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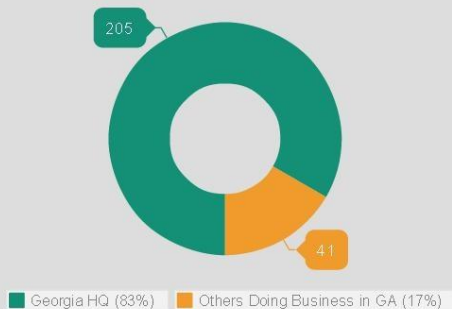
## Georgia Banking Update April 2015

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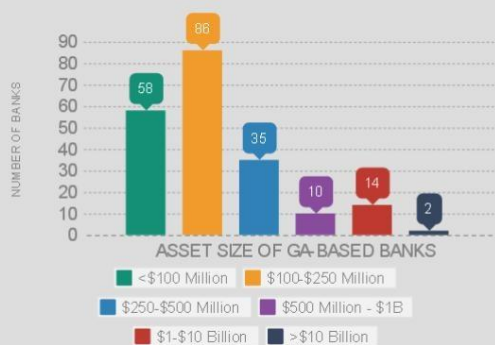
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# GEORGIA BANKS AT A GLANCE

## 246 BANKS IN GEORGIA



## ASSET-SIZE DIVERSITY



**60,000 EMPLOYED**

## IMPROVING PERFORMANCE

**87%**  
PROFITABLE

NET INCOME AT  
HIGHEST LEVEL  
SINCE 2007



LOANS AT HIGHEST  
YEAR-END LEVEL  
SINCE 2008



DEPOSITS AT  
RECORD HIGHS

## FAMILY AND BUSINESS FINANCES ARE BETTER

**19** CONSECUTIVE  
QUARTERS OF LOWER  
NONCURRENT LOANS

## Georgia Banking Facts and Figures

Through Dec. 31, 2014, unless noted otherwise

- There are 246 FDIC-insured banks and savings institutions operating in Georgia from more than 2,500 branches.<sup>1</sup> Of those, 205 are Georgia-based institutions as of March 30, 2015.<sup>2</sup>
- Georgia-based banks employ almost 43,800 people. Conservatively, GBA estimates that all banks operating in Georgia employ about 60,000 people.
- Net income in 2014 for Georgia's banks of \$2.57 billion was highest since 2007.
- 87 percent of banks were profitable in 2014.
- Total assets grew by 7 percent during 2014 and were at the highest level since year-end 2008.
- Total deposits grew by 6 percent in 2014 and were at record levels.
- Total loans grew by 6 percent in 2014 and were at the highest level since year-end 2008.
- Credit quality continues to get better. Noncurrent loans were down for the 19<sup>th</sup> straight quarter.
- Charge-offs and bank-owned-real-estate continued to decline.
- Capital levels across the industry are good.

Measurement (Year-end 2014)	Georgia 12/31/14	Georgia 9/30/14	Georgia 6/30/14	Georgia 3/31/14	Georgia 12/31/13	National 12/31/14
Institutions	210	213	217	219	223	6,509
Employees (FTEs)	43,788	44,422	45,321	44,961	45,219	2,047,879
Total assets	\$284.4 B	\$279.5 B	\$274.9 B	\$271.5 B	\$266.7 B	\$15.6 T
Total deposits	\$226.1 B	\$221.0 B	\$218.0 B	\$217.6 B	\$213.6 B	\$11.8 T
Loans and leases, total	\$203.3 B	\$199.8 B	\$198.3 B	\$193.7 B	\$192 B	\$8.3 T
Other real estate owned	\$1.2 B	\$1.3 B	\$1.4 B	\$1.5 B	\$1.6 B	\$22.0 B
Net income	\$2.6 B	\$1.9 B	\$1.1 B	\$590.0 M	\$2.0 B	\$152.7 B
Net charge-offs to loans	0.34%	0.35%	0.35 %	0.33%	0.59%	0.49%
% of profitable institutions	87%	86%	88%	86%	83%	94%
% institutions with earnings gains	67.14%	66.67%	60.83%	64.84%	65.47%	63.9%
Net interest margin	3.34%	3.37%	3.38%	3.39%	3.48%	3.14%
Return on assets (ROA)	0.94%	0.94%	0.81%	0.88%	0.77%	1.01%
Return on Equity (ROE)	7.83%	7.82%	6.78%	7.32%	6.36%	9.03%
Loss allowance to loans	1.44%	1.49%	1.54%	1.61%	1.64%	1.48%
Noncurrent loans to loans	1.48%	1.62%	1.71%	1.96%	2.12%	1.96%
Equity capital to assets	11.84%	11.93%	12.00%	11.97%	11.99%	11.15%
Core Capital (Leverage ratio)	9.92%	10.04%	10.00%	10.02%	10.02%	9.46%
Total risk-based capital ratio	13.22%	13.35%	13.47%	13.73%	13.74%	14.42%

