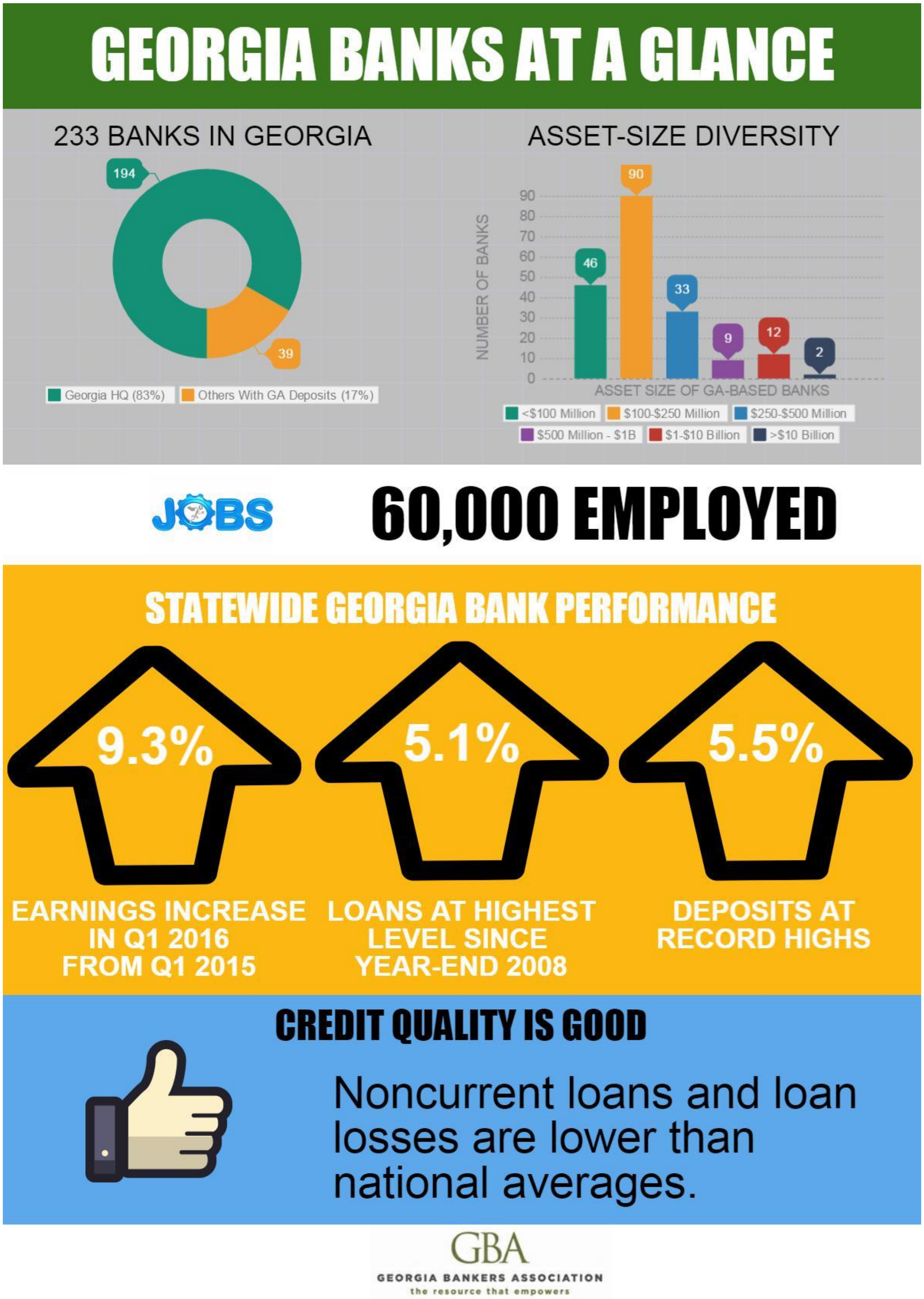
GBA
GEORGIA BANKERS ASSOCIATION
the resource that empowers

June 2016

Contents



First Quarter 2016 information from FDIC.

