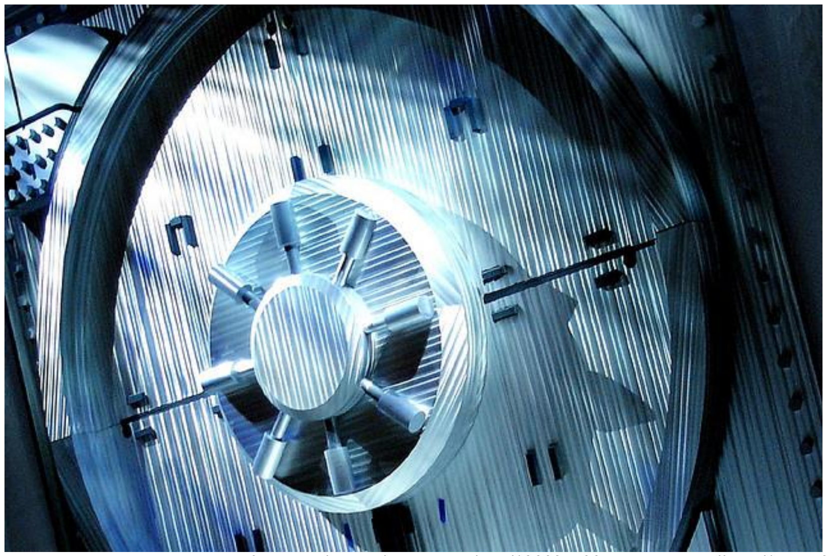
GEORGIA BANKERS ASSOCIATION
the resource that empowers

Georgia Banking Update



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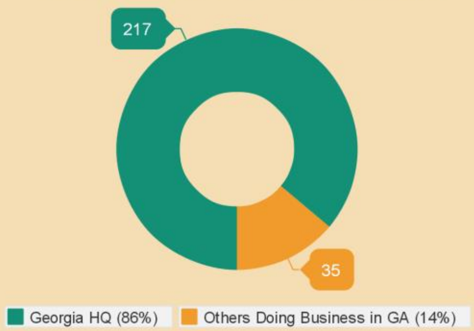
September 2014

Contents

GEORGIA BANKS AT A GLANCE

252 BANKS IN GEORGIA



ASSET-SIZE DIVERSITY

JOBS 60,000 EMPLOYED

IMPROVING PERFORMANCE

88% PROFITABLE

6.1% LOANS

4.1% DEPOSITS

Credit Quality Is Better

17 CONSECUTIVE QUARTERS OF LOWER NONCURRENT LOANS

Georgia Banking Facts and Figures

Through June 30, 2014, unless noted otherwise

- There are 252 FDIC-insured banks and savings institutions operating in Georgia from more than 2,500 branches.[1] Of those, 217 are based in Georgia as of June 30, 2014.[2]
- Georgia-based banks employ about 45,300 people.[3] Conservatively, GBA estimates that all banks operating in Georgia employ about 60,000 people.
- 88 percent of the state's banks were profitable through the second quarter, and 60.1 percent reported earnings gains.
- Loans are up 6.1 percent compared to a year ago and deposits are up 4.1 percent since that time.
- More families and businesses were able to pay their loans on time in the second quarter of 2014. Noncurrent loans were down for the 17th consecutive quarter and were below the national percentage.
- The government's investment in Georgia banks though the Capital Purchase Program has returned more than $866 million more (13.91 percent) than the initial investment. Investments in two state banks remain outstanding as of Aug. 6, 2014.

