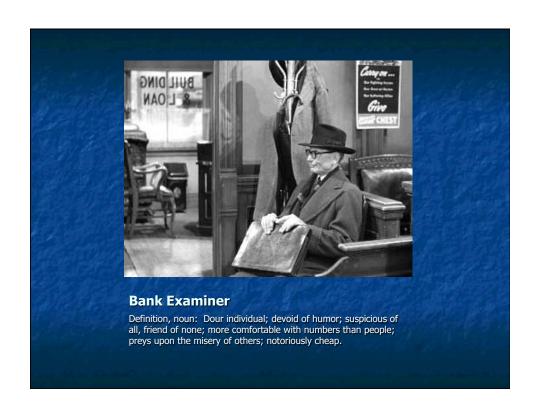


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Mission of the N. C. Office of the Commissioner of Banks

"It is the mission of the Office of the North Carolina Commissioner of Banks (NCCOB) to promote and maintain the strength and fairness of the North Carolina financial services marketplace through the supervision and regulation of financial services providers in that marketplace."

Promoting Strength

- Requiring capital levels sufficient to ensure they are able to keep promises they make to those with whom they do business.
- Encouraging continual improvement in their management of the financial, operational, regulatory, legal, and reputation risks of their businesses.
- Fostering sustainable competitive advantage in regulated firms.

Promoting Fairness

- Enforcing laws to protect citizens from abusive and predatory lending practices.
- Regulating financial services firms to promote the fair treatment of consumers and small businesses.
- Encouraging competition in the marketplace.
- Fostering innovation to increase participation in the mainstream financial services marketplace by low and moderate income North Carolinians.

Promoting Efficiency

- Rigorous attention to the costs of regulation to avoid unnecessary or burdensome regulation.
- Continuous process improvement internally to provide more effective regulation with lower burdens.

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS FACT SHEET

Banks and Bank Holding Companies

The North Carolina Commissioner of Banks regulates banking under N.C.G.S. 53 et seq. Primarily this office ensures the safe conduct of banking business, maintains public confidence in state-chartered banks, and protects the banks' depositors, debtors, creditors, and shareholders.

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS FACT SHEET

As of 9/30/2015 we had:

- 47 Bank Holding Companies registered:
 - 16 Bank Holding Companies registered only
 - 29 Bank Holding Companies registered and regulated
 - 2 Savings Bank Holding Cos registered and regulated

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS FACT SHEET

As of 9/30/2015 we regulated:

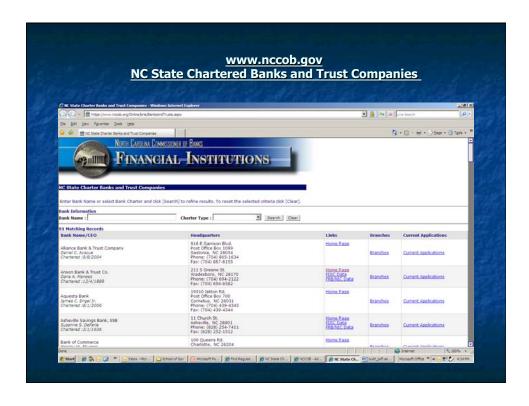
- 42 banks 3,359 branches
- 13 Savings Banks, 42 branches
 - 0 Savings and Loan Association
 - 9 State Trust Companies

55 State-chartered financial institutions:

Total Assets \$282,741,000,000 Total Deposits \$221,174,000,000







ACTIVITIES REGULATED BY COMMISSIONER OF BANKS Consumer Finance The North Carolina Consumer Finance Act (N.C.G.S. 53-164 et seq.) authorizes the Commissioner of Banks to license and supervise small loan companies that make direct consumer loans of \$10,000 or less and charge rates in excess of those permitted by Chapter 24. These lenders may choose to make loans as a General Lender (N.C.G.S. 53-173) or as an Optional Rate Lender (N.C.G.S. 53-176). As of 9/30/2015 we had licensed: O General Lenders (lend \$3,000 or less) Optional Rate Lenders (lend \$10,000 or less) Total Offices with 485 branches

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS

Refund Anticipation Loans

The Refund Anticipation Loan Act requires facilitators who make tax refund loans to register with the Commissioner of Banks.

As of 9/30/2015 we had registered: 33 Refund Anticipation Lenders 269 Offices

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS

Registration of Mortgage Bankers and Brokers

Under the provisions of N.C.G.S. 53-243.01 *et seq.* mortgage lenders, brokers and loan officers must register with the Commissioner of Banks unless they are exempt. These exemptions include financial institutions presently regulated by the state or federal government and supervised and non-supervised lenders with the Department of Housing and Urban Development. Effective 7/01/2002.

