



# Monthly Bulletin

Volume 11, Number 9

March 2008

## William Haraf Appointed as Commissioner of Financial Institutions

On March 10, 2008, Governor Arnold Schwarzenegger announced the appointment of William Haraf, Ph.D, as Commissioner of Financial Institutions on March 10, 2008. Since 2005, he has served as an independent consultant with the Promontory Financial Group and a visiting professor of economics and finance for the Graduate School of Management at the University of California, Davis. From 1999 to 2003, Mr. Haraf was managing director at Banc of America Securities and, from 1994 to 1999, was senior vice president of strategic policy development and planning for Bank of America, N.T & S.A.

From 1989 to 1994, he was director of policy analysis with Citicorp and, from 1985 to 1989, was J. Edward Lundy Scholar and director of the financial markets project at the American Enterprise Institute for Public Policy Research in Washington D.C. From 1984 to 1985, Mr. Haraf was special assistant to the chairman of President Ronald Reagan's Council of Economic Advisors and, from 1983 to 1984, was senior staff economist at the Council. From 1979 to 1983, Mr. Haraf was assistant professor of economics at Brown University.

He is a past board member of the Bank Administration Institute and past chair of the institute's strategic issues and regulatory affairs committees. Mr. Haraf will take office effective April 7, 2008.

## Marilyn Davis Appointed Deputy Commissioner of Legislation

Marilyn Davis was appointed Deputy Commissioner of Legislation on March 7, 2008. Ms. Davis joined the Department of Financial Institutions in 1999 as a Financial Institutions Examiner. She was promoted to Financial Institutions Supervisor in 2006.

111 Pine Street, Suite 1100, San Francisco, CA 94111-5613  
300 South Spring Street, Suite 15513, Los Angeles, CA 90013-1204  
1810—13<sup>th</sup> Street, Sacramento, CA 95814-7118  
7575 Metropolitan Drive, Suite 108, San Diego, CA 92108-4421  
Consumer Compliance

(415) 263-8500  
(213) 897-2085  
(916) 322-5966  
(619) 682-7227  
(800) 622-0620

Prior to joining the Department, Ms. Davis worked at a local Certified Public Accounting firm for 12 years. She also worked for a Sacramento newspaper and spent time advocating for a non-profit corporation.

Ms. Davis earned a BS degree in business administration with a concentration in accounting from California State University, Sacramento. She will be located in the Sacramento Office.

## Managing Commercial Real Estate Concentrations

On March 17, 2008, the FDIC issued FIL Letter 22-2008 on “Managing Commercial Real Estate Concentrations in a Challenging Environment.”

The purpose of the guidance is to re-emphasize the importance of strong capital and loan loss allowance levels, robust credit risk-management practices, and to recommend several key risk-management processes to help institutions manage CRE loan concentrations in this challenging environment.

The FDIC suggests five key risk management processes to help institutions with significant Construction and Development (C&D) and CRE concentrations manage through changes in market conditions:

- Increase or maintain strong capital levels
- Ensure that loan loss allowances are appropriately strong
- Manage C&D and CRE Loan Portfolios closely
- Maintain updated financial and analytical information
- Bolster the loan workout infrastructure

The Department strongly recommends that all of our depository institutions with significant CRE concentrations follow the guidance. This FIL can be view at <http://www.fdic.gov/news/news/financial/2008/fil08022.html#body>

## Real Estate Risk Management Practices

In the January 2007 and July 2007 issues of the Monthly Bulletin, the Department of Financial Institutions directed all licensees to comply with the Interagency “Guidance on Nontraditional Mortgage Product Risks” and “Statement on Subprime Mortgage Lending” (Statements). These Statements are designed to protect consumers while addressing prudent underwriting and risk management practices for non-traditional or exotic mortgage, and subprime mortgage lending. Additional helpful guidance may also be found in the 2005 FFIEC “Statement on Credit Risk Management Guidance for Home Equity Lending”.

As of December 31, 2007, the real estate portfolios of California state-chartered credit unions totaled \$29.8 billion, reflecting 58% of the total loans. Real estate delinquency increased significantly by 204%, from \$57.2 million in 2006 to \$173.7 million at year-end 2007. As a percentage of total loans, real estate delinquency was 0.58% at 12/31/2007, up from 0.21% the prior year. Although overall delinquency levels are still low, recent call report data and our examinations also reveal that loan

problems are starting to spread over to the traditional residential real estate as well as non-real estate loans. These trends emphasize the importance of strong policies and monitoring to proactively manage risk exposure, particularly for credit unions with increasing or large real estate loan concentrations. The following identifies certain practices that credit unions should address in your risk management program, but are not limited to:

#### Policies

- Products offered; clear risk limits, expectations, and monitoring tools.
- Portfolio limits in relation to assets and net worth; growth limits.
- Concentration limits, including portfolio, property type, geographic location, and risk grade (e.g., combined loan-to-value (CLTV) ratio, credit score, debt-to-income (DTI) ratio).

