



Overview of the Banking Environment

SCHOOL OF GOVERNMENT
CHAPEL HILL, NC
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Bank Examiner

Definition, noun: Dour individual; devoid of humor; suspicious of all, friend of none; more comfortable with numbers than people; preys upon the misery of others; notoriously cheap.

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 9/30/2017 we had:

50 Bank Holding Companies registered:
 24 Bank Holding Companies registered only
 25 Bank Holding Companies registered and regulated
 1 Savings Bank Holding Cos registered and regulated

**ACTIVITIES REGULATED BY COMMISSIONER OF
BANKS
FACT SHEET**

As of 9/30/2017 we regulated:

37 banks 3,382 branches
11 Savings Banks, 24 branches
0 Savings and Loan Association
9 State Trust Companies

48 State-chartered financial institutions:

Total Assets	\$294,253,000,000
Total Deposits	\$228,222,000,000

TEN LARGEST BANKS

NC Commercial, Savings Banks & Thrifts Ranked by Assets as of June 30, 2017

Rank	Name	City	Assets (\$000)	Deposits (\$000)
1	Bank of America, National Association	Charlotte	1,705,928,000	1,349,236,000
2	Branch Banking and Trust Company	Winston-Salem	215,274,000	163,093,000
3	First-Citizens Bank & Trust Company	Raleigh	34,599,352	29,483,243
4	Capital Bank Corporation	Raleigh	10,101,534	8,164,389
5	First Bank	Southern Pines	4,530,888	3,652,470
6	RBC Bank (Georgia), National Association	Raleigh	4,127,421	3,797,353
7	Park Sterling Bank	Charlotte	3,336,074	2,546,183
8	HomeTrust Bank	Asheville	3,192,600	2,069,402
9	Southern Bank and Trust Company	Mount Olive	2,486,614	2,113,327
10	Live Oak Banking Company	Wilmington	2,122,692	1,892,350

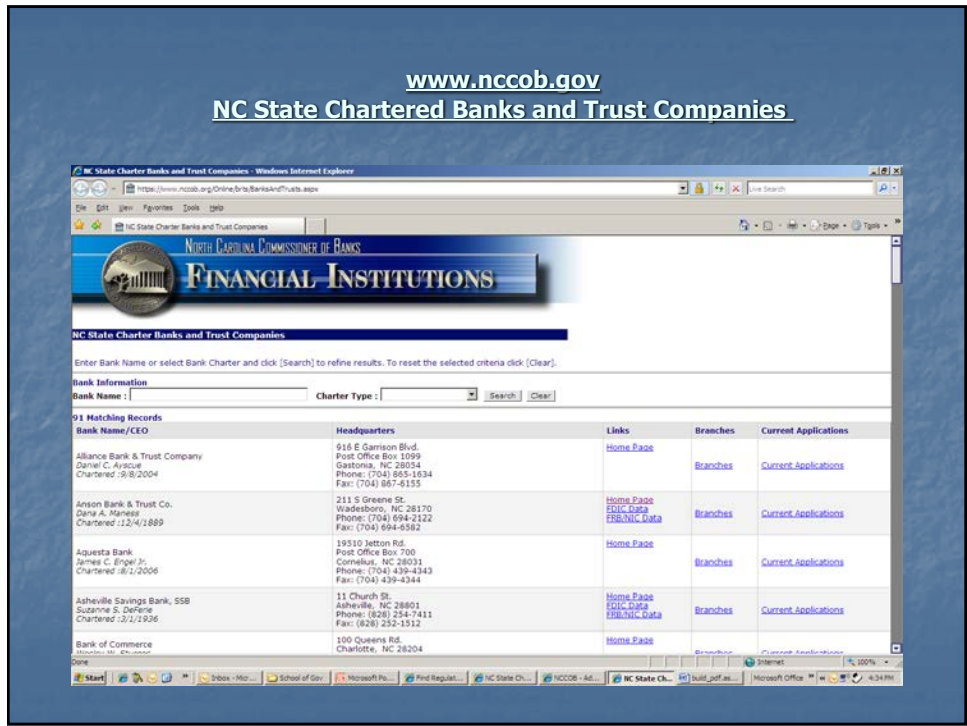
Disappearing from the 2016 Top 10 list were
Yadkin Bank and Bank of North Carolina

www.nccob.gov

The screenshot shows the homepage of the North Carolina Commissioner of Banks (NCCOB). The header includes the NCCOB logo and the text "north carolina COMMISSIONER OF BANKS". Below the header are navigation tabs: "About Us", "Consumer Information", "Financial Institutions", and "News & Research". The main content area is divided into several sections:

