



THE VIRGINIA STATE BANKER

Regulatory News for Virginia State-chartered Banks
State Corporation Commission - Bureau of Financial Institutions
Commissioner E.J. Face, Jr.
ISSUE NO. 7 — FALL 1999

IN THIS ISSUE

Accreditation!!	1
BFI and Y2K	1
Recent News.....	2
Bureau Profile	3
INFO for Directors	4
Back to School?	5
Lawsuit Appealed	6
Word Puzzle	7

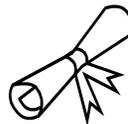
The Virginia State Banker is published quarterly by the Virginia Bureau of Financial Institutions to provide useful information to the banks and savings institutions that it regulates, and any of their related interests. Reader comments and suggestions are welcome and should be addressed to:

Robert F. Mednikov
Principal Financial Analyst
Bureau of Financial Institutions
P.O. Box 640
Richmond, Virginia 23218-0640
or e-mail to: bmednikov@scs.state.va.us

CONTRIBUTORS TO THIS ISSUE

Thanks to the following persons for their help in producing this issue of The Virginia State Banker:
Commissioner Face, Nick Kyrus, John Crockett, Ricky McCormick, Andrea Leeman, Jay Russell, Jane Owen, and Joyce Tinsley.

BUREAU RECEIVES NATIONAL ACCREDITATION!!



The Virginia Bureau of Financial Institutions has received the professional accreditation of the Conference of State Bank Supervisors (CSBS). CSBS is the national organization of state officials responsible for chartering, supervising, and regulating the nation's 6,868 state-chartered commercial and savings banks, and more than 400 branches and agencies of foreign banks.

The Bureau's 97-member staff supervises 119 commercial banks, with total assets of \$63.6 billion. The Bureau also oversees four non-deposit trust companies, four savings and loan institutions, 76 credit unions, and more than 1,100 mortgage/lender brokers, consumer finance companies, check cashers, money transmitters, credit counseling agencies, and industrial loan associations.

CSBS accreditation is a rigorous evaluation designed to ensure that state banking departments meet nationally recognized standards of
(Continued on Page 8)

BFI FOCUSING ON PREPARING CONSUMER FOR YEAR 2000

With Y2K and all its potential implications just around the corner, the SCC continues to prepare for a smooth transition into the next century.

That effort doesn't stop at the Tyler Building door, however.



Virginia consumers are confused and concerned about the Year 2000 date change and its possible effects on day-to-day business. The Century Date Change Initiative (CDCI, the State agency charged with ensuring that all other agencies are Y2K ready) is holding meetings around the State to provide information to consumers, and individual SCC divisions are taking to the road as well.

Commissioner of Financial Institutions **Joe Face** says the banking industry in Virginia is ready to move from 1999 to 2000. And Joe is

(Continued on page 6)

RECENT ANNOUNCEMENTS!!

NEW SUPPLEMENTS FOR LAW BOOKS TO BE DELIVERED SOON



Each State bank or savings institution should receive two copies of the **1999 Supplements** for "Laws of Virginia Related to Financial Institutions" in the mail shortly. The publications include the 1999 enactments of the General Assembly.

If you have any questions relating to changes in the law, please contact the Bureau at (804) 371-9657. If you have questions pertaining to the supplements, i.e., you did not receive your copies, please contact Joanne White at (804) 371-9697.

NEW BANK IN LYNCHBURG AREA IS APPROVED



The State Corporation Commission recently approved **Community First Bank** in Forest, Virginia. The bank was authorized with total capital of \$9.7 million, and its Chief Executive Officer is John L. Wynne.

In addition, one new Virginia bank application is pending: **Citizens Community Bank**, South Hill (total capital \$7.6 million). Thus far in 1999, the Commission has authorized four new banks.

BUREAU EMPLOYEES RECOGNIZED

The State Corporation Commission recently held its annual ceremony to recognize its employees for dedicated years of service. Service Pins are presented to employees after five years of service and at subsequent five-year intervals by their division directors. The following is a list of employees of the Bureau of Financial Institutions who received Service Pins:



5 YEARS

Stephen Brannan – Consumer Finance
Cynthia Cannaday – Banks and Savings Institutions
Janice Charity – Banks and Savings Institutions
Kathy Hearn – Administration and Finance
Selina Johnson – Banks and Savings Institutions
Marcy Jones - Corporate Structure and Research
Werner Paul - Credit Unions
Ronald Prillaman – Banks and Savings Institutions
Michelle Schlager - Corporate Structure and Research
Lori Willard – Banks and Savings Institutions