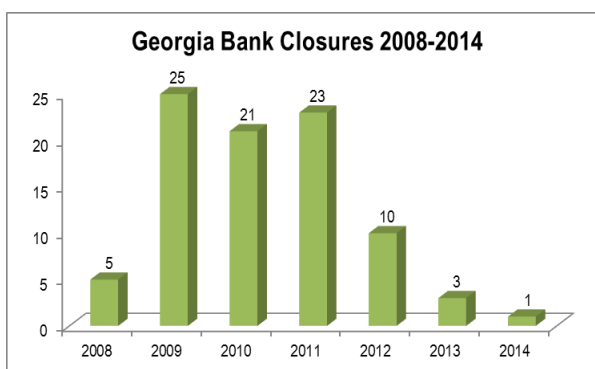
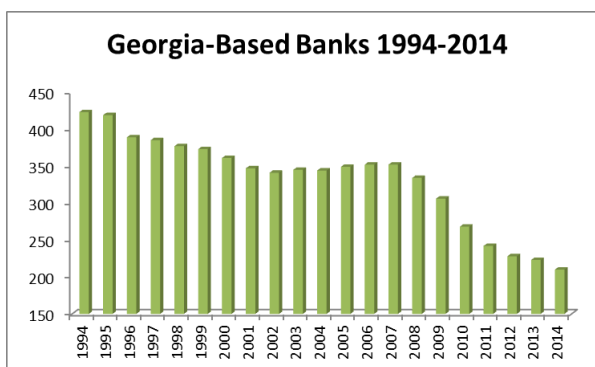
<sup>1</sup> SNL Financial report of current banks and branches as of March 30, 2015

<sup>2</sup> FDIC institution directory website

## 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.

<b>State-Based Banks</b>	
Dec. 31, 2014	
<b>Georgia</b>	<b>210</b>
Florida	179
Kentucky	181
Tennessee	174
Louisiana	138
Alabama	133
Arkansas	109
Virginia	97
Mississippi	83
Maryland	68
North Carolina	68
South Carolina	65
West Virginia	60



## 2014-15 Georgia Bank Mergers and Acquisitions

Target / Buyer (Buyer in bold type)	Announce Date	Status	Completion Date
Farmers State Bank/ <b>Five Star Credit Union</b>	2/18/2015	Pending	-
Community Business Bank/ <b>Community &amp; Southern Holdings, Inc.</b>	1/30/2015	Pending	-
Heritage Financial Group, Inc./ <b>Renasant Corporation</b>	12/10/2014	Pending	-
Meriwether Bank Shares, Inc./ <b>First Peoples Bankshares, Inc.</b>	12/9/2014	Pending	-
Georgia Commerce Bancshares, Inc./ <b>IBERIABANK Corporation</b>	12/8/2014	Pending	-
Metro Bancshares, Inc./ <b>ServisFirst Bancshares, Inc.</b>	10/20/2014	Completed	1/31/2015
Citizens Exchange Bank/ <b>WB&amp;T Bankshares, Inc.</b>	6/24/2014	Completed	11/3/2014
Georgia-Carolina Bancshares, Inc./ <b>State Bank Financial Corporation</b>	6/24/2014	Completed	1/1/2015
Alliance Bancshares, Inc./ <b>Community &amp; Southern Holdings, Inc.</b>	5/16/2014	Completed	8/20/2014
Monroe County Bank/ <b>United Bank Corporation</b>	5/15/2014	Completed	7/31/2014
Midtown Bank & Trust Company/ <b>First Landmark Bank</b>	4/28/2014	Completed	10/20/2014
Atlanta Bancorporation, Inc./ <b>State Bank Financial Corporation</b>	4/28/2014	Completed	10/1/2014
Coastal Bankshares, Inc./ <b>Ameris Bancorp</b>	3/11/2014	Completed	6/30/2014
Stephens Federal Bank/ <b>Oconee Federal Financial Corp. (MHC)</b>	2/27/2014	Completed	12/1/2014

