



# The Virginia State Banker

Regulatory news for Virginia State-chartered Banks

E.J. Face, Jr., Commissioner

Bureau of Financial Institutions - State Corporation Commission

CEOs' Meeting in Abingdon	1
Virginia Bank Directors' College	1
First American Bank of Virginia Scam	2
Good Luck and Best Wishes	2
External Audits	3
E-mail and Examination Data	3
SCC E-mail and Web Site Address Changes	3
Suggestions Sought for Bureau Web Site Enhancements	3
Proposed New Commercial Credit Rating System	4
Guidance on Banking Services for Money Services Businesses in the U.S.	4
Important Phone Numbers	5

## CEOs' MEETING IN ABINGDON

Commissioner Joe Face would like to host a meeting with the CEOs from our banks in the southwestern part of Virginia. This meeting will provide an opportunity for Commissioner Face and other Bureau personnel to meet with CEOs to

discuss issues of mutual interest, including the Bureau's goals/objectives and examination issues.

The meeting will be held on Tuesday, July 26, 2005 at the Southwest Virginia Higher Education Center in

Abingdon from 8:30 a.m. to noon. Invitation letters will be mailed soon.

If there is a topic you would like discussed, please contact Deputy Commissioner John Crockett or his assistant, Betty Nolan, at (804) 371-9704.

## VIRGINIA BANK DIRECTORS' COLLEGE

Forty-five Directors from Virginia's community banks attended the Virginia Bank Directors' College, *Emerging Issues* session, at The Jefferson Hotel in Richmond on April 6 and 7, 2005. Representatives from the Bureau and the Federal Reserve Bank of Richmond discussed the Bank Secrecy Act, Sarbanes-Oxley Act, Bank Holding Company Ratings, and Consumer Affairs. Additional presenters included David Baris of the American Association of Bank Directors, and Lana and Richard Furr of Furr Resources, Inc.

The Virginia Bank Directors' College provides bank directors an opportunity to become more effective, capable, and knowledgeable members of a bank's board of directors. Developed in conjunction with State and Federal regulators, the Virginia Bank Directors' College is presented each year in two sessions — the *Essential Principles* session and the *Emerging Issues* session.

The *Essential Principles* session will be held on November 9 and 10, 2005 at The Boar's Head Inn in Charlottesville,

Virginia. This program provides newer bank directors an opportunity to gain a better understanding of bank operations and bank directors' responsibilities. This information may also provide a significant learning experience for the more experienced director who has not previously attended. The program brochure will be mailed to each bank this summer.

The *Emerging Issues* session highlights information applicable to all bank directors and provides an opportunity for bank directors to remain informed about industry- and bank-specific issues.

Administrative management of the College is provided by the Virginia Association of Community Banks (VACB), including registration and meeting activities. Membership in VACB is not required to attend the College. Space is limited, so please register early.

If you would like additional information about the Directors' College or to reserve your spot in the upcoming November program, please call Katharine Garner at VACB, (804) 673-8250.

The *Virginia State Banker* is published 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 Ginger Sandler, Bureau of Financial Institutions, P.O. Box 640, Richmond, Virginia 23218-0640, or via e-mail [ginger.sandler@scc.virginia.gov](mailto:ginger.sandler@scc.virginia.gov).

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## FIRST AMERICAN BANK OF VIRGINIA SCAM

Since late November 2004, the Bureau's Complaint Section has received a number of inquiries about counterfeit checks drawn on First American Bank of Virginia. The inquiries, approximately 15 to date, have come from consumers, banks, savings banks, and credit unions across the U.S. and Canada. Most of the telephone calls or e-mail inquiries have come from west of the Mississippi River, as far away as Vancouver, British Columbia. None of the inquiries have come from any closer than Vermont, and

everyone who has contacted the Bureau seems to already know or at least speculate that it is a scam.

First American Bank of Virginia was acquired on October 27, 1993 by First Union National Bank's holding company. While we have not seen or heard of any checks drawn on First American Bank of Virginia in either Virginia or any contiguous states or the District of Columbia, you may want to warn your employees about this particular scam.

## GOOD LUCK AND BEST WISHES!

Principal Financial Analyst Jay Russell retired on April 1, 2005 from the Bureau's Bank and Thrift Supervision Section with 30 years of service. Many of you know Jay from his tenure as a field examiner. He later worked in the office, coordinating the examination schedule and providing expertise in the Trust area.

Principal Office Technician Jane Owen also retired on April 1, 2005 from the Bureau with 27 years of service. One of her primary duties was editing the Bureau's examination reports. She also worked with Jay Russell to coordinate the lodging needs of our field examiners.

Friends and colleagues of Jay and Jane honored their retirement with a farewell party. Their experience and expertise will be missed by everyone. We offer them a hearty thank you for their hard work and dedication, and wish them a long and enjoyable retirement.





## EXTERNAL AUDITS

When a bank is reviewing the engagement letter with its external audit firm, the Bureau should be specifically mentioned as an interested party. Most engagement letters mention the Federal Reserve Bank of Richmond and/or

the Federal Deposit Insurance Corporation (FDIC) as reviewers of the CPA's work papers, and the Bureau should be included as well. If your bank outsources internal audit, a similar provision for Bureau review of the work papers should be included.