10 YEARS

Michael Beane – Consumer Finance
Carl Gustafson - Credit Unions
Paulette Johnson – Administration and Finance
Patricia Kinder – Banks and Savings Institutions
Harry Klanian – Banks and Savings Institutions
Locke Trigg – Banks and Savings Institutions
Nancy Walker – Consumer Finance
Joel Williams – Consumer Finance
Robin Wirt – Consumer Finance

15 YEARS

Fred Doyle, III – Banks and Savings Institutions
Ginger Gatlin – Banks and Savings Institutions
Malinda Hancock – Administration and Finance
Robert Mednikov - Corporate Structure and Research
Edith Starsja - Banks and Savings Institutions
Dwight Stephens – Consumer Finance
Paul West - Compliance Administrator
Carlisle Williams – Consumer Finance

20 YEARS

Charles Dickerson – Banks and Savings Institutions
Gerald Fallen – Administration and Finance
E.J. Face, Jr. – Commissioner
Jeanette Sanders - Credit Unions

25 YEARS

Stephen Pemberton - Credit Unions

BUREAU PROFILE

- **Name:** Paul S. West (Bud)
- **Current Position and Years of Service:**
Compliance Administrator; 16 years
- **Main Responsibilities:** Consumer Compliance
- **Education and Professional Designations:**
University of Texas - Accounting Degree 1958
and Law Degree 1963
- **Family:** Wife and two adult daughters
- **Personal Interests:** Yardwork and Golf



You have probably heard of the phrase "DON'T MESS WITH TEXAS." Well, the same would hold true for Bureau Compliance Administrator Paul (Bud) S. West who was born and raised in Texas. Bud's primary responsibility is handling consumer complaints for all the financial institutions that are regulated by the Bureau. While a good number of the estimated 2,000 to 2,500 written complaints the Bureau receives every year are related to mortgage licensees (usually dealing with escrow accounts and PMI issues), some are related to banks. Bud stated that the most common problem concerning banks deals with Regulation CC of the Federal Reserve Bank. He said that in many instances banks fail to give to the customer the proper notices required under the regulation when extended holds would be placed on deposits.

Bud received his accounting and law degrees from the University of Texas, and he practiced probate and real estate law in the "Lone Star State" until he came to Virginia and the Bureau in 1983. When he's not fielding calls and letters from consumers, Bud enjoys working around the yard of his Goochland County home. He also stated that he has recently taken up golf after a 30-year hiatus. Bud's co-workers at the Bureau appreciate the role of Bud and his assistants Evelyn Taylor and Lisa Clemmer, since they do a great job handling all inquires concerning consumer compliance issues.

INFORMATION FOR BANK DIRECTORS



REVIEWS ARE IN ON BANK DIRECTORS' COLLEGE

The 1999 season of the Virginia Bank Directors' College closed with the two-day session held in mid-September. This educational forum, sponsored by the Bureau of Financial Institutions and the Federal Reserve Bank of Richmond, is receiving high marks from those directors attending as evidenced by the following sample of course critique comments:

“I look forward to attending the next session of this class and will suggest that the rest of our Board attend this class.”

“Pleasantly surprised at the balanced presentations. Well done.”

“Excellent and extremely beneficial information - Very interested in another class.”

“Especially liked the dramatized Board meetings on day one. Simulation exercises are very useful.”

“Impressed with the commitment of senior staff and officers to be a part of the event for two days. I really felt that the Bureau and Fed showed a real commitment that this was an important event.”

The Virginia Bank Directors' College is open to directors of all Virginia State-chartered banks. While conducted as a two-part program, directors are free to attend either part and preferably both. The first session of next year's program will be held during the first quarter of 2000. Interested directors may reserve space by calling Betty Hicks at (804) 371-9704. Registration forms will be available early next year.

CSBS SCHOOLS OFFERED TO BANKERS

If you contemplate enhancing the skills of bank employees, perhaps you should consider the technical schools offered by the Conference of State Bank Supervisors (CSBS). The schools are offered throughout the year and include topics on financial analysis, trust business, bank operations, etc. A detailed schedule is posted on the CSBS web site at www.csbsdal.org, or you can call Roger Stromberg at (800) 886-2727 for course information.

Bureau Senior Examiner Robin Whitson Hall was recently an instructor at a CSBS Bank Operations School (see photo); she stated that all CSBS instructors volunteer for the job, with CSBS absorbing their expenses and the various states “donating” the examiners’ time. Robin stated that teaching CSBS schools helps her to keep current on the rapid changes in banking. She states the student interaction and the various perceptions on the issues greatly broaden a person’s understanding and comprehension of the various topics. Robin feels the schools are beneficial to bankers and especially to community bankers who are often required to wear many “hats” within their organizations.