## Economic and Banking Environment Summary

### The Fundamentals Remain Solid, Some Challenges Remain

- Georgia is now the 8<sup>th</sup> most populous state, with 10 million people. Top-10 growth expected through 2020
- Statewide unemployment was recently at its lowest level since mid-2008
- 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

### GBA Legislative and Regulatory Priorities

- To promote the general welfare and usefulness of banking and the preservation of a sound banking system.
- Support policy and regulatory actions that enable lending and foster job creation.
- Remove excessive regulation and other barriers to serving families, businesses and our hometowns.
- Advocate for continued charter choice and a level playing field with nonbank financial services providers.

### State Legislative Issues

The 2015 Georgia General Assembly Session ran from Jan. 12, 2015, to April 2, 2015. GBA monitored 62 bills relating to the banking industry during the session. GBA was represented by our Senior Vice President for Government Relations, **Elizabeth Chandler**, 404.420.2027, **Steve Bridges**, 404.420.2037, and President and CEO, **Joe Brannen**, 404.402.2026. Contact any of them with questions. A summary of the key legislation follows.

#### Priority Supported Legislation Passed

**Parity for State Chartered Banks. HB 184** by Rep. **Bruce Williamson** (R-Monroe) revises and modernizes the banking code in several areas. One of the more important changes broadens the authority of the Commissioner to rule on parity requests to ensure state-chartered banks have competitive equity with nationally-chartered institutions. The parity provision came from a recommendation of the GBA Code Review Task Force.

#### Bad Bill for Borrowers Defeated in Committee

In early March, the Senate Judiciary Committee voted down a “do pass” motion to move forward **SB 117** by Sen. **Jesse Stone** (R-Waynesboro). The bill would have created a superpriority lien for unpaid condo association dues for the buyer of a condo at foreclosure. GBA vigorously opposed the bill as it would have set a terrible precedent for other lienholders and created obstacles in the secondary market to sell condo loans. Our thanks to the five Senators who supported our position: **Tommie Williams** (R-Lyons), **William Ligon** (R-Brunswick), **John Kennedy** (R-Macon), **Charlie Bethel** (R-Dalton), and **Ronald Ramsey** (D-Lithonia). Along with Sen. Stone, other senators voting to report the bill were **Vincent Fort** (D-Atlanta) and **Curt Thompson** (D-Tucker). Committee chairman **Josh McCoon** (R-Columbus) followed tradition and did not vote.

#### Other Banking Related Bills that Passed

**Transportation Network Companies. HB 190** by Rep. **Rich Golick** (R-Smyrna) requires rideshare transportation networks such as Uber and Lyft and their drivers to have proper casualty and liability insurance on personal vehicles

used for a commercial purpose. In addition to setting coverage minimums and other standards, the bill requires a borrower to notify the lienholder if a personal vehicle is being used for hire. We worked with a variety of network and insurance interests to ensure the notification language remained in the bill.

**Fee for Failure to File Deed Following Foreclosure / Deed Witness Process. HB 322** by Rep. **Brian Strickland** (R-McDonough) would have established a late fee of \$500 if the foreclosure deed is not recorded within 90 days of the foreclosure sale. We worked with Rep. Strickland and the requirement is now to file the deed within 90 days of the foreclosure, but the fee would not become effective unless the failure to file was more than 30 days past the 90 day filing requirement. Another bill we monitored, **HB 267** by Rep. **Trey Kelley** (R-Cedartown), was amended onto this bill. That language clarifies the process for witnessing deeds, mortgages and bills of sale.