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Georgia Banking Facts and Figures

Through March 31, 2016, unless noted otherwise

- There are 233 FDIC-insured banks and savings institutions operating in Georgia from more than 2,480 branches.[1] Of those, 194 are Georgia-based institutions as of March. 31, 2016.[2]
- Georgia-based banks employ almost 43,000 people. Conservatively, GBA estimates that all banks operating in Georgia employ about 60,000 people.
- Net income of $720.7 million for the first quarter of 2016 was up 9.3 percent from first quarter 2015.
- 92 percent of banks were profitable for the quarter, up by 5 percentage points compared to the same period in 2015. 73 percent of banks reported increased earnings in the quarter, also up from first quarter 2015.
- Total assets grew by 3.4 percent compared to first quarter 2015 and 3.3 percent compared to year end and are at their highest level since 2008.
- Total loans of $213.9 billion were up 5.1 percent compared to the first quarter 2015 and 5 percent from year end and are at their highest level since year-end 2008.
- Total deposits of $243.6 billion were up 5.5 percent compared to first quarter 2015 and 5.3 percent from year end.
- Credit quality remains good with the percentage of noncurrent loans below national average.
- Capital levels across the industry are good.

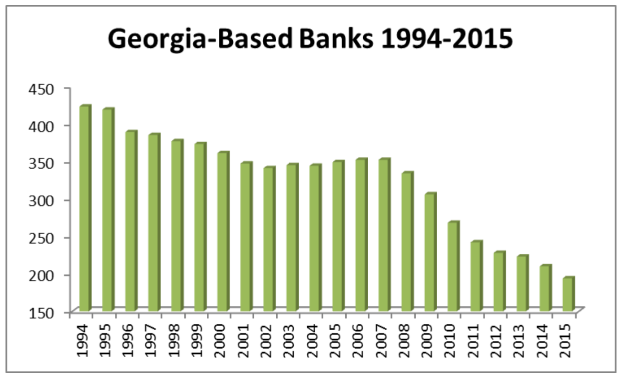
Measurement (Year-to-date)	Georgia 3/31/16	Georgia 12/31/15	Georgia 9/30/15	Georgia 6/30/15	Georgia 3/31/15	National 3/31/16
Institutions	194	194	199	203	205	6,122
Employees (FTEs)	42,722	42,839	42,988	43,475	43,447	2,039,887
Total assets	$294.9 B	$289.1 B	$284.3 B	$285.4 B	$285.3 B	$16.3 T
Total deposits	$243.6 B	$239.7 B	$234.8 B	$232.8 B	$230.8 B	$12.3 T
Loans and leases, total	$213.9 B	$208.8 B	$205.8 B	$204.4 B	$203.5 B	$8.9 T
Other real estate owned	$782,625 M	$831,791 M	$945,674 M	$1.0 B	$1.1 B	$14.1 B
Net income	$720,690 M	$2.9 B	$2.14 B	$1.3 B	$659.1 M	$39.1 B
Net charge-offs to loans	0.20%	0.23%	0.23%	0.24%	0.26%	0.46%
% of profitable institutions	92%	90%	88%	88%	87%	95%
% institutions with earnings gains	72.68%	70%	65%	64%	63.90%	61.42%
Net interest margin	3.27%	3.17%	3.14%	3.11%	3.10%	3.10%
Return on assets (ROA)	0.99%	1.02%	1.01%	0.94%	0.93%	0.97%
Return on Equity (ROE)	8.24%	8.52%	8.39%	7.92%	7.79%	8.62%
Loss allowance to loans	1.25%	1.27%	1.32%	1.36%	1.40%	1.35%
Noncurrent loans to loans	1.35%	1.24%	1.15%	1.26%	1.36%	1.58%
Total risk-based capital ratio	12.98%	13.14%	13.31%	13.29%	13.36%	14.24%

[1] FDIC market share report for June 30, 2015, with banks reporting Georgia deposits, minus the difference in state-based banks on March 31, 2016.
[2] FDIC institution directory website

The Evolving 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 traditional merger and acquisition activity continue to shift the industry landscape.

