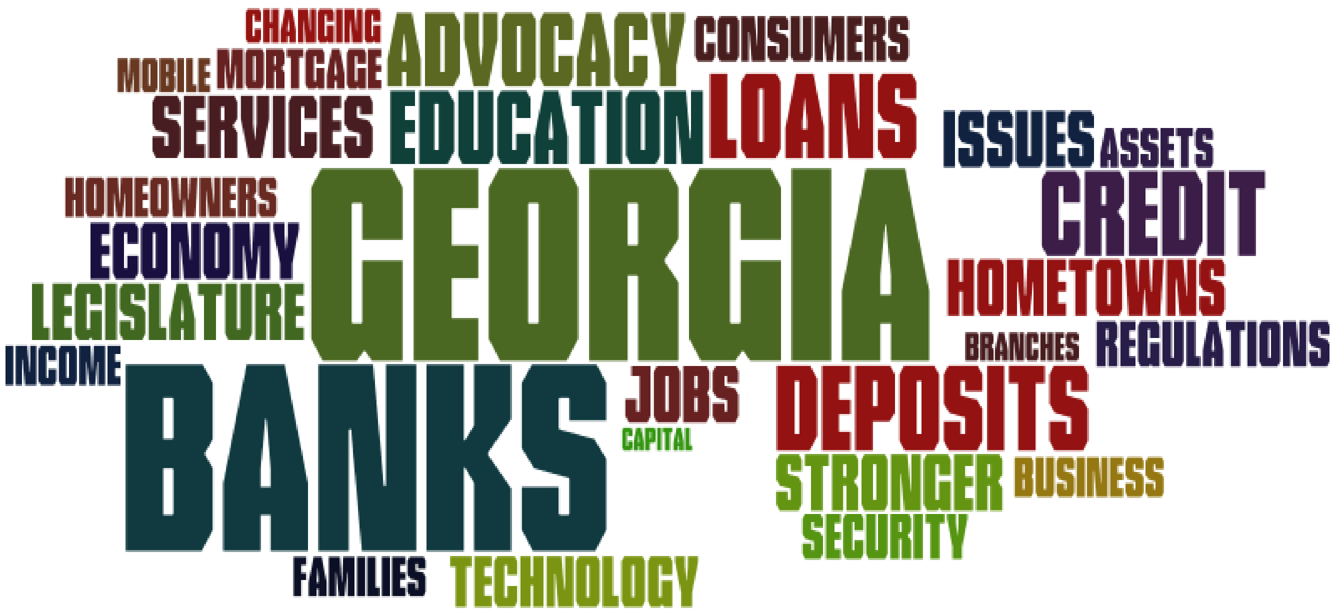
GBA
GEORGIA BANKERS ASSOCIATION
the resource that empowers



Georgia Banking Update January 2015

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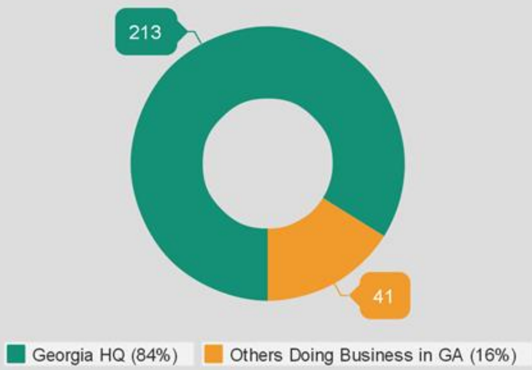
GEORGIA BANKS AT A GLANCE

254 BANKS IN GEORGIA



ASSET-SIZE DIVERSITY

60,000 EMPLOYED

IMPROVING PERFORMANCE

87% PROFITABLE

LOANS DEPOSITS

Credit Quality Is Better

18 CONSECUTIVE QUARTERS OF LOWER NONCURRENT LOANS

Georgia Banking Facts and Figures

Through Sept. 30, 2014, unless noted otherwise

- There are 254 FDIC-insured banks and savings institutions operating in Georgia from more than 2,500 branches.[1] Of those, 213 are based in Georgia as of Sept. 30, 2014.[2]

- Georgia-based banks employ about 44,400 people.[3] Conservatively, GBA estimates that all banks operating in Georgia employ about 60,000 people.

- 86 percent of the state's banks were profitable through the third quarter, and 60.1 percent reported earnings gains.

