Current State of Georgia Banking & How to Analyze the Health of Your Financial Institution

Presented By:
Mauldin & Jenkins, LLC
Ron Mitchell
rmitchell@mjcpa.com
1-800-277-0040

Overview of Topics Covered

- Causes of the current banking crisis
- Government reaction to problems
- Current state of banking in Georgia
- What are the indicators of healthiness for your financial institution
- How to compare one financial institution to another based on publicly available information

- Current bank expansion began in early 1990's
- Industry was experiencing record growth and profits from one year to next
- Nonperforming assets kept declining to record lows
- Interest rates reach record lows and stabilized at these low levels for an extended period of time

- Banks began to expand more into nonbanking services
 - Insurance services
 - Brokerage and investment services
 - Mortgage and securitization services
 - Merger and acquisition services
- Bank mergers began to hit all-time highs
 - Community banks participated
 - Creation of the Mega banks

- Bank charters were granted at record levels
 - Over 100 new banks in Georgia since 2000
- Regulatory rules were relaxed/force reduced
- Sovernment began to create programs that promoted home ownership
 - Relaxed credit standards in order to qualify
- Banks began to compete more for core deposits with non-bank entities
 - Banks began to continue growing thru the use of brokered deposits and Federal Home Loan Bank borrowings

- Banks began to relax credit standards and underwriting
 - Banks abandoned their traditional training programs
 - Lenders were trained as a sales force with incentive compensation
 - Banking industry began to create programs designed to allow borrowers to qualify
 - Negative amortizing loan programs
 - Interest only loans for first few years

- Housing led to the banking crisis
 - Securitization of mortgage loans
 - Mostly a Wall Street phenomenon
 - Increased demand
 - Good yields
 - Forced home prices up
 - Community banks involved in AD&C part
 - Ultimately housing bubble burst
- Credit cards and overdraft programs

Government reaction to problems

- Government and regulatory actions taken in reaction to banking problems
 - Troubled Asset Repurchase Program (TARP)
 - Government beginning to sell warrants
 - Some banks have already paid money back others presently working to get money paid back soon
 - Temporary Liquidity Guarantee Program (TLGP)
 - Transaction Account Guaranty Program
 - In effect thru end of 2012
 - Could it be extended ????
 - Debt Guarantee Program

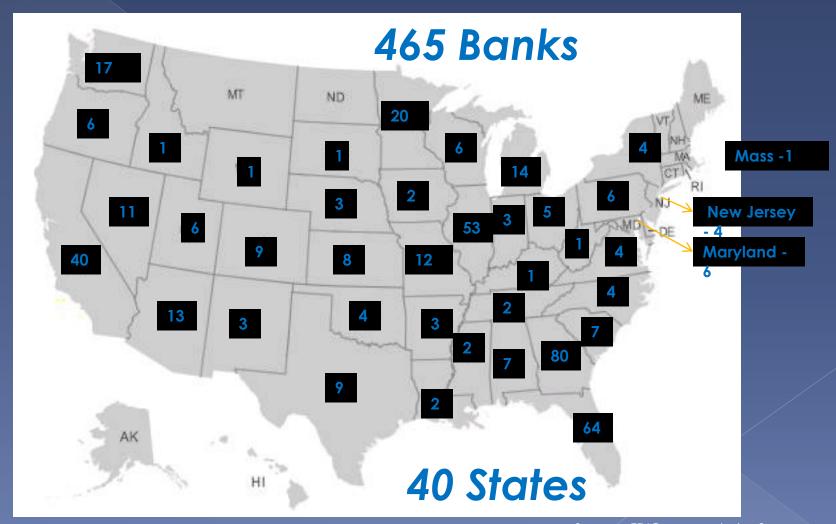
Government reaction to problems

- > Fed has introduced record levels of stimulus
- > Fed has stress tested the largest banks
- Fed has purchased trillions of dollars in mortgage loans
- Increased regulatory oversight
- Regulatory reform needed
 - Ability to deal with Mega banks
 - Capital levels
 - Liquidity
 - Concentration levels in loan categories
 - More cautious in granting new bank charters