State-Based Banks March. 31, 2015	
Georgia	**194**
Kentucky	167
Tennessee	164
Florida	152
Louisiana	131
Alabama	129
Arkansas	104
Virginia	91
Mississippi	79
North Carolina	64
Maryland	57
South Carolina	60
West Virginia	59



2015-16 Georgia Bank Mergers and Acquisitions

Buyer / Seller	Buyer State	Seller State	Announced	Completed
First National Bank of Decatur County / Citizens Bank, Cairo	GA	GA	6/22/2016	
South State Corporation / Southeastern Bank Financial Corporation	SC	GA	6/17/2016	
State Bank Financial Corporation / S Bankshares Inc.	GA	GA	5/19/2016	
State Bank Financial Corporation / NBG Bancorp, Inc.	GA	GA	4/5/2016	
Charter Financial Corporation/ CBS Financial Corporation	GA	GA	12/3/2015	4/15/2016
Renasant Corporation / KeyWorth Bank	MS	GA	10/20/2015	4/1/2016
Bank of the Ozarks Inc. / Community & Southern Holdings Inc.	AR	GA	10/19/2015	
Southern States Bancshares Inc. / Columbus Community Bank	AL	GA	7/21/2015	10/22/2015
Hamilton State Bancshares, Inc. / Highland Financial Services, Inc.	GA	GA	5/15/2015	9/1/2015
First South Bancorp, Inc. / Northwest Georgia Bank	TN	GA	5/1/2015	9/18/2015
Five Star Credit Union / Farmers State Bank	AL	GA	2/18/2015	11/1/2015
Community & Southern Holdings, Inc. / Community Business Bank	GA	GA	1/30/2015	5/8/2015

Economic and Banking Environment Summary

The Fundamentals Remain Solid, Some Challenges Remain

- **Georgia is the 8th most populous state, with 10 million people; top-10 growth expected through 2020**
- **Year-over-year job growth statewide is outpacing the national average through May.**
- **Housing is still relatively affordable, especially compared to other regions in the country**
- **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, and the agribusiness, healthcare and education sectors are economic development strengths**
- **Competition for high-quality borrowers is strong, with attractive rates and terms for borrowers**

2016 Federal Legislative and Regulatory Issues

GBA Regulatory and Legislative 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 regulatory structures that are tailored to varied bank business models and risk profiles.
- Advocate for continued charter choice and a level playing field with nonbank financial services providers.

Arbitration under Fire from CFPB Proposal
A recent proposal by the CFPB would prohibit companies from putting mandatory arbitration clauses that prevent class action lawsuits in new contracts. Under the proposal, companies would still be able to include arbitration clauses in their contracts; however, clauses must include language explicitly stating that they cannot be used to stop consumers from being part of a class action in court. The proposal would apply to all extensions of credit under the Equal Credit Opportunity Act, automobile leases, depository services under the Truth in Savings Act, payments products and services subject to the Electronic Funds Transfer Act, debt settlements, credit reports and debt collection. The proposal would cover depository institutions, nonbank lenders and money transmitters. The comment period closes Aug. 22, 2016.There's a relevant case pending before the Georgia Supreme Court against a Georgia bank in which we've filed a friend-of-the-court brief opposing the idea that plaintiffs suing banks over details in deposit agreements should be allowed to waive arbitration clauses on behalf of an entire class of possible plaintiffs.

CFPB's Proposed Small Dollar Lending Rule Proposal
The CFPB in June released its proposal to more strongly regulate short-term, small-dollar loans. The rule would cover payday loans, auto title loans, deposit advance products, and other short-term, small-dollar credit, including all loans with a term of 45 days or less, as well as longer-term loans that have an all-in APR exceeding 36 percent and that are repaid directly from a borrower's account or secured by a car. Overdraft protection services are not covered by the proposal. In general, the proposal requires lenders to verify borrowers' ability to repay the loans in full. To demonstrate ability to repay, lenders would be required to verify income, customer debt obligations and housing costs, forecast basic living expenses, and project customers' income, obligations and expenses over the term of the loan. Borrowers with one outstanding covered loan would be presumed unable to repay a new, second loan unless documented by the lender. The rule does include a few safe-harbor provisions. One is for first-time short-

term loans of $500 or less. And, there are safe-harbors for longer-term loans modeled on the credit union industry's "payday alternative loan" and loans with a maximum 36 percent APR, single origination fee of $50 or less or that is reasonably proportionate to the lender's underwriting costs, and projected annual default rate of 5 percent or less for all loans made under the safe harbor. Comments are due Sept. 14. Banks don't make payday or the type of auto-title loans covered by the proposal, and very few make deposit advance loans, but they do make other small-dollar installment loans covered by the rule. When member bankers met with CFPB staff in May, they shared how they make these types of loans primarily as a service to the customers in their community, the default rates are miniscule and that keeping the underwriting as simple as possible is paramount.