- Loans were up 6.3 percent compared to a year ago and deposits are up 4.7 percent since that time.

- More families and businesses were able to pay their loans on time in the third quarter of 2014. Noncurrent loans were down for the 18th consecutive quarter and were below the national percentage.

Measurement (Year-to-date)	Georgia 9/30/14	Georgia 6/30/14	Georgia 3/31/14	Georgia 12/31/13	Georgia 9/30/13	National 9/30/14
Institutions	213	217	219	223	224	6,859
Employees (FTEs)	44,422	45,321	44,961	45,219	45,339	2,048,639
Total assets	$279.5 B	$274.9 B	$271.5 B	$266.7 B	$261.4 B	$15.4 T
Total deposits	$221.0 B	$218.0 B	$217.6 B	$213.6 B	$211.0 B	$11.6 T
Loans and leases, total	$199.8 B	$198.3 B	$193.7 B	$192 B	$188.1 B	$8.2 T
Other real estate owned	$1.3 B	$1.4 B	$1.5 B	$1.6 B	$1.8 B	$24.9 B
Net income	$1.9 B	$1.1 B	$590.0 M	$2.0 B	$1.5 B	$116.0 B
Net charge-offs to loans	0.35%	0.35 %	0.33%	0.59%	0.65%	0.51%
% of profitable institutions	86%	88%	86%	83%	86%	93%
% institutions with earnings gains	66.67%	60.83%	64.84%	65.47%	68.30%	60.7%
Net interest margin	3.37%	3.38%	3.39%	3.48%	3.47%	3.15%
Return on assets (ROA)	0.94%	0.81%	0.88%	0.77%	0.76%	1.03%
Return on Equity (ROE)	7.82%	6.78%	7.32%	6.36%	6.18%	9.19%
Loss allowance to loans	1.49%	1.54%	1.61%	1.64%	1.70%	1.53%
Noncurrent loans to loans	1.62%	1.71%	1.96%	2.12%	2.26%	2.11%
Equity capital to assets	11.93%	12.00%	11.97%	11.99%	12.11%	11.20%
Core Capital (Leverage ratio)	10.04%	10.00%	10.02%	10.02%	9.96%	9.52%
Total risk-based capital ratio	13.35%	13.47%	13.73%	13.74%	13.97%	14.44%

[1] SNL Financial report of current banks and branches

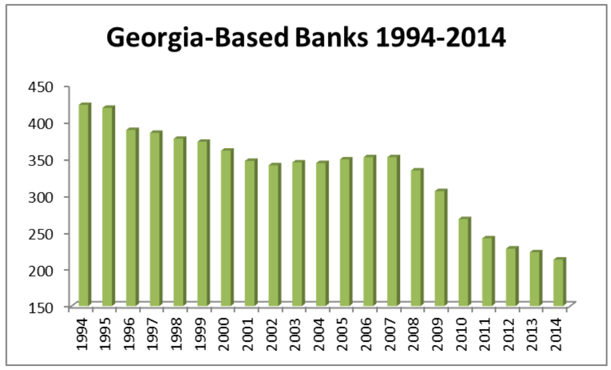
[2] FDIC institution directory website

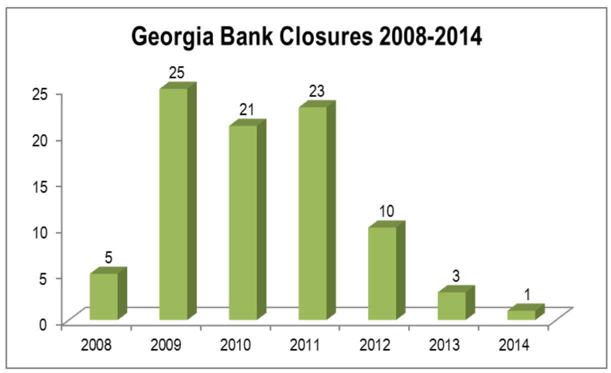
[3] FDIC Statistics on Depository Institutions, Georgia-based institutions only, most recent available, through June 30, 2014.

The Changing Georgia Bank Landscape

Georgia remains a well-banked state, with the most state-based banks in the Southeast. There is significant choice and access to banking for families and businesses. Competition is robust in terms of rates, terms, products and services. Georgia historically has had a large number of banks, and still does. However, the national trend toward consolidation, the severity of the economic downturn, and return of traditional merger and acquisition activity continue to shift the industry landscape.