**Federal Home Loan Bank / Insurance Companies. HB 624** by Rep. **Eddie Lumsden** (R-Armuchee) and **SB 229** by Sen. **Burt Jones** (R-Jackson) are identical bills that would provide the Federal Home Loan Bank (FHLB) with a priority position in regard to pledged collateral in the event an insurance company member fails. Having that priority position allows an FHLB to avoid requiring overcollateralization and bigger haircuts on advances to their insurance company members. The language contained in **SB 229** was amended onto **HB 552** related to Captive Insurance Companies prior to its passage. GBA supported the legislation.

**Appraisal Management Companies. HB 253** by Rep. **Mandi Ballinger** (R-Canton) authorizes the Georgia Real Estate Appraisal Board to adopt regulations on reasonable and customary fees being paid appraisers by Appraisal Management Companies for appraisals done on federally-related transactions. GBA has been working with the Georgia Real Estate Appraiser Board supporting their efforts to collect the data to be used to set the range of fees.

**Banking Code Revisions. HB 90** by Rep. **Wendell Willard** (R-Sandy Springs) would make a number of technical revisions to Section 7 of the Official Code of Georgia which governs banking and finance. GBA supported the bill, which Gov. Deal has already signed into law.

**Bankruptcy Exemptions / UCC. SB 65** by Sen. **Jesse Stone** (R-Waynesboro) relating to exemptions for the purposes of bankruptcy and intestate insolvent estates raises the debtor's aggregate interest from \$600 to \$1,200 in value plus any unused amount of the exemption is raised from \$5,000 to \$10,000 in any property. Another bill, **HB 197**, related to helpful changes in the Uniform Commercial Code was added to the bill. GBA did not oppose the bankruptcy exemption increase but did support the UCC language related to the debtor and creditor section.

**Boards of Directors and Officers. SB 128** by Sen. **John Kennedy** (R-Macon) was sponsored at the request of the State Bar of Georgia to adjust a variety of code provisions governing how boards of directors operate and their responsibilities. GBA monitored the bill to ensure language associated with director and officer liability language related to process claims was not added. Such language was not offered.

**Unauthorized Practice of Law. HB 153** by Rep. **Tom Weldon** (R-Ringgold) provides a civil action for damages for a party harmed by an individual violating the unauthorized practice of law or similar rulings by the Supreme Court of Georgia. GBA worked with the author to add clarifying language to preserve a lender's current ability to prepare certain loan documents.

### **GBA Monitored Dozens of Other Bills that Passed**

It's important to our members that GBA monitors legislation that may be of peripheral interest or that could become a vehicle on which helpful or negative legislation could be attached. Below is a summary of those bills that passed the 2015 session:

**Certified Process Servers and Court Records. SB 135** by Sen. **Charlie Bethel** (R-Dalton) provides a variety of protections and disclosure requirements for records held by the clerk of the superior court.



**Condo Association Fee Assessments. HB 245** by Rep. **Matt Dollar** (R-Marietta) will limit the amount of special assessment fees condo associations can impose to one-sixth of the regular yearly assessment without approval of a majority of unit owners.

**Consumer Affairs. SB 148** by Sen. **John Kennedy** (R-Macon) transfers the powers and responsibilities of the Governor's Office of Consumer Affairs to the Attorney General's office. The bill was introduced at the request of the Governor. Of interest to banking is the oversight of the Fair Business Practices Act that is being moved with the proposed change.

**Elder Abuse. HB 72** by Rep. **Wendell Willard** (R-Sandy Springs) clarifies existing law related to elder abuse and adds investment companies to the list of mandatory reporters that already includes financial institutions.

**Convenience Fees for Industrial Loan Payments. HB 299** by **Emory Dunahoo** (R-Gainesville) will allow a merchant or lender to charge customers convenience fees for processing credit card, debit cards or other forms of electronic payment for a variety of industrial and other loan or financing arrangements.

**Escrow Fund Account Choice. SB 95** by Sen. **Michael Williams** (R-Cumming) will allow real estate brokers a wider choice of accounts for their escrow funds by stipulating that such funds shall be maintained in an account at a federally insured financial institution. Current law specifies an account at a federally insured bank checking account.