As of 9/30/2015 we had:

- 383 Mortgage Lenders with 944 branches (773/1,002 in 2007)
- 135 Mortgage Brokers with 33 branches (897/318 in 2007)
- 49 Mortgage Servicers
- 8 Mortgage Exempt Licensees
- 866 Mortgage Exempt Companies
- 10,813 Loan Officers (includes 99 EMBs) (18,158 in 2007)

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS

Reverse Mortgages

The Reverse Mortgage Act (N.C.G.S. 53-255 *et seq.*) authorizes the Commissioner of Banks to approve reverse mortgage lenders. Even though banks, savings institutions, and credit unions are exempt and do not have to obtain the Commissioner's approval, nevertheless they must notify him of their intent to offer reverse mortgages. Reverse mortgages are available to homeowners over 62. They provide monthly loan advances which are repaid upon death or the sale of the house.

As of 9/30/2015 we had approved:

- **47 Reverse Mortgage Lenders**
- **47 Exempt Lenders**

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS

Money Transmitters

The Money Transmitters Act (N.C.G.S. 53-208.1, et seq.) provides that no one sell or issue checks, drafts, money orders, or other instruments for the payment or transmission of money unless licensed by the Commissioner of Banks.

As of 9/30/2015 we had:

100 Money Transmitter Licensees

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS

Trust Licenses

Pursuant to N.C.G.S. 53-159.1, et seq., banks wishing to act in a fiduciary capacity must make application to the Commissioner of Banks for a license, and renew the license annually thereafter. Licenses are granted or renewed upon a determination of applicant's solvency and receipt of a fee.

As of 9/30/2015 we had:

62 Trust Licensees

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS

Check-Cashing Businesses

Under N.C.G.S. 53-275 *et se*q., persons or other entities providing check-cashing services for a fee, service charge, or other consideration must be licensed by the Commissioner of Banks. The law sets maximum fees for the check-cashing service.

As of 9/30/2015 we had:

254 Licensees 1,340 Locations

Enforcement Actions, Civil Money Penalties, and Fines

- The Commissioner of Banks will pursue Enforcement Actions against entities and/or individuals deemed to be in violation of applicable state regulations. Such actions may be adjudicated through administrative hearings before the Commissioner or as the result of voluntary consent decrees.
- The Commissioner of Banks, at his discretion, has the authority to impose Civil Money Penalties as punishment for violation of applicable state regulations.
- In Fiscal Year 2014-2015, the Commissioner entered 42 Enforcement Actions (one through hearing at the OCOB); imposed CMPs exceeding \$235,845 and collected in excess of \$145,500.
- The Commissioner has the authority to levy fines against guilty parties to recover reasonable costs of investigations.

BANKING ENVIRONMENT

TYPES OF CHARTERS:

NATIONAL

STATE MEMBER (FEDERAL RESERVE)

STATE NON-MEMBER

BRANCHING

LIMITED

STATEWIDE

UNIT BANKING

NO BRANCHING ALLOWED

	Depositoi	y Institution Regu	lator
Type of Institution			
Type of Institution		ry Regulator	Federal Regulator
Banks			
National State		occ	occ
State	Member	NCCOB	FRB
	Nonmember	NCCOB	FDIC
Savings Associat		110000	
Federal		occ	FDIC
State		NCCOB	FDIC
Savings Banks			
Federal		OCC	FDIC
State		NCCOB	FDIC
Credit Unions		10 July 10 10 10 10 10 10 10 10 10 10 10 10 10	
Federal State		NCUA Credit Union Div.	NCUA NCUA
State		Credit Union Div.	NCUA



EXAMINATION RATINGS

- C Capital
- A Assets
- M Management
- E Earnings
- L Liquidity
- S Sensitivity (Market/Interest Rates)
- Rated from 1 to 5 (1 is the highest)
- Composite rating from 1 to 5 (not an average)

CAMELS Rating Scale 1 to 5

- "1" Strongest performance and risk management practices
- "2" Satisfactory performance and risk management practices
- "3" Less than satisfactory performance and risk management practices
- "4" Unsatisfactory performance and risk management practices
- "5" Critically deficient performance and greatest supervisory concern

Purpose of Bank Examinations

- Maintain public confidence
- Determine compliance with laws and regulations
- Prevent problem situations from deteriorating to the point where costly regulatory intervention is unavoidable
- Provide supervisory regulators with an objective foundation on which to base corrective measures, recommendations, and instructions