New Loan Loss Accounting – FASB'S Current Expected Credit Loss model, (CECL)
The Financial Accounting Standards Board (FASB) in June issued its final rule for new loan loss accounting standards, called the current expected credit loss model (CECL). The new standard effectively requires bankers to record, at the time of origination, credit losses expected throughout the life of the asset portfolio on loans and held-to-maturity securities. This is in contrast to "incurred loss" accounting, under which losses are recorded when it is probable that a loss event has occurred. CECL will be effective in 2020 for Securities and Exchange Commission registrants and 2021 for all others. GBA will work with bankers and Associate Member experts to develop resources helpful to prepare for implementation.

Regulatory Relief for Banks
Banks of all sizes are working to digest and implement thousands of pages of new rules and regulations associated with the Dodd Frank Act and other downturn-era initiatives. The result is that the basics of banking – serving as a safe-haven for insured deposits and making loans for people and communities – are more complex and more costly. GBA has been part of a Regulatory Relief Task Force with other state bankers associations and the ABA. Some priority regulatory relief measures we support are:

- Tiered regulation that corresponds to a bank's charter, business model, geography and risk profile.
- Reasonable lending, capital and accounting guidelines that strike a balance between strengthening safety and soundness and allowing loan growth that can help fuel the economy.
- A reduction in duplicate or outdated rules that complicate banking or increase costs for consumers and institutions.
- Ensure appropriate oversight for federal regulators and improve consistency in supervision and exams.

The major regulatory relief bills we support:

- House Financial Services Committee Chairman **Jeb Hensarling** (R-TX 5) is proposing a major overhaul of the Dodd-Frank Act. The primary thrust of the Financial CHOICE Act legislation will be to allow banks to be exempt from many Dodd-Frank provisions if they have a composite CAMELS rating of 1 or 2 and maintain a 10 percent non-risk weighted leverage ratio -- a significantly higher standard than those currently required by the Dodd-Frank Act or Basel III. Many community banks already meet this threshold, and the general idea of higher capital levels earning regulatory exemptions has been supported by FDIC Vice Chair **Tom Hoenig** and Federal Reserve Board Governor **Daniel Tarullo**. In addition, the proposal would reform the Consumer Financial Protection Bureau, impose enhanced penalties for fraud or deception and create greater opportunity for investment by repealing the Volcker Rule and other DFA provisions limiting capital formation. The legislation will include a number of bills previously proposed by others, including **H.R. 1941** by Georgia Rep. **Lynn Westmoreland,** which is summarized below.

- **H.R. 5465 by Rep. Randy Neugebauer (R-TX)** would repeal the Durbin Amendment of the Dodd-Frank Act and eliminate the government-imposed price controls on debit card interchange, which has greatly harmed consumers and the banks that serve them.

- **Taking Account of Institutions with Low Operation Risk (TAILOR) Act of 2015 (H.R. 2896)** introduced by Rep. **Scott Tipton** (R-Co). The bill would direct financial regulators to tailor regulatory actions based on the sizes, business models, risk profiles and other differentiating characteristics of the institutions they supervise. GBA, ABA and 52 other state bankers associations support the bill. On March 2, the U.S House Financial Services Committee reported the bill.

- **The Financial Regulation Improvement Act (S. 1484**) introduced by Sen. **Richard Shelby** (R-Ala.), the Senate Banking Committee chairman. The Senate Banking Committee has held hearings on the bill.

- **The Community Lending Enhancement and Regulatory Relief (CLEARR) Act (H.R. 1233)**, introduced by Rep. **Blaine Luetkemeyer** (R-Mo.). The bill is pending in the House Financial Services Committee.

- **Small Bank Holding Company Relief (H.R. 3791):** The House passed on April 14 H.R. 3791 which raises the asset threshold for relief from $1 billion to $5 billion under the Federal Reserve's small bank holding company policy statement. The bill is pending in the Senate Banking Committee.

