FINANCIAL INSTITUTIONS TODAY

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

October 2021

Inside this issue:

Marijuana Banking Job Aid by the Department	2
Resource Update: Current Expected Credit Losses (CECL) - Scaled CECL Allowance for Losses Estimator (SCALE) Method	2
Speaking Engagements	2
Applications	3

Loan Participation Purchases

Loan participation purchases can be an effective way for lenders to supplement organic loan portfolio growth, increase asset yields, assist balance sheet management, and enhance loan portfolio diversification across different geographic regions, industries, and product types. However, these transactions are not free of risk. Risks of loan participation purchases include loss of flexibility and control; becoming overly reliant on the lead lender; the inability to obtain timely information; and loss exposure under workout or liquidation. Appropriate management of participation purchased loans is required not only to satisfy statutory and regulatory requirements but also necessary in the proper exercise of ordinary credit judgment and due diligence by the purchasing financial institution.

Significant risk exposure faced in participations are loan restructures and borrower defaults including bankruptcy and foreclosure. Due to the significant financial risk exposure in these events, there are certain scenarios that should be addressed in the participation agreement. It should be required that the lead lender consult with participants prior to taking any action on defaulted loans. Resolution procedures should also be drafted in case one or more of the following events occur: participating lenders cannot agree on how to handle a defaulted loan; potential conflicts arise when more than one loan to the borrower defaults; and when instances like breach of duty, negligence, or misappropriation requires the termination of the relationship between lead and participating lenders. Institutions should also consider incorporating risk mitigating factors to address a potential change to the lead participant due to a bank closure.

Department Rules 80-1-5-.04 and 80-2-12-.03 for banks and credit unions, respectively, require that loan participation purchases must conform to all laws and regulations applicable to that category of loan to the same extent as if the purchasing financial institution had originated the loan itself. Applicable statutory and regulatory requirements, including, but not limited to, collateral documentation requirements, loan to collateral value requirements, and loan limitations must be met. The purchasing financial institution shall obtain from the selling lender copies of all pertinent collateral and credit documents or, solely in the case of a loan participation, a summary of information sufficient to conclude that all legal and regulatory requirements have been met. In addition, the purchasing financial institution has the responsibility of conducting loan underwriting procedures to determine that it complies with the financial institution's policies and credit standards. **Participating financial institutions are required to perform their own underwriting and cannot rely on underwriting performed by the loan originator.** All necessary credit and collateral documentation should be obtained **prior** to funding the loan. In the case of loan participation pools, the above cited Rules also contain specific requirements for purchases.

Factors to consider prior to purchasing participation loans include ensuring loan policies address relevant purchases; understanding the terms and limitations of agreements; performing appropriate due diligence; limiting concentrations to a lead lender, industry, or collateral type; determining if the participation fits loan criteria by analyzing the credit and collateral of the loan; obtaining necessary board or committee approvals; agreeing to the

terms of the participation contract; and maintaining borrower credit information for the duration of the loan. Most importantly, financial institutions should only participate in loans that they would actually make themselves.

Numerous resources exist in identifying and detailing risk management considerations and strategies including: Federal Reserve System Community Banking Connections Second Quarter 2013 article titled "Loan Participations: Lessons Learned During a Period of Economic Malaise" https://communitybankingconnections.org/articles/2013/q2/loan-participations; FDIC FIL-49-2015 "FDIC Advisory on Effective Management Practices for Purchased Loans and Purchased Loan Participations" https://www.fdic.gov/news/financial-institution-letters/2015/fil15049a.pdf; NCUA Supervisory Letter "Loan Participation Programs" https://www.ncua.gov/files/supervisory-letters/LCU2008-26Enc-2.pdf; and CSBS Job Aid titled "Considerations for Reviewing Participation Credits" https://www.csbs.org/system/files/2017-11/CSBS_loan_participation_job_aid.pdf.

Marijuana Banking Job Aid by the Department

The Department of Banking and Finance has issued guidance for financial institutions on marijuana banking. This job aid is an examiner reference tool providing federal regulatory insight as well as Georgia-specific information such as legalization status, risk management considerations, and related topics on marijuana banking. Institutions must assess the cost of providing services, the risk of administrative or criminal sanction, and reputational risk, as well as develop policies and procedures to ensure that accounts will not implicate enforcement priorities. A link to the guidance on the Department's website can be accessed here.