State-Based Banks Sept., 2014	
Georgia	**213**
Florida	184
Kentucky	183
Tennessee	174
Louisiana	140
Alabama	133
Arkansas	111
Virginia	99
Mississippi	84
Maryland	73
North Carolina	68
South Carolina	66
West Virginia	60





2014 Georgia Bank Mergers and Acquisitions

Target / Buyer (Buyer in bold type)	Announce Date	Status	Completion Date
1. Heritage Financial Group, Inc. / **Renasant Corporation**	12/10/2014	Pending	-
2. Greenville Banking Company / **First Peoples Bankshares, Inc.**	12/9/2014	Pending	-
3. Georgia Commerce Bancshares, Inc. / **IBERIABANK Corporation**	12/8/2014	Pending	-
4. Metro Bancshares, Inc ./ **ServisFirst Bancshares, Inc.**	10/20/2014	Pending	-
5. Citizens Exchange Bank / **WB&T Bankshares, Inc.**	6/24/2014	Completed	11/3/2014
6. Georgia-Carolina Bancshares, Inc. / **State Bank Financial Corporation**	6/24/2014	Completed	1/1/2015
7. Alliance Bancshares, Inc. / **Community & Southern Holdings, Inc.**	5/16/2014	Completed	8/20/2014
8. Monroe County Bank / **United Bank Corporation**	5/15/2014	Completed	7/31/2014
9. Midtown Bank & Trust Company / **First Landmark Bank**	4/28/2014	Completed	10/20/2014
10. Atlanta Bancorporation, Inc. / **State Bank Financial Corporation**	4/28/2014	Completed	10/1/2014
11. Coastal Bankshares, Inc. / **Ameris Bancorp**	3/11/2014	Completed	6/30/2014
12. Stephens Federal Bank / **Oconee Federal Financial Corp. (MHC)**	2/27/2014	Completed	12/1/2014

Economic and Banking Environment Summary

The Fundamentals Remain Solid, Some Challenges Remain
• **Georgia's population growth was fourth nationally from June 2013 to June 2014, a trend that is expected to continue**
• **Housing recovery strengthening; housing is still comparatively affordable for new buyers**
• **Business relocations remain good**
• **Ports, rail, air and highway transportation infrastructure are general advantages as ongoing challenges are being addressed by state leadership**
• **Georgia has become a leader in the financial services technology sector**
• **Competition for high-quality borrowers is strong, with attractive rates and terms for borrowers**

Legislative and Regulatory Priorities for Strengthening Georgia's Banking Environment

1. Support policy and regulatory actions that enable lending and foster job creation.
2. Support issues that protect real estate values.
3. Support initiatives to help conserve and grow bank capital.
4. Support policy and regulatory actions that ensure a stable banking environment.

State Legislative Issues

The 2015 Georgia General Assembly Session will begin Jan. 12, 2015. GBA is represented by our Senior Vice President for Government Relations, **Elizabeth Chandler**, 404.420.2027, and President and CEO, **Joe Brannen**, 404.402.2026. Contact either of them with questions. Issues we expect to be addressed in legislation include:

Expected Legislation Related to the Effects of the Downturn

- **Guarantor obligations**
  We may see legislation prohibiting contract language allowing a guarantor to waive confirmation rights in a foreclosure.

- **Post judgment foreclosure process / Other foreclosure legislation**
  We expect a bill that would propose to create a process similar to foreclosure sale and confirmation for properties sold after a judgment is received following a suit on a note. We expect to see a number of other foreclosure-related bills introduced challenging portions of Georgia's non-judicial foreclosure process as well as the timely filing of foreclosure deeds.

- **Homeowners association superlien**
  Another attempt is expected to pass a bill that would require six months of unpaid homeowner association assessments to be paid from foreclosure sale proceeds.

- **Default notice to contractors / subcontractors**
  Contractors and their subcontractors for construction development borrowers continue to express interest in legislation requiring lenders to provide public notice by the lender when the borrower has received a default notice putting future funding of the project in jeopardy.

- **D&O liability**
  As a response to the Loudermilk and Skow decisions about Georgia's business judgment rule related to director and officer liability, we will monitor the session being attentive for legislation that would treat bank directors and officers differently than any other corporate directors.