Types of Regulatory Exams

- Safety and Soundness (Commercial)
- Information Technology
- Trust
- Compliance/CRA

Frequency of Examinations

- Once every 12 months or
- May be extended to 18 months if:
 - Total assets are less than \$250 Million
 - The institution is well-capitalized
 - Composite rating of "1" or "2" on most recent examination
- Smaller banks examined alternately by the FDIC/FRB or State

Basic Areas of Examination Review

- Credit Review
- Operations Review
- Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) Compliance Review

ENFORCEMENT ACTIONS

- BOARD RESOLUTION
- MEMORANDUM OF UNDERSTANDING
- CONSENT ORDER
- REMOVAL OF DIRECTORS AND OFFICERS
- ORDER TO CLOSE

TRENDS

Branching Across State Lines

Consolidation:

Failures and Assisted Acquisitions

Mergers and Acquisitions

New Banks (de Novo)

Internet and Mobile Banking

Branch Closings

Issues

- Subprime Mortgages
- Housing Meltdown
- Commercial Real Estate Collapse
- Interest Rate Risk
- Operational Risk
- Cybersecurity
- Revenue pressures
- Regulatory Costs

Subprime Mortgages

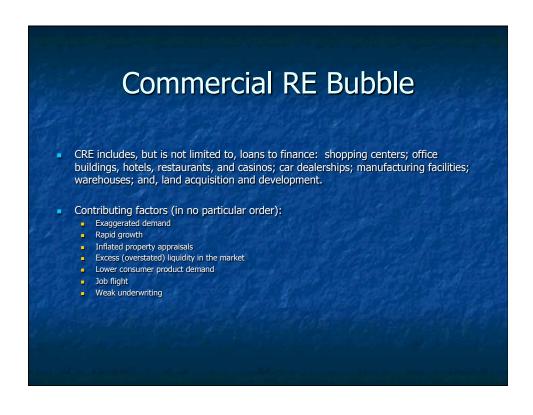
Liquidity in the global capital markets with an appetite for mortgage securities coupled with excess capacity in the commission-driven origination sector led to a deterioration of underwriting quality and to mortgage fraud. Our observations have noted:

Sales and marketing practices that focus on initial monthly payment of the loan, often at the exclusion of meaningful information about future payment shock;

Loan products with payment shock built in, leading the homebuyer to face a big jump in monthly payments regardless of changes in interest rates;

Subprime loans originated with stated income instead of documented; and

Loans with indications of some level of material misstatement in the loan process.



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Pisgah Community Bank	Asheville	NC	58701	Capital Bank, N.A.	May 10, 2013
Parkway Bank	Lenoir	NC	57158	CertusBank, National Association	April 26, 2013
Waccamaw Bank	Whiteville	NC	34515	First Community Bank	June 8, 2012
Blue Ridge Savings Bank, Inc.	Asheville	NC	32347	Bank of North Carolina	October 14, 2011
The Bank of Asheville	Asheville	NC	34516	First Bank	January 21, 2011
Cooperative Bank	Wilmington	NC	27837	First Bank	June 19, 2009
Cape Fear Bank	Wilmington	NC	34639	First Federal Savings and Loan Association	April 10, 2009
			, six		

Costs of Regulation

The Federal Reserve's and the Conference of State Bank Supervisors' (CSBS) second National Survey of Community Banks found that compliance costs for community banks represented 22 percent of their net income. The final sample consists of 974 responses from commercial banks with assets less than \$10 billion in 39 states. Regulatory compliance accounted for 11% of personnel, 16% of data processing, 20% of legal, 38% of accounting and auditing, and 48% of consulting expenses. To the extent that these percentages are accurate and representative of the community banking industry, they imply a hypothetical compliance cost to community banks, in these areas alone, of \$4.5 billion annually.

Despite stating that it was too soon to weigh these compliance costs against their benefits, the Fed and CSBS recognized within the report that the costs "are sufficient to frustrate bankers." To develop the survey, CSBS staff members met with representatives from several Federal Reserve banks, the Fed and the academic community. The survey's questions covered lines of business, mortgage market participation, technological innovation, regulatory compliance, competition and consolidation. The report also included anecdotal evidence on the state of community banking that the Fed and CSBS gathered through town-hall meetings. A few common themes were found from the meetings, such as "a lack of clear regulatory expectations and perceived aggressive examination tactics." This has led many banks to hire more compliance personnel and third-party auditors, both of which are in high demand and very expensive.

Costs of Regulation (cont.)