CSBS BANK OPERATIONS SCHOOL - AUGUST 1999

REPRESENTATIVES FROM THE VIRGINIA BUREAU OF FINANCIAL
INSTITUTIONS ARE:

INSTRUCTOR ROBIN HALL - center of photo
TIMOTHY BROWN - upper right corner of photo
RAYMOND SUTPHIN - lower left corner of photo

LAWSUIT TO BE APPEALED BY THE BUREAU

The National Home Equity Mortgage Association (“NHEMA”) filed suit June 1, 1999 in the United States District Court for the Eastern District of Virginia against E. Joseph Face, Jr., Virginia Commissioner of Financial Institutions and Susan E. Hancock, Deputy Commissioner, seeking a temporary injunction and declaratory relief. Relief was sought against the Virginia Bureau of Financial Institutions because it cited and considered penalizing mortgage lenders for charging a prepayment penalty in excess of that permitted by Virginia law (Code Section 6.1-330.83). (The Bureau’s policy was announced in the April issue of The Compliance Connection, a Bureau publication for consumer finance and mortgage lenders.)

NHEMA contended that the Bureau’s position was pre-empted by the Alternative Mortgage Transaction Parity Act of 1982, 12 USC §3801, et seq., as implemented by regulations of the Office of Thrift Supervision. The alleged pre-emption reached “alternative mortgage transactions” made by “housing creditors.”

NHEMA claims to be the “...largest national trade association focusing primarily upon the home equity lending market,” with a membership that includes “...banks, mortgage lending corporations, secured equity lenders, law firms, title insurers, consulting firms, and appraisal services corporations.” Some NHEMA members are licensed by this Bureau to conduct mortgage lending in Virginia, and also qualify as “housing creditors” under the Alternative Mortgage Transaction Parity Act.

On September 10, 1999, the Court rendered its decision by granting NHEMA’s motion for summary judgment, denying the Bureau’s motion for summary judgment, and denying the Virginia Attorney General’s motion for summary judgment. The Court also permanently enjoined the Bureau from enforcing its announced position that the Parity Act did not pre-empt Virginia State law limiting prepayment penalties on alternative mortgage transactions.

After much internal discussion, the Bureau decided to appeal the District Court’s decision to the Fourth Circuit Court of Appeals. NHEMA’s website is <http://www.nhema.org>.

Year 2000 (continued from page 1)

working on educating Virginia consumers by making himself available. He recently spoke to F&M Bank - Peoples in Warrenton about the State of Virginia’s financial institutions. He will also be speaking soon in Richlands, Harrisonburg, and Culpeper about Y2K.

His message is not ‘don’t worry, be happy,’ but rather ‘don’t panic, be reasonable.’

“In preparing for the Year 2000, consumers should talk with their financial institution, rely on their own common sense, act responsibly, and avoid panic,” says Joe.

As of June 30 of this year, 99 percent of all bank and thrift institutions nationwide were given the highest rating, “satisfactory,” by regulators. Nationwide, only 24 institutions received an unsatisfactory rating.

Those consumers intent on withdrawing large sums of cash - some convinced that access to their money will be somehow restricted - are met with this advice from Virginia’s banking regulator: “People who withdraw their money from insured financial institutions will be vulnerable to theft, scam artists, and loss.”

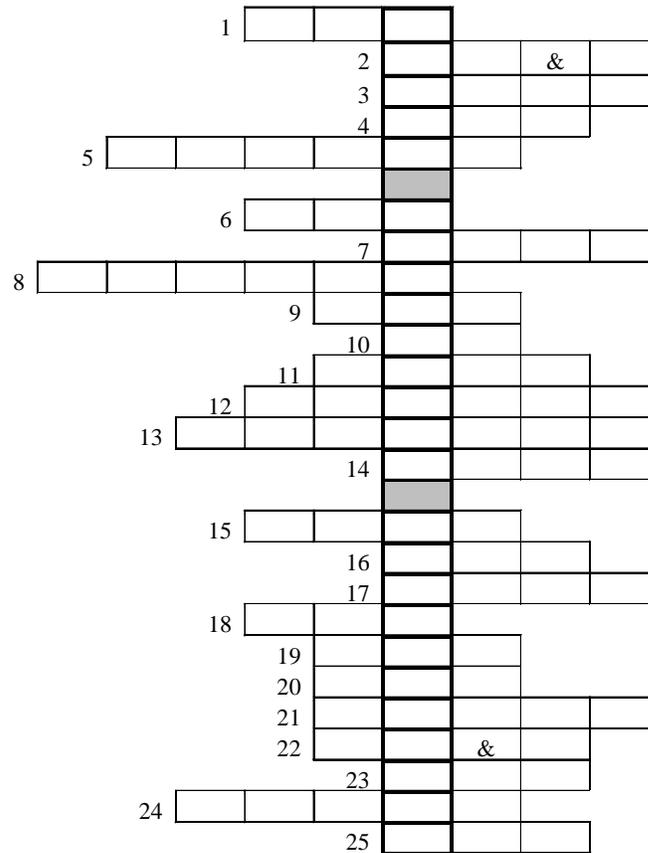
“Keep in mind,” says Joe, “that federal and state regulators are requiring banks to have back-up contingency plans for alternative methods of doing business and providing services to their customers. Even before people were aware of the Y2K bugs, banks had to have contingency plans in place for natural disasters like fires, floods, tornadoes, and earthquakes.”