Measurement (Year-to-date data)	Georgia 6/30/14	Georgia 3/31/14	Georgia 12/31/13	Georgia 9/30/13	Georgia 6/30/13	National 6/30/14
Institutions	217	219	223	224	224	6,656
Employees (FTEs)	45,321	44,961	45,219	45,339	45,178	2,060,002
Total assets	$274.9 B	$271.5 B	$266.7 B	$261.4 B	$261.6 B	$15.1 T
Total deposits	$218.0 B	$217.6 B	$213.6 B	$211.0 B	$209.4 B	$11.5 T
Loans and leases, gross	$198.3 B	$193.7 B	$192 B	$188.1 B	$186.8 B	$8.1 T
Other real estate owned	$1.4 B	$1.5 B	$1.6 B	$1.8 B	$1.9 B	$27.8 B
Net income	$1.1 B	$590.0 M	$2.0 B	$1.5 B	$1.2 B	$77.4 B
Net charge-offs to loans	0.35%	0.33%	0.59%	0.65%	0.74%	0.51%
% of profitable institutions	88.02%	85.84%	83.41 %	86.16%	87.05%	93.36%
% institutions w/ earnings gains	60.83%	64.84%	65.47%	68.30%	66.52%	56.9%
Net interest margin	3.38%	3.39%	3.48%	3.47%	3.46%	3.16%
Return on assets (ROA)	0.81%	0.88%	0.77%	0.76%	0.93%	1.04%
Return on Equity (ROE)	6.79%	7.32%	6.36%	6.18%	7.58%	9.27%
Loss allowance to loans	1.54%	1.61%	1.64%	1.70%	1.77%	1.58%
Noncurrent loans to loans	1.71%	1.96%	2.12%	2.26%	2.36%	2.24%
Equity capital to assets	12.00%	11.97%	11.99%	12.11%	12.33%	11.26%
Core Capital (Leverage ratio)	10.00%	10.02%	10.02%	9.96%	10.14%	9.57%
Total risk-based capital ratio	13.47%	13.73%	13.74%	13.97%	14.59%	14.47%

[1] SNL Financial report of current banks and branches

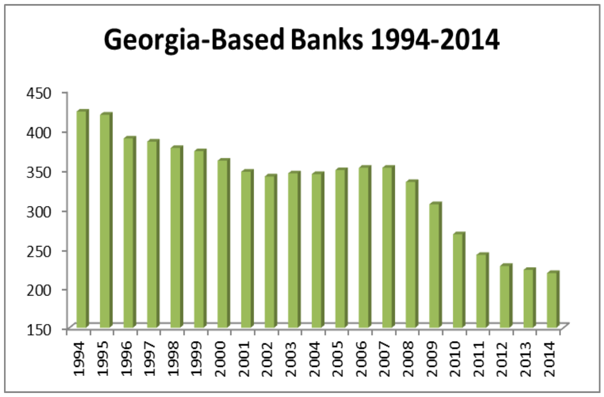
[2] FDIC institution directory website

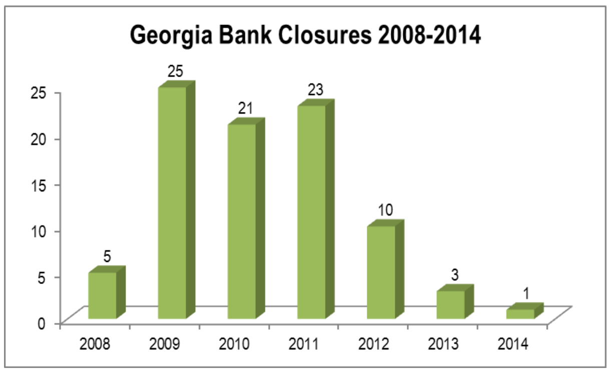
[3] FDIC Statistics on Depository Institutions, Georgia-based institutions only, most recent available, through June 30, 2014.

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 June 30, 2014	
Georgia	**217**
Florida	188
Kentucky	183
Tennessee	177
Louisiana	140
Alabama	135
Arkansas	113
Virginia	100
Mississippi	84
Maryland	72
North Carolina	71
South Carolina	66
West Virginia	60





2014 Georgia Bank M&A Transactions (Surviving Charter Listed Second)	Announce Date	Status	Completion Date
Citizens Exchange Bank **WB&T Bankshares, Inc.**	8/18/2014	Pending	-
Georgia-Carolina Bancshares, Inc. **State Bank Financial Corporation**	6/24/2014	Pending	-
Alliance Bancshares, Inc. **Community & Southern Holdings, Inc.**	5/16/2014	Completed	8/20/2014
Monroe County Bank **United Bank Corporation**	5/15/2014	Completed	7/31/2014
Midtown Bank & Trust Company **First Landmark Bank**	4/28/2014	Pending	-
Atlanta Bancorporation, Inc. **State Bank Financial Corporation**	4/28/2014	Pending	-
Coastal Bankshares, Inc. **Ameris Bancorp**	3/11/2014	Completed	6/30/2014
Stephens Federal Bank **Oconee Federal Financial Corp. (MHC)**	2/27/2014	Pending	-

Economic and Banking Environment Summary

The Fundamentals Remain Solid, Some Challenges Remain

- **Georgia's population growth is expected to remain in the top 5 through 2020**
- **Housing recovery strengthening; housing is still comparatively affordable for new buyers**
- **Business relocations remain good**
- **Ports, rail and air transportation infrastructure are general advantages; there are issues that need addressing, however**
- **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**
- **Unemployment has ticked upward; is that seasonal or a trend?**