- **Self-administered trust (a.k.a. Domestic Asset Protection Trust)**
  A bill is expected to be introduced that would provide for self-settled trusts in which individuals can set aside assets for their own use without fear of adverse creditor claims.

Other Expected Legislation Not Related to the Downturn

- **Department Housekeeping Legislation**
  The Banking Department will be asking for legislation substantially revising the credit union code while including other minor edits to clarify provisions of the code applicable to all entities under the Department's supervision. A provision of special interest is a parity provision ensuring state chartered financial institutions will be treated essentially the same as federally chartered institutions.

- **Rideshare**
  Legislation applying to services such as Uber and Lyft is expected to require a borrower to notify the lienholder if a personal vehicle is being used for commercial purposes. The legislation will seek to ensure insurance coverage protecting the lienholder is in place throughout covered period of the rideshare service as well as cover broader insurance liability questions.

- **Boat Titling**
  We expect legislation for a boat and boat motor titling program using the same Electronic Lien Titling process currently used for motor vehicles.

- **E-discovery**
  Previous efforts have failed that would have crafted new provisions within the Georgia Civil Practice Act related to the discovery, preservation and production of electronically stored records in response to subpoenas. Many suggest waiting until federal standards are finalized while others would like to move forward and adopt state-level standards. Developing a consensus among the various parties has been elusive. While not a bank-specific issue, because financial institutions are often subpoenaed for records, both physical and electronic, GBA will monitor the session and provide input to the various parties to ensure an efficient, cost-effective process is preserved.

- **Payroll cards**
  Legislation is expected to be proposed to clarify that payroll cards can be a single, required source of payroll.

- **Debt settlement**
  A bill is expected that would implement a regulatory scheme with the Georgia Department of Banking and Finance licensing debt settlement companies, including both non-profit and for-profit entities.

- **Garnishments**
  There may be an effort to adjust state laws dealing with garnishments in response to concern that the state's laws may hinder timely access to funds exempt from garnishments, such as social security payments, that are in bank accounts.

- **Notaries Public**
  Legislation is expected to be introduced that would put more requirements in place for an individual to be licensed as a Notary Public.

National Legislative and Regulatory Issues

Regulatory Relief for Banks
In the final days of the 113th Congress (ending in December of 2014), some regulatory relief was achieved through legislation that increased the Federal Reserve's small bank holding company threshold from $500 million to $1 billion and included S&L holding companies.

Looking forward to the 114th Congress, we will build on previous efforts to provide additional areas of relief including ways to enhance mortgage availability. Reforms stemming from the Dodd-Frank Act have fundamentally changed every aspect of the mortgage business. The new rules took effect Jan. 10, 2014. All loans must meet the new Ability-to-Repay standards. Loans that meet Ability-to-Repay standards AND additional standards that define Qualified Mortgages (QM) receive safe harbor protections from certain types of lawsuits. Even though some temporary exemptions apply, our members have explained that the result is that in many cases, regulatory risk outweighs credit risk for banks to make these loans. Customers are "protected" to the point of losing access to credit because under the new rules it is harder for certain qualified customer groups to find the loans they need. The U.S. House Financial Services Committee approved two important regulatory relief bills that are priorities for a joint Regulatory Relief Task Force GBA is a part of with other state bankers associations and the ABA. We encourage the committee to do so again in the new Congress and the Georgia delegation to vote for the legislation.

- The first bill we expect to be reintroduced would deem all loans held in portfolio for the life of the loan as Qualified Mortgages. These exemptions for loans held in a bank's portfolio make common sense because any loan that is originated and retained by a bank or credit union must necessarily be based on the lender's careful analysis of the fundamentals of lending that have been incorporated into the "Ability-to-Repay" rule. This is what professional bankers have done for decades, and it involves a thorough examination of resources, existing debt obligations, verification of the information presented (tax returns, for example) and an analysis of the customer's unique individual circumstances.

- The second bill would exempt lenders with less than $10 billion in assets from the Dodd-Frank Act's escrow requirements and servicers handling fewer than 20,000 loans from the servicing rule. This escrow exemption would allow banks with a small volume of mortgage loans to make those loans without needing to comply with the costly, burdensome escrow rules.