**Local Government Investment Pool Trust Fund. HB 95** by Rep. **Kevin Tanner** (R-Dawsonville) will allow the state treasurer to establish and administer a trust fund for a local government's investment pool when it is consolidated with state funds under the control of the state treasurer for investment purposes.

**Nonpublic Post-secondary Educational Institutions. HB 353** by Rep. **Carl Rogers** (R-Gainesville), among other things, will allow one of the covered institutions that is unable to secure a bond required by the Commission on Higher Education to instead provide a bank standby letter of credit.

**Public Private Partnerships. SB 59** by Sen. **Hunter Hill** (R-Atlanta) establishes a 10-person committee that will provide oversight and guidelines for facilitating public-private partnerships for the financing, construction and/or operation of vertical structures such as schools, dormitories, structured parking, healthcare facilities, offices or other government facilities.

**Payroll Cards. SB 88** by Sen. **Burt Jones** (R-Jackson) allows companies to pay employees with a payroll card.

**Civil Property Forfeiture Procedure. HB 233** by Rep. **Alex Atwood** (R-St. Simons Island) is a comprehensive rewrite of the current civil property forfeiture statute.

**Solar Technology Financing. HB 57** by Rep. **Mike Dudgeon** (R-Johns Creek) allows third parties, including utilities such as Georgia Power, to provide financing for homeowners to install solar power systems.

**State Depositories. SB 104** by Sen. **Mike Dugan** (R-Carrollton) makes a number of mostly technical changes to the State Depository Board statute.

**Taxes – Late Filing Dates. HB 234** by Rep. **Dale Rutledge** (R-McDonough) will include days on which the Federal Reserve Bank is closed in the list of days that excuse late filing or payment of taxes.

**Property Tax Assessments. HB 202** by Rep. **Paul Battles** (R-Cartersville) is a major overhaul of the property tax assessment process, including various related issues such as the property tax assessment appeals process, the appraisal process for property tax assessment purposes, and qualifications for appraisers for assessment purposes.

### What's up Between Now and the 2016 Session?

Much of the media coverage this session was centered around the transportation funding mechanism that eventually passed. One of the issues mentioned in that legislation was a revised effort to overhaul Georgia's tax structure. **HB 445** was introduced by Rep. **John Carson** (R-Marietta) and that bill will likely be the focus of a series of meetings to discuss the concept. The unique method for bank taxation is not addressed in the bill although there were questions about that in the process leading up to the bill's introduction. We will be participating in any hearings on tax reform and let you know what goes on. Here are some other issues we'll be following leading up to the 2016 session.

**Self-Settled Spendthrift Trusts. HB 456** by Rep. **Tom Weldon** (R-Ringgold) would authorize the establishment of self-settled spendthrift trusts, a new type of trust instrument in Georgia. The trust would protect trust assets against the claims of a settlor who is also a trust beneficiary. Rep. Weldon was helpful in working with us to remove language in the bill that negatively affected creditor's rights. In a somewhat unusual move, in the Senate Judiciary Committee, language contained in another bill we were monitoring that had passed the House, **HB 197**, was stripped out, and the text of this trust bill was substituted. The Senate passed the bill; but in a last ditch effort by the advocates late in the evening on the last legislative day, the House voted overwhelmingly against the bill. House Judiciary Committee Chairman **Wendell Willard** took the well criticizing the underlying concept of the bill; but as important to him, the fact that the committee vetting process was not respected in the way the bill came up for a vote. Some members of the State Bar of Georgia's Fiduciary Law Section have expressed concern about certain provisions, and we will continue to monitor the bill as we expect to see it surface again in 2016.

**Cyber Security.** There was a lot of discussion this session around cyber security and the growing importance of that, not just as a threat, but also as a growing business important to Georgia. We expect to see study committees meeting before next session looking at various options.

**Motor Boat Titling. HB 356** by Rep. **Ron Stephens** (R-Savannah) would establish a boat and boat motor titling program using the same Electronic Lien Titling process currently used for motor vehicles. We can't remember a session in recent years when this issue didn't get discussed, and we expect to see hearings on the idea held later in the year. It looks like 2016 may be the year that legislation gets adopted, and GBA supports the concept.