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 replenish 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. This will be a new two-year biennial session, so all bills will be newly filed legislation. Issues we expect to be addressed in legislation include:

- **Boat titling** – A possible bill would generally mirror the new Ad Valorem Title Tax (TAVT) system for automobiles

- **Foreclosure Confirmation** – There are always a number of foreclosure-related bills introduced. We expect there will be another attempt to change the state's current foreclosure confirmation process. In the 2014 session, H.B. 917 by Rep. **Brian Strickland** (R-McDonough) proposed to extensively revise the current foreclosure confirmation process and extend that confirmation process to post-judgment foreclosures. A similar bill, H.B. 344 by Rep. **Matt Ramsey** (R-Peachtree City), was the subject of a hearing in the House Banks and Banking Committee in the 2013 session. GBA testified about both, suggesting the Legislature use caution when making such a significant change to the foreclosure process. Neither bill progressed out of committee.

GBA at the Capitol
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 about legislation, information about your legislator's stance on a particular issue or to request any other information related to the Georgia General Assembly.

National Regulatory and Legislative Issues

Regulatory Relief for Banks

Regulatory burdens have grown dramatically, stretching the resources of all banks, but especially for community banks. These burdens hinder banks' ability to help local businesses grow and create jobs. Legislation to address the growing regulatory burdens has been introduced. There are four pieces of legislation we encourage our delegation to support:

- Support the Bank Exam Reform bill, H.R. 1553/S. 727 (Cosponsors include Sen. Chambliss; Reps. Westmoreland, Graves, Barrow, Kingston, Austin Scott and Woodall)

- Support the CLEAR Act, H.R. 1750/S. 1349. (Cosponsors include Sens. Chambliss and Isakson; Reps. Graves, Barrow, Kingston, Austin Scott and Woodall)

Enhancing 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 has 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 Georgia House delegation to vote for the legislation, and for our Senators to do the same if it reaches that chamber.

H.R. 2673, sponsored by Rep. Andy Barr (R-Ky.), would deem all loans held in portfolio for the life of the loan as Qualified Mortgages.

- Rationale: 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.

H.R. 4521, introduced by Rep. Blaine Luetkemeyer (R-Mo.), 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.

- Rationale: This escrow exemption will 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 H.R. 4042 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.

- In 2013, banks stopped $13 billion in fraud attempts
- 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 (e.g., S. 1927) 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
- According to OMB, the **cost to U.S. taxpayers is $12.8 billion** over the next five years
- Congress should eliminate the credit union tax exemption
- Credit unions over $1 billion account for nearly two-thirds of the tax subsidy.

End the Farm Credit System's Tax Subsidy and Providing Oversight of the Farm Credit System
The Farm Credit System (FCS) is a $249 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.

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

Tax Reform - Subchapter S Banks, Net loss carry forward

There are 60 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 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.

Annual Privacy Notice Elimination

The House of Representatives has passed H.R. 749 by Rep. Blaine Lutekemeyer (R-MO) and the Senate should consider S. 635 by Sen. Sherrod Brown (D-OH) and Jerry Moran (R-KS) soon that would amend the Gramm-Leach-Bliley Act by eliminating the requirement to provide an annual privacy notice for federal financial institutions that haven't made changes to their privacy practices while ensuring customers have continued access to their institution's current privacy policy. GBA supports this change since annual notices do not provide useful information to customers when there has been no change in policy. Additionally, the expense of producing and mailing the notices could be better directed toward serving customers. Both Senators Chambliss and Isakson are cosponsors.

Systemic Risk Designation Improvement Act

H.R. 4060 by Rep. Blaine Luetkemeyer (R-Mo.) would change the method by which Bank Holding Companies are designated for enhanced supervisory and prudential standards by the Dodd-Frank Act (DFA). The legislation would replace 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.

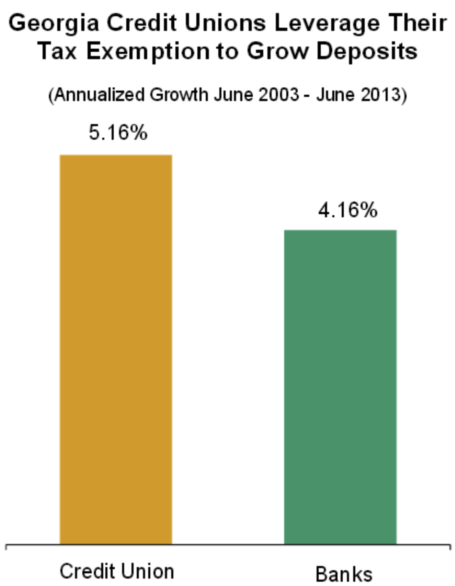
- We encourage the Georgia Congressional Delegation to support H.R. 4060 as the standards better measure the risk of a bank holding company because they reflect business activity, not size.