Government reaction to problems

- Passage of the Dodd Frank Act
 - 400 rules due by March 1, 2012
 - Only 99 have been finalized
 - 301 rules that are late and many more that have future deadlines
 - 2,600 pages of final regulations/guidance
 - 3,500 pages of additional proposed rules and regulations

Bank Failures since 1/1/2008



- Nationally 465 bank failures since 1/1/2008
 - 80 banks have failed in Georgia since 2008
 - Georgia leads nation in # of bank failures
 - Georgia ranks 3rd in % of banks closed (21.9%)
 - Georgia ranks 5th in total assets/deposits
- Over 7,350 institutions on national level
- 290 FDIC-insured banks/savings institutions in Georgia operating 2,700 branch offices
 - 239 of these are based in Georgia

- Georgia-based banks employ more than 49,000 people and the Georgia Bankers Association estimates that all banks operating in Georgia employ about 60,000
- Georgia banks posted over \$569 million in profits for 2011 – up \$2.4 billion for 2010
- > 83% of Georgia banks are well capitalized under current regulatory guidelines
- Credit quality continues to improve as noncurrent loans declined during 2011 and charge-offs were \$1.8 billion lower than 2010

- > Georgia-based banks by asset size
 - 69 banks less than \$100 million
 - 104 banks \$100 million to \$250 million
 - 40 banks \$250 million to \$500 million
 - 11 banks \$500 million to \$1 billion
 - 13 banks \$1 billion to \$10 billion
 - 2 banks greater than \$10 billion
- Georgia banks have record levels of liquidity on hand

- New banking model
 - Fewer stronger banks
 - Focus will be on building market share
 - Enhanced underwriting on front end of a loan
 - Monitor credits throughout life of loans
 - Funding growth primarily thru core deposits
 - Streamline operations and cut costs
 - Only offer products that the bank understands and offers acceptable level of risk
 - Concentration levels will have to be monitored
 - Capital will vary based on risk profile of bank

- Historically the primary reason a bank fails is lack of liquidity – not the case in Georgia as primary reason is a lack of capital
- Bank is actually closed by the chartering agency
 - OCC
 - State
- FDIC acts in two capacities
 - First as insurer of deposits
 - Second as receiver of the failed bank

- No one has EVER lost a penny on FDIC insured deposits
- Who pays for failed banks insured deposits?
 - Insurance fund paid for from bank premiums including interest earned on its investment portfolio in U.S. Treasury securities

- How does the FDIC resolve a closed bank
 - Purchase and assumption transaction
 - Preferred method
 - Depositors have immediate access of funds
 - Deposit payoff
 - FDIC will pay depositor directly, usually within a few days
 - Federal law requires the FDIC to pay "as soon as possible"

- FDIC is not responsible for accounts set up incorrectly for insurance
- FDIC insurance covers principal and interest thru the date of bank failure up to insured limits
- FDIC freezes all deposit account at time bank is closed
 - Direct deposits
 - Checks written but not cleared
 - Treatment depends on assumption or payoff

- FDIC takes over bank after it closes generally on Friday
 - Inventories and counts all the bank assets at all locations
 - Freezes all deposit accounts
 - FDIC is onsite next business day to explain to customers what has happened
 - If deposits have been assumed new assuming bank is onsite as well running the bank and dealing with customer questions as well

Banking healthiness indicators

- Capital ratios
 - Leverage ratio defined as Tier 1 capital divided by average assets
 - Minimum ratio levels
 - Liquidity ratio ability to handle short term funding needs
 - Texas ratio defined as non-performing assets (non-performing loans plus other real estate owned) divided by tangible common equity plus loan loss reserve
 - Problem level

Best sources of publicly available information

- > Public banks SEC website at
 - Sec.gov
- Bank websites sometimes banks put there audited financial statements here
- > Subscription services like SNL, etc.
- > Main site that any bank will be available on
 - Fdic.gov
 - Site contains quarterly financial information
 - Information available 30 days after quarter end

Best sources of publicly available information

Call Report Analysis Example