Resource Update: Current Expected Credit Losses (CECL) - Scaled CECL Allowance for Losses Estimator (SCALE) Method

As detailed in the Department's July 2021 bulletin, the Federal Reserve developed a tool known as the Scaled CECL Allowance for Losses Estimator or "SCALE." SCALE is a spreadsheet-based tool that draws on publicly available regulatory and industry data to aid community banks with assets of less than $1 billion in calculating their CECL allowances.

The Federal Reserve is providing Schedule RI-C data that can be used with the CECL SCALE tool. This data is now available on CECL Resource Center on the SCALE tab in the resources section or at RI-C - CECL Resource Center. The RI-C Data page also includes information on when data will be posted in the future, generally within 15 days after the financial data is finalized for each quarter. In addition, the SCALE FAQs were updated on October 18, 2021.

Speaking Engagements

Commissioner Kevin Hagler will be speaking at the National Conference of State Legislatures' Legislative Summit, Tampa, Florida, on November 3, 2021. Commissioner Hagler will be speaking on the state system's work on the Money Service Business Model Law. More information on the Legislature Summit can be found here.

Deputy Commissioner for Supervision Melissa Sneed will be speaking at two events in November.

- Community Bankers Association Banker Regulatory Forum on November 2, 2021. Event information can be found here.
- League of Southeastern Credit Unions & Affiliates Southeast Leadership Development Conference on November 17, 2021. Event information can be found here.

ACTION ON APPLICATIONS FOR THE MONTH

The following is a summary of official action taken by the Department on certain applications by Georgia state-chartered financial institutions, petitions for certificate of incorporation of financial institutions, and other matters of interest during the month of October 2021:

FINANCIAL INSTITUTION MERGERS

FINANCIAL INSTITUTION	MERGED INSTITUTION	APPROVAL DATE	EFFECTIVE DATE
Pinnacle Bank Elberton, GA	Liberty First Bank Monroe, GA	09/08/2021	10/01/2021
North Main Credit Union Cornelia, GA	Fieldale Credit Union Cornelia, GA	10/27/2021	
Envision Credit Union Tallahassee, FL	Flowers Employees Credit League Thomasville, GA	04/27/2021	10/01/2021
Georgia's Own Credit Union Atlanta, GA	Fort McPherson Credit Union Atlanta, GA	04/29/2021	10/01/2021

APPLICATIONS FOR DE NOVO INSTITUTIONS

FINANCIAL INSTITUTION	APPROVAL DATE	BEGIN BUSINESS DATE
Moultrie Bank & Trust Moultrie, GA	pending	

APPLICATIONS TO ESTABLISH A BRANCH OFFICE

FINANCIAL INSTITUION	BRANCH OFFICE	APPROVAL DATE	EFFECTIVE DATE
Georgia's Own Credit Union Atlanta, GA	881 Peachtree Street Atlanta, Georgia	09/15/2021	10/13/2021
Delta Community Credit Union Atlanta, GA	5001 Peachtree Blvd Suite 520 Chamblee, GA	02/09/2021	10/18/2021
Barwick Banking Company Barwick, GA	112 N Nova Road Ormond Beach, FL	08/16/2021	10/15/2021
Southern Bank Sardis, GA	101 Cleveland Street Greenville, South Carolina	10/07/2021	

APPLICATIONS TO ACQUIRE A FINANCIAL INSTITUTION

FINANCIAL INSTITUTION	MERGED INSTITUTION	APPROVAL DATE	EFFECTIVE DATE
United Community Banks, Inc. Blairsville, GA	Aquesta Financial Holdings, Inc. Cornelius, NC	09/22/2021	10/01/2021

APPLICATIONS TO RESERVE A NAME

PROPOSED NAME	COUNTY	APPLICANT
Members United Federal Credit Union	Dougherty	Members United Credit Union

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The Department is the state agency that regulates and examines Georgia state-chartered banks, state-chartered credit unions, state-chartered trust companies, international banking organizations, and bank holding companies that own Georgia state-chartered financial institutions. The Department also has responsibility for the supervision, regulation, and examination of Merchant Acquirer Limited Purpose Banks chartered in Georgia.

In addition, the Department has regulatory and/or licensing authority over mortgage brokers, lenders and processors, mortgage loan originators, consumer installment loan companies, check cashers, sellers-issuers of payment instruments, and money transmitters.

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

Our Vision is to support vibrant economic growth and prosperity in Georgia.