- What's New?**: A list of recent regulatory updates:
 - September 13, 2013 (m.m.) to all mortgage licensees regarding changes to North Carolina law.
 - Session Law 2013-20 makes technical and clarifying changes to the banking laws, Chapter 53C, effective April 16, 2013.
 - Session Law 2013-152 makes certain changes to the Consumer Finance Act, effective July 1, 2013.
 - Beware of common financial fraud schemes. Read the N.C. Attorney General's tips and the FBI's tips to learn how to protect yourself. Sign up for consumer alerts. Ensure that the company you are dealing with is licensed to do business in North Carolina. If you have a...
- Welcome Message**: A section featuring a photo of the Commissioner and a text block stating: "Welcome to the official website of the N.C. Office of the Commissioner of Banks (NCCOB). NCCOB is responsible for the chartering and regulation of four North Carolina's state banks, trust companies, mortgage companies, as well as registration and licensing of various financial institutions operating in North Carolina. Our mission is to promote and maintain the..."
- Utility Buttons**: A vertical column of green buttons on the right side: "Need Foreclosure Help?", "Is my money safe?", "File a Complaint", "Look up a North Carolina state-chartered bank", "Look up a mortgage lender or loan originator", and "Public Notices".

www.nccob.gov
NC State Chartered Banks and Trust Companies



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 \$15,000 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 9/30/2017 we had licensed:

- 0 General Lenders (lend \$3,000 or less)
- 75 Optional Rate Lenders (lend \$15,000 or less)
- 75 Total of 476 Active Offices including 419 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 9/30/2017 we had registered:

267 Refund Anticipation Lenders

905 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 9/30/2017 we had:

410 Mortgage Lenders with 1,301 branches (773/1,002 in 2007)

145 Mortgage Brokers with 34 branches (897/318 in 2007)

47 Mortgage Servicers

3 Mortgage Exempt Licensees

900 Mortgage Lenders w/Exempt Status

15,236 Loan Originators (includes 91 EMBs) (18,158 in 2007)

23 Mortgage Origination Support Registrants

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 9/30/2017 we had approved:

58 Reverse Mortgage Lenders

45 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 9/30/2017 we had:

108 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 9/30/2017 we had:

48 Trust Licensees

ACTIVITIES REGULATED BY COMMISSIONER OF BANKS

Check-Cashing Businesses

Under N.C.G.S. 53-275 *et seq.*, 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 9/30/2017 we had:

222 Licensees 1,316 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 2016-2017, the Commissioner entered 42 Enforcement Actions (40 Licensed w/Conditions, 1 Surrender of License, 1 Suspension of License); imposed CMPs of \$17,040 and collected \$14,540. The remaining \$2,500 must be paid before the persons license will be reinstated.
- 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

Depository Institution Regulator

Type of Institution	Primary Regulator	Primary Federal Regulator
Banks		
National	OCC	OCC
State		
Member	NCCOB	FRB
Nonmember	NCCOB	FDIC
Savings Associations		
Federal	OCC	FDIC
State	NCCOB	FDIC
Savings Banks		
Federal	OCC	FDIC
State	NCCOB	FDIC
Credit Unions		
Federal	NCUA	NCUA
State	Credit Union Div.	NCUA

SAFETY

•MANAGEMENT

•GOOD LAWS

•OFF-SITE MONITORING

•EXAMINATION

•ENFORCEMENT

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 \$1 Billion
 - 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 (Cease and Desist Order)
- REMOVAL OF DIRECTORS AND OFFICERS
- ORDER TO CLOSE

North Carolina Bank Failures since 2009

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

TRENDS

Branching Across State Lines

Consolidation:

Failures and Assisted Acquisitions

Mergers and Acquisitions

New Banks (de Novo)

Internet and Mobile Banking

Branch Closings

Issues

- **Interest Rate Risk**
- **Operational Risk**
- **Cybersecurity**
- **Revenue pressures**
- **Regulatory Costs**
- **FinTech**
- **Automation**

Costs of Regulatory Compliance

22% of Community Banks' Net Income

- 11% of personnel expenses
- 16% of data processing expenses
- 20% of legal expenses
- 38% of audit/accounting expenses
- 48% of consulting expenses

Estimated at \$4.5 billion for all community banks

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 Wall Street Reform and Consumer Protection Act

(a/k/a 800 lb. gorilla)



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 (or 390) 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
- 210/271 (77.5%) have been met with final rules; 29/271 (10.7%) have rules proposed; 32/271 (11.8%) have no rules proposed