With safeguards in place, at least to the satisfaction of the State’s top banking regulator, Joe says, “We can now spend our remaining time before the year’s end concentrating on education and outreach to ensure customers understand all the measures taken by their financial institutions and help them make sound decisions on their own Year 2000 preparedness.”

HOW DO YOU SPELL RELIEF? M-O-R-A-T-O-R-I-U-M

In order to allow financial institutions to concentrate on Y2K, the regulators have said no new regulatory dictates will be issued during the last quarter of the year. That sounds like relief to us. The M-O-R-A-T-O-R-I-U-M will likely extend into the first few months of the new year.

Want to have a few thoughtful minutes of fun to fill in the time normally devoted to digesting new regulatory stuff? Try our vertical phrase of "short speak" below. Acronyms and abbreviations are (and have been) in vogue. Invent a term or a phrase, or write a law, and almost instantaneously there's a shorter way to refer to it. It's hard to remember all the shorthand necessary to function effectively as bankers and regulators. Complete each line and vertically spell out a three-word phrase. Clues are given below - some are easy, some will be a challenge. We advise using a pencil. See our website and next edition for the correct solution.



- 1 Mortgage loans are often securitized into this type of instrument
- 2 Deposits accepted on behalf of the US Treasury
- 3 Reserve for bad debts
- 4 IRS identification number needed before most bank accounts can be opened
- 5 Financial Crimes Enforcement Network
- 6 Proposed "customer" rules withdrawn early in 1999
- 7 Requires disclosure of the amount and location of home mortgage activities
- 8 Federal Deposit Corporation Improvement Act of 1991
- 9 Requires financial institutions to meet the credit needs of their community
- 10 Tax-exempt or tax equivalent
- 11 1987 law that eliminated further creation of nonbank banks
- 12 Originally short-named DIRREA
- 13 Uniform Financial Institutions Rating System

- 14 Program for reinvesting dividends
- 15 Annuities and mutual funds when sold by a financial institution
- 16 Reason for returning a check
- 17 Fund that insures the deposits of savings institutions
- 18 Regulation E
- 19 Fund that insures the deposits of commercial banks
- 20 Dispenses cash
- 21 Unique security identification number
- 22 North Carolina Credit union involved in field of membership case before Supreme Court
- 23 "Roth" is a type
- 24 Line of credit secured by home
- 25 Interest-checking account

Accreditation (continued from page 1)

professionalism and performance. To begin the process, the Bureau completed an exhaustive Self-Study Questionnaire that examined every aspect of the Bureau's operations: funding sources, statutory authority, hiring and training practices, enforcement procedures, and more. Then, a team of veteran state and federal regulators visited the Bureau for three days of interviews and on-site evaluation. Finally, CSBS's Performance Standards Committee reviewed the recommendations of this team and voted on the Bureau's accreditation.

"The Virginia Bureau of Financial Institutions has long been known informally, among the ranks of state bank supervisors, as one of the strongest in the country," said CSBS President and CEO Neil Milner in announcing the award. "We are delighted to recognize the achievements of Commissioner Face and his staff more formally, with a Certificate of Accreditation."

Commissioner Face stated, "We are excited to now be an accredited state bank regulatory department. It is a recognition of the hard work and dedication of all Bureau staff, and it is they who deserve the credit." He added, "It is former Commissioner Sidney A. Bailey, though, who deserves the most credit for this achievement."

Commissioner Face noted that the Bureau had not previously sought accreditation since Bailey was primarily responsible for drafting the standards used by CSBS to qualify state banking departments for accreditation. Such was Bailey's virtue, Face said, that he was concerned about the appearances of "accrediting the accreditor."

The Bureau must complete annual reviews to maintain its accredited status, and undergo a complete re-accreditation process once every five years. CSBS has now accredited 44 of the nation's 54 state banking departments; these agencies supervise more than 95 percent of all assets in state-chartered banks around the country.

**THE
VIRGINIA STATE
BANKER**

Bureau of Financial Institutions
State Corporation Commission
P.O. Box 640
Richmond, Virginia 23218-0640

PLEASE VISIT OUR WEBSITE AT:

www.state.va.us/scc/division/banking