Targeted Capital Issues for Regulators
There are three targeted capital issues within the regulatory agencies we're also pursuing in partnership with the task force of other state bankers associations and the American Bankers Association. These reforms can be done by the agencies without needing any statutory changes. In general, these are initial objectives for changes made by regulators:

- **Simplification** – Simplified capital analysis for highly capitalized banks to spare those banks the tedium of the burdensome Basel III analysis, when the banks clearly are well capitalized.

- **Allowance for Loan and Lease Losses (ALLL)** – Ensure that nearly all of a bank's ALLL counts as capital. Replace the arbitrary 1.25% limit with all ALLL counted as capital except that allowance for loans classified as "loss."

- **Mortgage servicing** – Grandfather existing mortgage servicing assets so banks that emphasized mortgage servicing aren't punished (more about this in the next section).

Allow Banks to Continue to Service Customers' Mortgages
Many banks that originate mortgage loans also engage in servicing loans. Banking regulators should not apply Basel III requirements to mortgage servicing assets (MSAs). These new rules will force banks to sell their MSA portfolios to non-bank entities that have no focus on customer relationships and are outside the purview of bank regulation.

1. We encourage the Georgia Congressional Delegation to support legislation to delay the implementation of bank capital requirements on MSAs until the effects on consumers can be studied by the regulators.

Data Protection and Consumer Notification
Cybersecurity and protecting consumer data is a priority for Georgia's banks. Overall, banks have a strong track record of protecting customer data and accounts.

- $11.4 billion in fraud was prevented in the past four years through increased information sharing with law enforcement nationally.
- Banks pay more than 60% of fraud losses from data breaches yet account for less than 8% of breaches since 2005, according to the ABA and Identity Theft Resource Center.[4]
- Banks notify customers of breaches and comply with federal data protection requirements.
- Merchants are ***not*** subject to comparable federal requirements.
- We encourage the Georgia Congressional Delegation to support legislation for a national standard for data security and breach notification.

Equalize Credit Unions' Tax Treatment with Banks
Credit unions were never intended to be tax-free banks, but that's what they've become. There are now 209 credit unions over $1 billion. Each one of these huge credit unions is larger than 90 percent of taxpaying banks.

- Georgia's largest credit union, Delta Community Credit Union, has $4.4 billion in assets and is larger than 99% of all Georgia-headquartered banks.
- The tax exemption gives credit unions a big advantage over taxpaying community banks.
- Credit unions' tax exemption currently costs the U.S. Treasury $2 billion annually. By contrast, the 6,000-plus community banks that compete with them contribute $4 billion annually in taxes that support our nation and those communities.
- Congress should eliminate the credit union tax exemption.

End the Farm Credit System's Tax Subsidy and Providing Oversight of the Farm Credit System
The Farm Credit System (FCS) is a $266 billion Government Sponsored Enterprise that competes directly with community banks.

- The FCS has no specific statutory mission and the lending it provides often goes to farmers who least need subsidized credit. The lending often goes to non-farm borrowers.
- There have been **no** congressional oversight hearings in more than 10 years, despite FCS's enormous size, GSE status, and rapid growth.
- Congress should hold oversight hearings to examine the FCS and abolish the FCS tax subsidy, which is no longer needed.
- See http://reformfarmcredit.org/facts/ for more details.

Subchapter S Institutions
There are 59 banks in Georgia chartered as Subchapter S (Sub-S) organizations. A crucial issue has arisen recently with regard to new Basel III capital conservation buffer rules. Under this application, Sub-S banks would have to comply with new dividend restrictions that would, in some instances, prevent them from distributing proceeds to shareholders for purposes of paying income taxes. This puts Sub-S banks in a grossly unfair position and at a distinct

[4] http://www.aba.com/Press/Pages/020314ABATestifiesonDataBreach.aspx

disadvantage from C-Corp. banks that can still pay their income taxes before any dividend restrictions come into play. The simple solution would be to make the rules for Sub-S banks similar to those for C-Corp banks in regard to the Basel III Capital Conservation Buffer dividend restrictions. While the FDIC has made some effort at mitigating this situation, it is far from perfect and GBA has encouraged FDIC as well as the OCC and the Federal Reserve to reexamine their position.

In addition, as Congress considers tax reform, for these entities, we encourage the adoption of the following provisions:

- Increase the maximum shareholders for Subchapter S corporations to 200.
- Allow Subchapter S companies to issue preferred shares.
- Allow common and preferred shares of Subchapter S corporations to be held in individual retirement accounts (IRAs).
- With regard to the net loss carry forward provision, we encourage Congress to extend that provision from five years to at least through the 2014 tax year and possibly longer. With the length and depth of the recent recession, many banks are just now returning to profitability. Without extending the period, the important public policy reasons for the provision will be lost.