**Digital Account Access. HB 274** by Rep. **Geoff Duncan** (R-Cumming) would allow for a personal representative of a deceased person to access, handle, conduct, continue, distribute, or terminate the decedent's digital accounts such as email accounts, financial account Internet sites, blogs, social networking and other online services as necessary. In a hearing on this bill, the State Bar of Georgia injected that there were efforts underway to adopt a model statute among the states, so be looking for more about that next session.

**Savings Accounts for First-Time Homebuyers. HB 530** by Rep. **Bruce Williamson** (R-Monroe) would establish a special interest-bearing savings account for first-time homebuyers and allow contributions to the account and interest earned to be exempt from state income tax. The legislation was introduced at the request of the Georgia Association of Realtors and their representatives tell us they hope to see the bill passed in 2016. We will be closely monitoring the bill because the accounts would be held at federally-insured financial institutions.

**Aquifer Protection and Uses. HB 116** by Rep. **Alex Atwood** (R-Saint Simons) and SB 36 by Sen. **William Ligon** (R-Brunswick) are identical bills that would permanently ban treated surface water injection into the Floridian Aquifer in 11 southeast Georgia counties. The senate bill was substantially changed to reflect a study being conducted by the Department of Natural Resources that may negate the need for the legislation. However, because of the significance of this issue to coastal and other areas of the state dependent upon this aquifer, we expect to hear more.



## National Legislative and Regulatory Issues

### Regulatory Relief for Banks

The **American Jobs and Community Revitalization Act (H.R. 1389)** introduced in March by Rep. **Andy Barr** (R-KY) is a package of regulatory relief measures for banks GBA supports. It includes a provision to allow loans held in portfolio to be Qualified Mortgages (QMs), a process for banks to apply to the CFPB for being in rural or underserved areas and an extended 18-month exam cycle for highly rated community banks. Also included is a provision that would allow dividends to be paid for tax purposes, thus eliminating disadvantages in Basel III for the 56 Georgia-based banks organized as S corporations. Several of the bills have also been introduced by Barr and others as separate pieces of legislation.

GBA is part of a Regulatory Relief Task Force with other state bankers associations and the ABA, and Barr's package of bills includes provisions recommended by that group. Here are summaries of other pending regulatory relief bills GBA supports.

- **Portfolio Loans as Qualified Mortgages (H.R. 1210)**  
GBA supports **H.R. 1210** by Rep. **Andy Barr** (R-KY) legislation that 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.
- **Community Lending Enhancement and Regulatory Relief Act (H.R. 1233)**  
Rep. **Blaine Luetkemeyer** (R-MO) March 4 reintroduced the Community Lending Enhancement and Regulatory Relief Act (**H.R. 1233**). The CLEAR Act would lift or modify many requirements in ways that make it easier for community banks to meet their customers' needs. The CLEAR Act includes measures that would streamline banks' privacy notice requirements, space out the exam cycle, reduce the burden of filing Call Reports, increase the small servicer exemption in the Consumer Financial Protection Bureau's mortgage rules and expand the number of loans that can be designated as Qualified Mortgages, among others.
- **Systemic Risk Designation Improvement Act (H.R. 1309)**  
This bill by Rep. **Blaine Luetkemeyer** (R-MO), introduced March 4, would eliminate the automatic designation of banks as systemically important based solely on asset size, recognizing that regulators should consider many different components of risk.
- **Financial Institutions Examination Fairness and Reform Act (S. 774)**  
Senators **Jerry Moran** (R-KS) and **Joe Manchin** (D-WV) recently introduced **S. 774** which would significantly improve the examination process by ensuring banks receive both timely examination reports and the rationale for the decisions of the examiners and establishes an "Office of Independent Examination Review" to create a fair process for banks to appeal examination decisions.
- **Helping Expand Lending Practices in Rural Communities Act (H.R. 1259)**  
Reps. **Andy Barr** (R-KY) and **Ruben Hinojosa** (D-TX) have reintroduced this legislation that passed the full House in the last Congress. The bill would direct the CFPB to establish an application process under which a person who lives or does business in a state may apply to have an area designated as a rural area if it has not already been designated as such by the Bureau.
- **Community Institution Mortgage Relief Act of 2015 (H.R. 1529)**  
Rep. **Brad Sherman** (D-CA) introduced this bill which provides a legal safe harbor from escrow requirements for smaller financial institutions that hold loans in portfolio for three years. This bill also

