund and collect the fee) must submit the fees and file the fee statement before the deadline to avoid fines.

**Per Department Rule 80-5-1-.04(b), GRMA per loan fee reporting / remittance must be completed online through the Department's secure website. Reporting is required even if no residential mortgage loans were made and no fees are due.** To avoid fines for failure to report / remit GRMA fees, reporting must be completed by the deadline noted above.

Reporting and fee payment must be done online from our secure website at:

<https://bkgfin.dbf.state.ga.us/GRMAFee.html>.

## DBF Outreach AND UPCOMING SPEAKING ENGAGEMENTS

- ❖ Commissioner Braswell will be speaking at the UGA Terry College of Business Bank Management and Directors Conference at Gwinnett Center, Duluth on **February 5th**. He will also be speaking at the CBA Regulation & Taxation Meeting at the CBA Offices in Marietta on **February 7th** and at CBA Day at the Capitol, Georgia Railroad Depot, Atlanta on **February 20th**. Commissioner Braswell and Deputy Commissioner for Non-Depository Financial Institutions Rod Carnes will also be speaking at the Mortgage Bankers Day at the Capitol on **February 12th** at the State Capitol.
- ❖ Deputy Commissioner for Supervision Kevin Hagler will be participating on the Regulator Panel Discussion on Banking Examination Trends at the **Banking and Finance Law Seminar** presented by the Institute of Continuing Legal Education in Georgia (ICLE), on **February 8th** at the State Bar of Georgia Headquarters.

## Action on Applications for the Month of January:

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 January 2013.

### APPLICATIONS TO ESTABLISH A BRANCH OFFICE

| <u>FINANCIAL INSTITUTION</u>               | <u>BRANCH OFFICE</u>  | <u>APPROVAL</u> | <u>BEGIN BUSINESS</u> |
|--|---|-----------------|-----------------------|
| Fidelity Bank<br>Norcross                  | State Bridge Road Branch Office<br>5960 State Bridge Road<br>Johns Creek, GA 30097<br>Fulton County | 01-29-2013      |                       |
| The Peoples Bank of Talbotton<br>Talbotton | Ellaville Branch Office<br>46 East Oglethorpe Street<br>Ellaville, GA 31806<br>Schley County        | 01-04-2013      |                       |
| Resurgens Bank<br>Tucker                   | Main Office<br>3953 Lavista Road<br>Tucker, GA 30084<br>DeKalb County                               | 06-01-2012      | 01-22-2013            |

### APPLICATIONS TO CHANGE LOCATION

| <u>FINANCIAL INSTITUTION</u>         | <u>CHANGE LOCATION OF</u>  | <u>APPROVAL</u> | <u>EFFECTIVE</u> |
|--------------------------------------|--|-----------------|------------------|
| Community & Southern Bank<br>Atlanta | From: Woodstock Branch Office<br>9860 Highway 92<br>Woodstock, GA 30188<br>Cherokee County<br>To: 8770 Main Street<br>Woodstock, GA 30188<br>Cherokee County | 12-05-2012      | 01-26-2013       |

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

#### FORMATIONS ONLY:

| <u>BANK HOLDING COMPANY</u>                     | <u>TO ACQUIRE</u>             | <u>APPROVAL</u> |
|---|-------------------------------|-----------------|
| Charter Financial Corporation<br>West Point, GA | CharterBank<br>West Point, GA | Pending         |

### NOTIFICATION OF APPROVAL OF APPLICATION TO SERVE A RESIDENTIAL GROUP COMMON BOND

| <u>CREDIT UNION</u>                   | <u>RESIDENTIAL GROUP COMMON BOND</u> | <u>APPROVAL</u> |
|---------------------------------------|--------------------------------------|-----------------|
| Georgia United Credit Union<br>Duluth | DeKalb County, GA                    | 01-07-2013      |
| DOCO Credit Union<br>Albany           | Dougherty County, GA                 | 01-07-2013      |

**CHECK CASHER LICENSES ISSUED**

| <b><u>CITY</u></b> | <b><u>APPLICANT NAME</u></b>           | <b><u>TRADE NAME</u></b>               |
|--------------------|--|--|
| Atlanta            | A R Khan and Sons, LLC                 | Cleveland Coin Laundry                 |
| Milledgeville      | AMAB Enterprises 2 LLC                 | Mr. Tax Etc.                           |
| College Park       | * ASMA Enterprise, Inc.                | Stop N Shop                            |
| Thomasville        | * Aanvi Beverages, Inc.                | J's Wine and Spirits                   |
| Jackson            | * Appollo Petroleum LLC                | Peachtree Amoco                        |
| Augusta            | Aum food Mart LLC                      | Chevron Food Mart                      |
| Louisville         | Blockers Holdings LLC                  |  |
| Columbus           | * Brenda L. Armour                     | One Stop Services                      |
| Chamblee           | Danyal Holdings, Inc.                  | Exxon Food                             |
| Valdosta           | * Exit 18 Liquors, LLC                 | Exit 18 Liquors                        |
| Bethlehem          | * Friendship Services, LLC             | Bethlehem BP                           |
| Newnan             | IRS Enterprises, Inc.                  |  |
| Stockbridge        | * Jaival LLC                           | JB's Mart                              |
| Vidalia            | * Jay Shri Swaminarayan, LLC           | Fast Break                             |
| Carrollton         | Jorge Alvarado                         | Rocky's Tobacco                        |
| Gainesville        | Joyeria Y Novedades Latinos U. R. Inc. |  |
| Columbus           | La Shelton Woodgett                    | Columbus Tax and Check Cashing Service |
| Villa Rica         | * Liaquat Ali                          | Villa Rica Food Mart                   |
| Crandall           | * Linda Herron Crider                  | Sunrise Grocery                        |
| Hahira             | * Little River Groceries, LLC          |  |
| Gainesville        | * Moon & Sun Food Mart, Inc.           | Shell Food Mart                        |
| Lawrenceville      | Morgan Greystone Enterprises, LLC      | Family Financial Center                |
| Forest Park        | Neelam investments Inc.                | Happy Food Mart                        |
| Savannah           | * OM Food Mart, Inc.                   | Savannah 7/11 #2                       |
| Loganville         | PDP Check Cashing Services LLC         | PDP Check Cashing                      |
| Statesboro         | * Rangmandir Inc.                      | 301 BP                                 |
| Cumming            | * S J Business, Inc.                   | A & L Quik Stop                        |
| Moultrie           | * Shreejimita Ventures, LLC            | One Stop #4                            |
| Carrollton         | West Georgia Financial Solutions, Inc. | Check Max Pro                          |

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

## CUSTOMER SERVICE STAR FOR THE MONTH OF JANUARY

It is the Department's goal to provide excellent customer service by meeting and exceeding the expectations of our customers. Along those lines, we would like to recognize the following individual and/or team for going above and beyond in serving our customers:

**Financial Examiner Presley Norris and his Examination Team (District 1)** – The Department received comments from a customer stating: ["We want to thank Financial Examiner Presley Norris and his team for the professionalism and courtesy they showed our staff during the examination. Please relay our gratitude to your staff and the examiners who worked with us on this exam."](#)

**CONGRATULATIONS AND GREAT JOB TO THIS MONTH'S  
CUSTOMER SERVICE STAR!!**



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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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