Systemic Risk Designation Improvement Act
Legislation was introduced in the last Congress that would have changed the method by which Bank Holding Companies are designated for enhanced supervisory and prudential standards by the Dodd-Frank Act (DFA). The legislation would have replaced the arbitrary $50 billion asset threshold used in Title-1 of the DFA with five activity-based standards that track the method used by the Federal Reserve Board for evaluating domestic bank mergers and by the international Basel Committee on Banking Supervision when it determines the list of globally systemic banks.

- We encourage the Georgia Congressional Delegation to support similar legislation expected to be introduced in the new Congress as the proposed standards better measure the risk of a bank holding company because they reflect business activity, not size.

Credit Union and Farm Credit Tax Subsidies

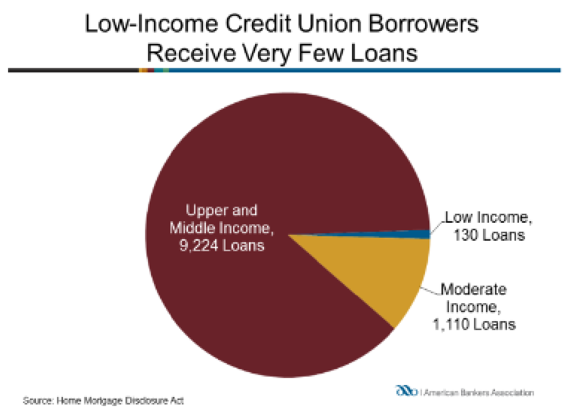
Credit Unions

Tax-paying Georgia banks compete head to head with tax-exempt credit unions. Although they portray themselves as mom and pop shops for people of modest means, today credit unions are a $1 trillion industry, with many indistinguishable from banks. The BIG difference—they don't pay federal income taxes, depriving the U.S. Treasury of nearly $2 billion every year.

Who Pays the Taxes?	
Taxes Paid in 2013 **GA Credit Unions** $0 — **GA Banks*** $237,068,000 *Includes all applicable federal, state and local, and foreign income taxes	**Delta Community Credit Union** would have paid **$11.8 million in taxes** during 2013, had it paid its fair share.

And, in Georgia, only 130 mortgages originated went to low-income borrowers, compared to 9,244 mortgages originated to middle-and upper-income borrowers, according to the most recent Home Mortgage Disclosure Act (HMDA) data[5].

Moreover, 193 HMDA reporting credit unions serving Georgia did not make a single loan to a low-income individual. Furthermore, 27credit unions only originated mortgages to upper-income individuals.



Source for charts – American Bankers Association

Farm Credit System

Just like many credit unions, the FCS has abandoned its original mission of providing credit to those who cannot get credit from traditional lenders. For example, in 2012, less than 12 percent of all FCS loans went to young farmers, less than 18 percent to small farmers, and less than 16 percent to entry-level farmers and ranchers, the three categories that would be the most appropriate to receive the FCS's subsidized credit. We encourage Congress to hold hearings to assess whether the types of loans currently being made through FCS are in keeping with their mission.

[5] Income designation definitions and data according to the Home Mortgage Disclosure Act records for 2013, the most recent data.

Mortgage Update and Modification Efforts in Georgia

More than 92 percent of Georgia's mortgage borrowers continued to pay their loans on time at the end of the third quarter 2014.[6] Residential mortgage delinquencies in Georgia were 7.95 percent at the end of the third quarter, up 15 basis points from second quarter.

Delinquency rate

Prime Adjustable Rate	5.91 %	Down 18 bp.
Prime Fixed Rate	4.01 %	Up 2 bp.
Subprime Adjustable Rate	22.53 %	Down 112 bp.
Subprime Fixed Rate	23.36 %	Up 84 bp.

Loans in foreclosure

Prime Adjustable Rate	1.33 %	Down 10 bp.
Prime Fixed Rate	0.71 %	Down 5 bp.
Subprime Adjustable Rate	5.18 %	Up 39 bp.
Subprime Fixed Rate	4.19 %	Up 40 bp.