Dodd-Frank Act

- Regulators have not yet released proposals for 32 of the 271 missed rule dates
- Of the 390 total: 274 (70.3%) have final rules; 36 (9.2%) have proposed rules out for comment; and 80 (20.5%) do not yet have proposed rules
- 135 of the 398 (or 132/390) are the responsibility of Bank Regulators

Deceptive Sales/Marketing Practices



Throughout 2017 regulators have been reviewing sales practices in large and mid-sized banks

- A data driven, unified, and well documented enterprise-wide sales practice risk management program that pays special attention to sales targets and employee incentives
- Three lines of defense
- Board of Directors to be accountable for the bank's risk management frameworks
- Conform "tone at the top" with "tone in the middle"
- Compensation serves as the bank's strongest lever to set culture and influence behavior
- From product-push to needs-based selling

Financial Criminals



Cybersecurity

CYBERSECURITY:

The ability to **protect or defend** the use of cyberspace **from cyber-attacks**.

(National Institute of Standards and Technology, NIST)



Symantec's 2015 Internet Security Threat Report revealed that a total of 318 data breaches took place in 2015. This is an increase of 2% from 2014, but up 26% from 2013.

Cybersecurity (continued)



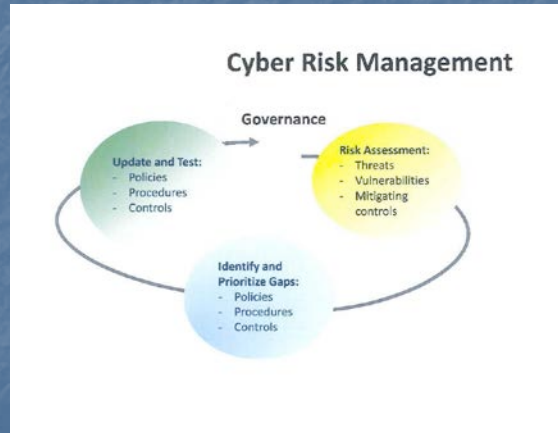
Equifax Breach

- On July 29th, credit reporting agency Equifax discovered an application vulnerability that had not been patched, allowing hackers to access certain personal information, including consumers' Social Security numbers, from mid-May to late July. The breach could affect up to 145.5 million individuals.
- According to Sunil Madhu, founder and CEO of Socure, which provides digital identity verification, this was the 23rd publicly disclosed data breach of 2017. As of 2016, the personal information of about 2 billion people had been leaked, he said in a recent interview.

Cybersecurity (cont.)

- | | |
|---|--|
| <ul style="list-style-type: none">■ <u>Common Cyber-threats:</u>➢ Distributed Denial of Service (DDoS) attacks;➢ Corporate Account Take Over (CATO) attacks;➢ Automated Teller Machine (ATM Cash Out) attacks; and➢ CryptoLocker attacks. | <ul style="list-style-type: none">■ <u>Cyber-threat Mitigates:</u>❖ Intrusion Detection Systems;❖ Network Behavior Anomaly Detection Tools;❖ Security Information and Event Management /Log Analyzer;❖ Configuration Management Tools; and❖ Integrity Monitoring Tools. |
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Cybersecurity (cont.)



FinTech Companies

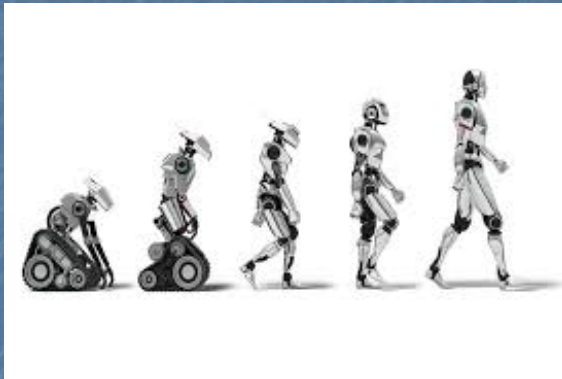


FinTech

- According to FinTech Weekly, FinTech describes a business that aims at providing financial services by making use of software and modern technology.
- Potential bank response? Ignore, partner, purchase, or adapt and innovate.

Robotics

- logic driven robots that execute pre-programmed rules on mostly structured and some unstructured data



Robotic Process Automation (RPA or Robotics)

- Robotics benefits include: cost savings, fewer errors, time savings, and scalability
- Potential utilization – new account entries, accounting entries, fraud detection, credit analysis and approval, mortgage approval, collections



Bank examiners rejoice over documents prior to the division of duties.

Examiners are paperivores and hunt in packs known as Exam Teams. An exam team typically changes its hunting ground every 3 to 4 weeks. Hunting grounds normally take the form of banks, but may also include data centers, trust companies, corporate offices, and [hyperspace](#).