- **SBA Lending - The CREED Act (Commercial Real Estate and Economic Development Act - S. 966**) Senators **Johnny Isakson** and **Jeanne Shaheen** (D-NH) introduced this bill that would allow SBA-504 loan borrowers to refinance out of higher interest rate loans and take advantage of the low rates currently offered. The Senate Committee on Small Business & Entrepreneurship has reported the bill.

Changes to Bank Regulatory Agencies

- **Financial Institutions Examination Fairness and Reform Act (H.R. 1941)** Georgia Rep. **Lynn Westmoreland** (R-GA) and Rep. **Carolyn Maloney** (D-NY) have introduced H.R. 1941 to set clear exam standards and create an Office of Independent Examination Review to ensure consistency across exams. It would also mandate that financial institutions receive timely reports fully documenting the information regulators use to make their determinations and create an expedited process for banks to appeal exam decisions without fear of reprisal. The House Financial Services Committee has reported the bill.

- **Financial Product Safety Commission Act of 2015 (H.R. 1266)** Rep. **Lynn Westmoreland** (R-GA) 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. The House Financial Services Committee has reported the bill.

- **Consumer Financial Protection Bureau Accountability Act of 2015 (S. 1383)** Sen. **David Perdue** (R-GA) has introduced the Consumer Financial Protection Bureau Accountability Act of 2015 (S.1383). This bill would place appropriations for the agency under control of Congress. The bureau's current budget is outside the authority and oversight of Congress thereby bypassing an important means of checks-and-balances. The bill is pending in the Senate Banking Committee.

- **Taking Account of Bureaucrats' Spending Act of 2015 (H.R. 1486)** Rep. **Andy Barr** (R-KY) introduced H.R. 1486, which eliminates the direct funding of the Consumer Financial Protection Bureau by the Federal Reserve and subjects the Bureau to the regular appropriations process. The House Financial Services Committee reported the bill April 13.

- **Systemic Risk Designation Improvement Act (H.R. 1309**) This bill by Rep. **Blaine Luetkemeyer** (R-MO), introduced March 4, 2015, and reported out of committee in November 2015, 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. The House Financial Services Committee has reported the bill.

- **Federal Reserve Member Banks Capital Requirements (H.R. 5027)** Recently introduced by Reps. **Randy Neugebauer** (R-TX) and **Pete Sessions** (R-TX), this bill is intended to address the dividend cut to larger banks that came about through the highway spending bill at the end of 2015. H.R. 5027 would let banks put more of their required capital to work by allowing large banks to pay in just 0.5 percent and retain 5.5

percent of their required capital and allow banks under $10 billion in assets to elect this same treatment, still earning 6 percent on their paid-in capital, or maintain the status quo. The bill is pending in the House Financial Services Committee.

Mortgage Issues
Ensuring a robust and competitive mortgage market is essential to Georgia's economy and the state's banking industry. A priority in this area:

- **Portfolio Loans as Qualified Mortgages (H.R. 1210)** Rep. **Andy Barr** (R-KY) has introduced legislation, which has passed the House, designating 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. There's been no Senate action on the bill.

Subchapter S Institutions / Limited Liability Companies
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. The bill would loosen some Basel III dividend restrictions that put Sub S companies at a disadvantage to C-Corp. banks. 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. The bill is pending in the House Agriculture and Financial Services committees.

Additionally, Rep. **Kenny Marchant** (R-TX) has introduced **H.R. 3287**, the Community Bank Flexibility Act, which would allow banks to be organized as Limited Liability Companies (LLCs) and provide a five-year window for banks to reorganize as LLCs without going through the prohibitive tax of liquidation, among other things. GBA is encouraging support for both of these bills with the Georgia congressional delegation. The bill is pending in the House Ways and Means Committee. 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 corporations 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 2015 tax year and possibly longer. With the length and depth of the last 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, Consumer Notification and Cyber Security
The Data Security Act of 2015, **H.R. 2205** by Rep. **Randy Neugebauer** (R-TX), conforms with GBA's position to support a national notification standard for data breaches. And importantly, the bill prohibits certain state laws from being imposed for information security and breach notification purposes. The bill has been reported by the House Financial Services Committee.