instructs the CFPB to provide exemptions to, or adjustments for, servicers that annually service 20,000 or fewer mortgage loans. Providing flexibility for small servicers, as this bill does, is important and we are pleased to see the bill already passed by the House Financial Services Committee.

- **Financial Product Safety Commission Act of 2015 (H.R. 1266)**  
Georgia Rep. **Lynn Westmoreland** (R-GA-3) signed on as a co-sponsor of this bill introduced by Rep. **Randy Neugebauer** (R-TX) that would replace the Director of the CFPB with a bipartisan, five-member commission, similar to other financial regulatory agencies.
- **Eliminate Privacy Notice Confusion Act (H.R. 601)**  
This bill by Rep. **Blaine Luetkemeyer** (R-MO) would eliminate the annual privacy notice disclosure requirement for institutions that haven't changed their policies.
- **Bureau Advisory Commission Transparency Act (H.R. 1265)**  
This bill by Rep. **Sean Duffy** (R-WI), would increase transparency in CFPB advisory council meetings
- **SAFE Act Confidentiality and Privilege Enhancement Act (H.R. 1480)**  
This bill by Rep. **Robert Dold** (R-IL) would protect the confidentiality of information banks share with state regulators.

### Subchapter S Institutions

There are 56 banks in Georgia chartered as Subchapter S (Sub-S) organizations. The issue addressed by the American Jobs and Community Revitalization Act (**H.R. 1389**) by Rep. **Andy Barr** (R-KY) relates to the 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 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 federal agencies have said they'll consider case-by-case requests to make distributions that would not otherwise be permitted under the capital rule, 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.

### 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.<sup>3</sup>
- Banks notify customers of breaches and comply with federal data protection requirements.
- Merchants are *not* subject to comparable federal requirements.
- We encourage Congress to support **S. 754**, the Cybersecurity Information Sharing Act of 2015 by Sen. **Richard Burr** (R-NC), which would strengthen the nation’s ability to defend against cyber-attacks and better protect all Americans by encouraging the business community and the government to quickly and effectively share critical information about these threats while ensuring privacy.
- We encourage Congress to support legislation for a national standard for data security and breach notification.

**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 that should be 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).

**Community Bank Mortgage Servicing Asset Capital Requirements Act of 2015 (H.R. 1408)**

Introduced by Reps. **Ed Perlmutter** (D-CO.) and **Blaine Luetkemeyer** (R-MO.) **H.R. 1408** would defer implementation of the Basel III rules on mortgage servicing assets (MSAs) until the impact of the new rules can be studied and alternatives explored. Many banks that originate mortgage loans also engage in servicing loans. 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. We encourage the Georgia Congressional Delegation to support this legislation.

**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 237 credit unions over \$1 billion in assets, compared to only 13 in 1994. 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 \$4.7 billion in assets and is larger than all but three of Georgia-headquartered banks.
- Georgia banks paid \$794.9 million in federal, state and local income taxes in 2014. Credit unions paid zero.

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<sup>3</sup> <http://www.aba.com/Press/Pages/020314ABATestifiesonDataBreach.aspx>

- 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.
- Congress should eliminate the credit union tax exemption.
- Congress should also not approve **H.R. 1188**, Rep. **Edward Royce's** (R-CA-39) bill to raise the credit union member business lending cap from 12.25 percent to 27.5 percent of total assets for certain credit unions. Expanded business lending simply is beyond the primary mission of credit unions to provide financial services to people of modest means. If credit unions want to be commercial banks and make loans to businesses on a broad scale, they should pay taxes like commercial banks and their shareholders