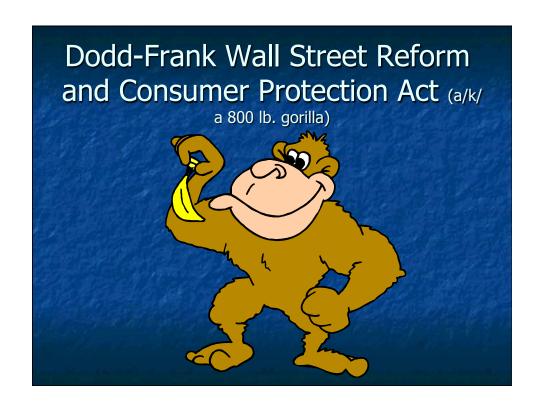
- Compliance costs have also led banks to abandon certain financial products, forcing consumers to nonbank financial services providers. Banks were asked to identify their primary lines of business and, within those lines, specific products and services offered. Commercial real estate lending was named by 74 percent of respondent banks as the primary line of business. One- to-four-family mortgage lending also was featured prominently as a primary line of business, named by 69 percent of respondent banks. Agricultural lending was named as a primary product line by 43 percent of respondent banks.
- For mortgage lending, it was found that the market "was buffered last year by regulatory changes (particularly those affecting QM and non-QM mortgages) and intensified competitive pressures" and that "many banks curtailed mortgage activities." For instance, one- to four-family mortgages were named as a primary line of businesses by 69 percent of surveyed banks as opposed to 75 percent the year before. Loans backed by the government-sponsored enterprises (GSEs) represented about 90 percent of the mortgage market. De-emphasis on mortgage lending as a primary line of business and among products and services appears in contrast with an inclination by banks to hold, rather than sell, the mortgages they make. In this regard, 45 percent of respondents said they held at least 90 percent of the loans they originated. On the other end of the spectrum, 12 percent of banks held less than 10 percent of the loans they originated," the report stated.

Qualified Mortgage

A mortgage in which the lender has analyzed the borrower's ability to repay based on income, assets and debts; has not allowed the borrower to take on monthly debt payments in excess of 43% of pre-tax income; has not charged more than 3% in points and origination fees; and has not issued a risky or overpriced loan like negative-amortization, balloon, 40-year or interest-only mortgage. Qualified mortgages began in January 2014, and provide legal protections for lenders who follow certain regulations in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Dodd—Frank Wall Street Reform and Consumer Protection Act

To promote the financial stability of the United States by improving accountability and transparency in the financial system, to end "too big to fail", to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes.

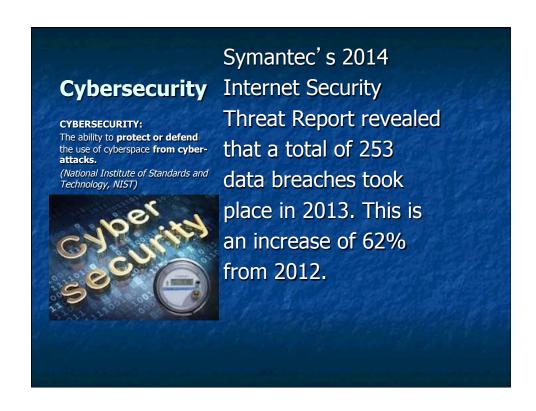


Dodd-Frank Act

- 850 pages as passed
- Divided into 16 titled sections
- Signed into federal law by President Obama on July 21, 2010
- Promulgates 398 rulemaking requirements
- Conservatively requires at least 67 studies
- Necessitates the creation of at least 22 new periodic report publications
- Deadlines for 271 of the 390 have passed
- 193/271 (71.2%) have been met with final rules; 78/271 (28.8%) missed deadlines

Dodd-Frank Act

- Regulators have not yet released proposals for 33 of the 271 missed rule dates
- Of the 390 total: 249 (63.8%) have final rules;
 58 (14.9%) have proposed rules out for comment; and 83 (21.3%) do not yet have proposed rules
- 135 of the 398 are the responsibility of Bank Regulators



Cybersecurity (cont.) Common Cyber-threats: Cyber-threat Mitigates: Distributed Denial of Service Intrusion Detection Systems; (DDoS) attacks; Network Behavior Anomaly Corporate Account Take Over **Detection Tools**; (CATO) attacks; Security Information and Event Automated Teller Machine Management /Log Analyzer; (ATM Cash Out) attacks; and Configuration Management CryptoLocker attacks. Tools; and Integrity Monitoring Tools.