Bank Modification Programs

Through the HOPE NOW partnership, lenders have provided a total of 214,971 mortgage modifications to Georgia homeowners since mid-2007[7]. HOPE NOW is an alliance between counselors, mortgage companies, investors, and other mortgage market participants. Nineteen of the largest mortgage lenders in the country participate.

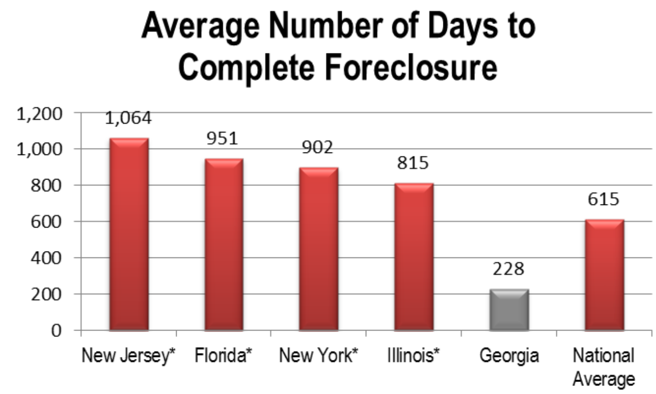
Georgia HAMP total trial and permanent modifications through third quarter 2014.[8]

- HAMP is the Government's Home Affordable Mortgage Program
- 86,200 trial modifications started
- 51,898 permanent modifications started
- $361.38 median monthly payment reduction
- 36% median monthly payment reduction of pre-modification payment

[6] Delinquency stats on this page from Mortgage Bankers Association, Georgia Press Release, Nov. 14, 2014.
[7] http://www.hopenow.com/media/state_data/Q3-2014/Georgia.pdf
[8] http://1.usa.gov/1wdAxkc

Foreclosures and Foreclosure Process Information

- Georgia's statutory minimum foreclosure timeline is 37 days from foreclosure notice. However, in practice, the actual time is longer. In Georgia, the average time to complete a foreclosure from the date of the first notice was 228 days in third quarter 2014[9]. New regulations effectively mandate that the process can't begin until a borrower is 120 days late (4 months) on a payment. Even before those regulations were in place, many lenders did not consider a loan in default until was at least 90 days past due (3 monthly payments missed).



* States that require foreclosures to go through a court review process.

- In most judicial foreclosure states, it takes longer to complete a foreclosure. For example, through the end of third quarter 2014, in New Jersey the average time from the first public foreclosure notice to completion was 1,064 days – almost three full years.

- Regulations provide protection for borrowers that are behind on payments. Loan servicers:
  - Must try to contact borrowers no later than 36 days after the last payment was due
  - Must tell borrowers about workout options no later than 45 days after the last payment was due
  - Must assign specific people to help a borrower once they're 45 days past due
  - Must wait until a borrower is 120 days past due before beginning the foreclosure process if they have not heard from a borrower.

- A homeowner in any state, Georgia included, has the right to challenge a foreclosure in court. The main difference is that in a non-judicial state, the lender does not have to file a lawsuit to initiate a foreclosure, which can take months or years to settle depending on the state and how burdened their courts are.

- 28 states, including Georgia, have such a statutory foreclosure process: AL, AK, AZ, AR, CA, CO, GA, HI, ID, MD, MA, MI, MN, MS, MO, MT, NV, NH, MC, OR, RI, TN, TX, UT, VA, WA, WV and WY.

- Using the court system to process foreclosures increases costs for governments and taxpayers, borrowers and lenders. Judicial foreclosure simply does not allow the flexibility that non-judicial foreclosure offers lenders when working with borrowers. The non-judicial process allows for a balance of adequate time for borrowers and lenders to work out a solution yet avoids lengthy delays in moving properties through the system.

- A Federal Reserve Bank of Boston study shows that judicial foreclosure processes and some laws touted to protect borrowers from foreclosure do not lead to fewer foreclosures. "Borrowers in judicial states are no more likely to cure and no more likely to renegotiate their loans, but the delays lead to a buildup in these states of persistently delinquent borrowers, the vast majority of whom eventually lose their homes," the study said.[10]

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[9] Source: RealtyTrac U.S. Foreclosure Market Report through Q3 2014, based on date from first public notice to foreclosure completion.
[10] http://www.bos.frb.org/economic/ppdp/2011/ppdp1109.pdf