### **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.

## Credit Union and Farm Credit Tax Subsidies

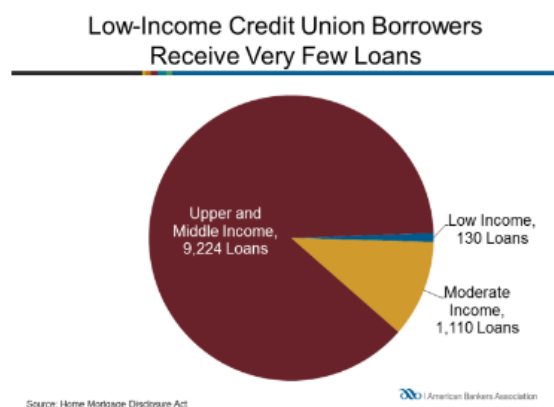
### Credit Unions

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?		
<b>Taxes Paid in 2014</b>		<b>Delta Community Credit Union</b> would have paid <b>\$13 million in taxes</b> during 2014, had it paid its fair share.
<b>GA Credit Unions</b>	<b>GA Banks*</b>	
<b>\$0</b>	<b>\$794,853,000</b>	
*Includes all applicable federal, state and local, and foreign income taxes		

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<sup>4</sup>.

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

<sup>4</sup> 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 through the end of 2014.<sup>5</sup> Residential mortgage delinquencies in Georgia were 7.91 percent at the end of 2014, down 4 basis points from third quarter 2014.

<b>Delinquency rate</b>	Prime Adjustable Rate	5.73 %	Down 18 bp.
	Prime Fixed Rate	3.95 %	Down 6 bp.
	Subprime Adjustable Rate	22.11 %	Down 42 bp.
	Subprime Fixed Rate	23.56 %	Up 20 bp.
<b>Loans in foreclosure</b>	Prime Adjustable Rate	1.29 %	Down 4 bp.
	Prime Fixed Rate	0.65 %	Down 6 bp.
	Subprime Adjustable Rate	4.97 %	Down 21 bp.
	Subprime Fixed Rate	4.29 %	Up 10 bp.

### Bank Modification Programs

Through the HOPE NOW partnership, lenders have provided a total of 218,474 mortgage modifications to Georgia homeowners since mid-2007<sup>6</sup>. 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 year-end 2014.<sup>7</sup>

- HAMP is the Government's Home Affordable Mortgage Program
- 87,362 trial modifications started
- 53,016 permanent modifications started
- \$360.61 median monthly payment reduction
- 36% median monthly payment reduction of pre-modification payment

<sup>5</sup> Delinquency stats on this page from Mortgage Bankers Association, Georgia Press Release, Feb. 25, 2015.

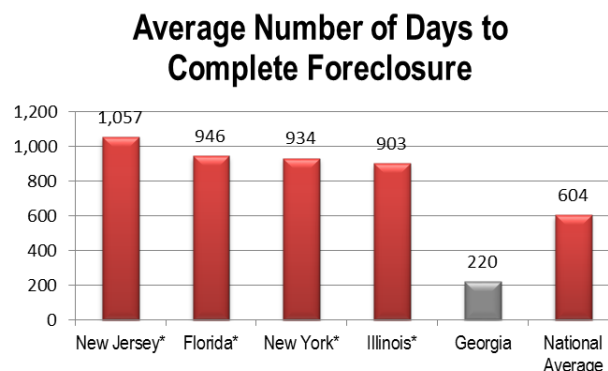
<sup>6</sup> [http://www.hopenow.com/media/state\\_data/Q4-2014/Georgia.pdf](http://www.hopenow.com/media/state_data/Q4-2014/Georgia.pdf)

<sup>7</sup> <http://www.treasury.gov/initiatives/financial-stability/reports/Documents/4Q14%20Quarterly%20MHA%20Report%20Final3.pdf> – p.34



## 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 220 days in 2014<sup>8</sup>. 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 it 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 2014, in New Jersey the average time from the first public foreclosure notice to completion was 1,057 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, NC, 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.<sup>9</sup>

<sup>8</sup> Source: RealtyTrac U.S. Foreclosure Market Report through year-end 2014, based on date from first public notice to foreclosure completion.

<sup>9</sup> <http://www.bos.frb.org/economic/ppdp/2011/ppdp1109.pdf>