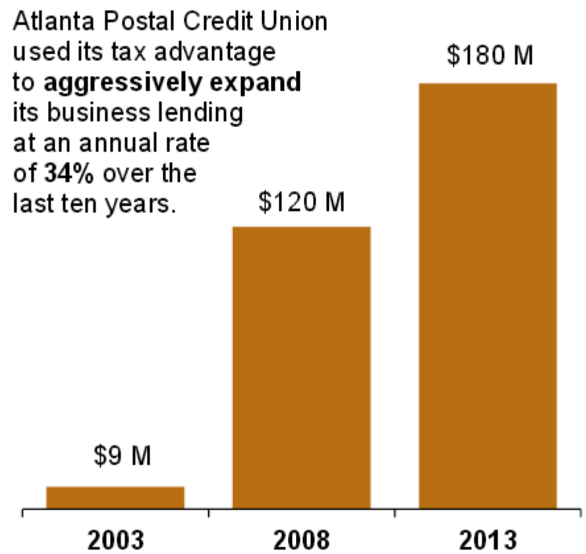
Credit Union and Farm Credit Tax Subsidies

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.





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.

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 second quarter 2014.[5] Residential mortgage delinquencies in Georgia were 7.80 percent at the end of second quarter, up 19 basis points from first quarter.

Delinquency rate	Prime Adjustable Rate	6.09 %	Up 51 bp.
	Prime Fixed Rate	3.99 %	Up 9 bp.
	Subprime Adjustable Rate	23.26 %	Down 28 bp.
	Subprime Fixed Rate	22.7 %	Up 14 bp.

Loans in foreclosure	Prime Adjustable Rate	1.43 %	Down 9 bp.
	Prime Fixed Rate	0.76 %	Down 6 bp.
	Subprime Adjustable Rate	4.45 %	Down 6 bp.
	Subprime Fixed Rate	3.95 %	Up 26 bp.

Georgia has the fifth most active HAMP total trial and permanent modifications, through May 2014.[6]

- HAMP is the Government's Home Affordable Mortgage Program
- 35,103 total trial and permanent modifications
- 33,470 are permanent modifications
- 1,543 are active trial modifications

[5] Delinquency stats on this page from Mortgage Bankers Association, Georgia Press Release, Aug. 7, 2014.
[6] http://1.usa.gov/1oVINUo

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. New regulations effectively mandate that the process can't begin until a borrower is 120 days late 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).

- New 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.

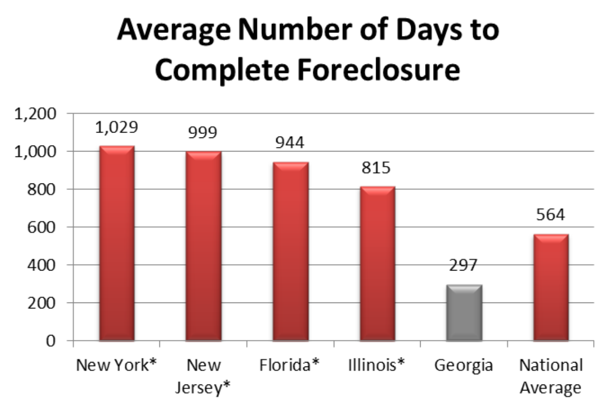
- A homeowner in any state, Georgia included, has the right to challenge a foreclosure in court. The main difference is that in a non-judicial state, the lender does not have to file a lawsuit to initiate a foreclosure, which can take months or years to settle depending on the state and how burdened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

- In many judicial foreclosure states, it takes longer to complete a foreclosure. At the end of 2013 for example, in New York the average time from the first public foreclosure notice to completion was 1,029 days – almost three full years. In Georgia, a non-judicial state, the average was 297 days.

- 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.[7]



* States that require foreclosures to go through a court review process. Source: RealtyTrac U.S. Foreclosure Market Report through Q4 2013, based on date from first public notice to foreclosure completion.

[7] http://www.bos.frb.org/economic/ppdp/2011/ppdp1109.pdf