## E-MAIL AND EXAMINATION DATA

As e-mail is increasingly used for information sharing, more banks are e-mailing data to directors, and possibly auditors and attorneys. Code of Virginia § 6.1-90 specifies that the examination report (and any copies thereof made to facilitate director review) is not to leave the bank

premises. This provision was put in the Code to limit the sources from which the report can be accessed, so the Bureau can maintain the tightest control possible to protect the banks' sensitive institutional and customer information. The report and/or excerpts from it may not be e-mailed

to anyone. Any discussion points related to an examination response, if they are e-mailed, should at a minimum be password-protected, and preferably encrypted, to minimize the chances of information being accessed by unauthorized parties.

## SCC E-MAIL AND WEB SITE ADDRESS CHANGES

In January 2005, the SCC Internet address changed from [state.va.us/scc](http://state.va.us/scc) to [scc.virginia.gov](http://scc.virginia.gov), and the Bureau page is now located at [www.scc.virginia.gov/division/banking/index.htm](http://www.scc.virginia.gov/division/banking/index.htm). All SCC e-mail addresses will change to [firstname.lastname@scc.virginia.gov](mailto:firstname.lastname@scc.virginia.gov) (ex:

[john.crockett@scc.virginia.gov](mailto:john.crockett@scc.virginia.gov)). The address formats conform to the standard being used by all state governments throughout the U.S. The old Web and e-mail addresses will work for an as yet undetermined amount of time.

## SUGGESTIONS SOUGHT FOR BUREAU WEB SITE ENHANCEMENTS

We want to improve our Web site and are interested in your suggestions. Please take a few minutes to browse our Web site ([www.scc.virginia.gov/division/banking](http://www.scc.virginia.gov/division/banking)), and let us know how we can improve the content/organization

of the site. Look for the scrolling banner requesting feedback from visitors on the main page of the Web site. Just click on the banner, type in your thoughts, and send.



## PROPOSED NEW COMMERCIAL CREDIT RATING SYSTEM

In late March 2005, the FDIC, Federal Reserve Board, Office of the Comptroller of the Currency, and the Office of Thrift Supervision proposed changes to the supervisory framework for the classification of commercial credit exposures. The proposed guidance would replace the current commercial loan classification system categories (“special mention,” “substandard,” and “doubtful”) with a two-dimensional framework. The two-dimensional rating system has one dimension that measures the risk of the borrower defaulting (borrower rating) and a second focused on the loss severity the institution would likely incur in the event of the borrower’s default (facility rating). Facility ratings would be required only for those borrowers rated “default.” The proposed framework attempts to increase consistency among the agencies in assessing the credit risk in an institution’s commercial loan portfolio. It also more closely aligns the determination of a facility’s accrual status

with an institution’s allowance for loan and lease loss methodology required by GAAP and rating assessment process. The jointly issued proposal can be viewed at [www.fdic.gov/news/news/press/2005/pr2805a.html](http://www.fdic.gov/news/news/press/2005/pr2805a.html) and will be open for comment until June 30, 2005. During the FDIC Board meeting where the proposal was discussed, FDIC Director Tom Curry and Vice Chairman John Reich voiced strong reservations about requiring all banks to implement the two-dimensional approach. Both FDIC Board members, however, agreed to issue the request for comment to obtain banker feedback. The FDIC would especially like to hear from small community banks regarding the potential regulatory burden that would be caused by this new proposal.

Contact information can be found at the Web site shown in the paragraph above.

## GUIDANCE ON BANKING SERVICES FOR MONEY SERVICES BUSINESSES OPERATING IN THE UNITED STATES

On April 26, 2005, the Financial Crimes Enforcement Network (FinCEN) and Federal banking agencies issued interpretive guidance designed to clarify the requirements for, and to assist banking organizations in, appropriately assessing and minimizing risks posed by providing banking services to money services businesses.

The guidance contains examples that may be indicative of lower and higher risk within money services business accounts to assist banking organizations in identifying the risks posed by a money services business customer, and in reporting known or suspected violations of law or suspicious transactions relevant to possible violations of law or regulation.

In addition, the guidance addresses the recurring question of the obligation of a banking organization to file a suspicious activity report on a money services business that has failed to register with FinCEN, if required to do so, or failed to obtain a license under applicable State law, if required.

The concurrently issued FinCEN advisory to money services businesses emphasizes the importance of compliance

with Bank Secrecy Act regulatory requirements by money services businesses. The advisory is designed to assist money services businesses by outlining the types of information that they should have and be prepared to provide to a banking organization in the course of opening or maintaining account relationships. The advisory also makes clear that money services businesses that fail to comply with the most basic requirements of the Bank Secrecy Act, such as registration with FinCEN if required, will be subject to regulatory and law enforcement scrutiny, and that continued noncompliance will likely result in the loss of banking services.

More information on this subject can be found at the following Web sites:

- [www.federalreserve.gov/boarddocs/press/bcreg/2005/20050426/attachment.pdf](http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050426/attachment.pdf)
- [www.federalreserve.gov/boarddocs/press/bcreg/2005/20050426/attachment2.pdf](http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050426/attachment2.pdf)
- [www.federalreserve.gov/boarddocs/press/bcreg/2005/default.htm](http://www.federalreserve.gov/boarddocs/press/bcreg/2005/default.htm)

## IMPORTANT TELEPHONE NUMBERS

- Banks and Savings Institutions (804) 371-9704
- Consumer Finance and Mortgage Companies (804) 371-9701
- Licensing (applications, name changes, annual reports) (804) 371-9690
- Consumer Complaints (804) 371-9705
- Corporate Information (SCC Clerk's Office) (804) 371-9733
- Bureau's FAX number (804) 371-9416
- TDD (804) 371-9206

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**Check out our Web site at  
[www.scc.virginia.gov/division/  
banking](http://www.scc.virginia.gov/division/banking).**

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