Also, the federal highway transportation funding bill signed into law by the President Dec. 4, 2015, included a measure to increase sharing of cyber threat intelligence between the private and public sectors, an idea GBA and members have long supported.

Credit Unions – 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 in the U.S. that have over $1 billion in assets each, compared to only 13 in 1994. Each one of these huge

credit unions is larger than 90 percent of taxpaying banks. The tax exemption gives credit unions an unwarranted advantage over taxpaying community 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 $1.7 billion in federal, state and local income taxes in 2015. Credit unions paid zero.
- Credit unions' tax exemption currently costs the U.S. Treasury $2 billion annually.
- In Georgia, only 130 mortgages originated by credit unions went to low-income borrowers, compared to 9,244 mortgages originated to middle-and upper-income borrowers, according to recent Home Mortgage Disclosure Act (HMDA) data.
- 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.
- Congress should eliminate the credit union tax exemption.
- Congress should oppose **H.R. 1188**, introduced by Reps. **Ed Royce** (R-Calif.) and **Gregory Meeks** (D-N.Y.) and **S. 2028** by Sen**. Rand Paul** (R-Ky.) which would expand credit unions' business lending authority and their tax exemption at a time when our country is running massive deficits. The bills are pending in the House Financial Services and Senate Banking committees.

In February, the NCUA Board finalized new member business lending (MBL) rules that comprehensively overhaul the way NCUA pproaches commercial lending, from both a regulatory and supervisory perspective. Previously, commercial lending is synonymous with the member business lending definition under the Federal Credit Union Act (FCU Act). The final rule, however, will expand the scope so that commercial loans are newly defined under the proposal. The rule will also delineate which loans are subject to the statutory MBL cap and affirms that non-member loan participations do not count against the statutory Member Business Lending cap.

Farm Credit System – End the FCS Tax Subsidy and Improve Oversight
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 individuals and businesses who least need subsidized credit. The lending often goes to non-farm borrowers.

- The first oversight hearing in a decade was held by the House Agriculture Committee Dec. 2, 2015. Georgia Rep. **Austin Scott** had some pointed criticism of the Farm Credit System (FCS) during the hearing. The system, through lenders such as CoBank, has financed billions of dollars for large non-farm businesses such as Verizon and AT&T. Scott said that type of mission creep for FCS is putting the whole system at risk. "What they're doing might be technically legal, it is my opinion that it is outside the scope and intent of the FCS. I don't think CoBank's going to stop until someone stops them," he said during the hearing. We feel more hearings are important to educate Members of Congress and the public about the system.

- The Senate Agriculture Committee recently held a Farm Credit oversight hearing. Georgia Sen. David Perdue serves on that committee. We encourage the Committee to hold annual oversight hearings.

- See http://reformfarmcredit.org/facts/ for more details.

Georgia Banks in Our Communities

Georgia banks and bankers are cornerstones of their communities. They provide financial support, guidance and expertise to local government, economic development, educational and other civic entities. They teach financial literacy to kids and adults and support the arts, charities, community festivals, sports and other activities. Bankers volunteer hundreds of thousands of hours for community service projects each year. Here are just some of the major initiatives Georgia bankers support in our communities.

Georgia Peanut Bank Week is in the fall of each year. During the week, banks promote the state's official crop and emphasize the economic, dietary and cultural importance of the state's peanut industry.

An ongoing public awareness and education campaign to protect older Americans from Financial Fraud. The campaign features four comprehensive modules: Identifying and Avoiding Scams, Protecting Your Assets by Preventing Identity Theft, Choosing a Financial Caregiver, and Acting as a Responsible Financial Caregiver.

Every April bankers from around the state join a nationwide campaign to teach children good money habits. Bankers visit schools and community groups with specialized, grade-appropriate lesson plans, worksheets, games and other learning materials..

In October 2015, Georgia banks supported National Cyber Security Awareness month by promoting good cybersecurity habits. The campaign included tips for consumers, local civic presentations and social media outreach.

National get Smart about Credit day is always in October, but a number of Georgia banks participate in this campaign throughout the year. Through school and community presentations, volunteer bankers work with young people to raise awareness about the importance of using credit wisely.