#### Controls

- Regular quality controls, audits and compliance procedures that focus on high-risk real estate or other lending activities. Sample review of all loan originations and exceptions to confirm adherence to policy.
- Segregation of duties in lending administration.
- Strong controls over loan servicing and collections. Oversight over third-party, such as mortgage brokers, appraisers and loan servicers; and due diligence reviews.
- Clear guidance for timely identification of problems, corrective actions, accountability, and escalation of unresolved issues, as necessary.

#### Monitoring and Reporting

- Tracking performance of key loan products against policy limits. Depending on risk, the following information should be available, at a minimum:
  - Loan type (e.g., concentrations of indirect HELOC, loans subject to sizeable payment shocks, loans with the potential for negative amortization, re-pricing concentrations for interest only, etc.)
  - Risk layering features (e.g., concentrations of interest only loans with a simultaneous second-lien mortgage)
  - Underwriting characteristics (e.g., loans with high DTI, high CLTV, and/or low FICO scores).
  - Borrower's performance (e.g., current payment status, loans with first payment defaults, current balance over original balance, delinquency and charge-offs).
- Stress test on key portfolio segments to identify or quantify potential rising risk:
  - Valuation of portfolios and collateral values under various stressed scenarios (e.g., rise in interest rates and/or fall in home values in the area)
  - Portfolio volumes by industry or select employer's group (SEG), property location, zip code.
- Adequacy of the allowance for loan and lease losses. Consider not just historical losses, but also the qualitative and environmental factors, including current economic conditions. Support any loss reserve adjustments.
- Reporting system should allow management to timely detect changing risks and to recognize any deteriorating performance in any of these loans. Examples of monitoring reports that could be generated are:
  - Value Deterioration - Monitor real estate loans by zip code, and compare the original LTV to the estimated value declines in the area.

- Performance - Monitor loans by risk tier and loan origination, loan officer or broker, re-pricing, and/or a combination of these attributes. Monitor high risk loans by grade and CLTV. Monitor delinquency and charge-offs by risk tier. Monitor high-risk loans, such as high CLTV, in relation to net worth. Also see Tracking Performance above.

Credit unions should assess the extent of your loan portfolio risk, and develop controls and monitoring programs to address that risk and mitigate potential losses. While the interagency Statements establish guidance for non-traditional and subprime mortgage lending, the Department encourages credit unions to adopt those guidelines for all real estate and other lending activities, as warranted.

## Statewide Foreclosure Prevention Consumer Workshops

The State and Consumer Services Agency and the Business, Transportation and Housing Agency have coordinated a series of statewide foreclosure prevention consumer workshops. The primary goal is to facilitate a solution to prevent existing loan customers from foreclosure. The events started in July of 2007 and have been well attended. Events are hosted by local representatives such as members of the legislature, city council members, city offices and local businesses.

Credit counselors, loan servicers and lenders provide on-site loan counseling to borrowers who are having difficulties making their mortgage payments and information on available options with their mortgages. Consumers are provided with forms to file complaints against fraud when suspected.

State departments, including the Department of Financial Institutions (DFI), Departments of Real Estate and Corporations also attend and provide information and materials for consumers.

The California Mortgage Brokers Association, along with community organizations including NeighborWorks America, Acorn and Springboard have attended the events and are available to counsel and assist borrowers.

The next event scheduled is:

- Hosted by Governor Schwarzenegger's Task Force on Non-Traditional Mortgages  
Saturday, April 26, 2008  
10:00 a.m.- 2:00 p.m.  
California Science Center  
Wallis Annenberg Building  
Erteszek Family Foundation Muses Roo at Exposition Park  
Los Angeles, CA 90037

Additional information on events is available on the DFI Web site  
<http://www.dfi.ca.gov/consumers/events.asp>

Information on the statewide initiative is available at <http://www.yourhome.ca.gov/>.

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## April 2008 is Financial Literacy Month

Financial literacy empowers Californians to make wise financial decisions and become responsible workers, heads of households, investors, entrepreneurs and business leaders. A strong education in finance is also the first line of defense against consumer fraud, abuse and mismanagement of funds.

Increasing our knowledge in financial services, budgeting, saving and investing, credit cards, and loans including mortgages help prepare us for the future. Without this knowledge, we do not have the tools to build wealth, pay for college, start a business or purchase a home. Families who lack basic financial skills are exposed to magnified financial hardships when they are forced to manage unexpected situations including healthcare emergencies or job loss.

During California Financial Literacy Month, the Department of Financial Institutions and Department of Corporations will partner with educational and governmental entities, private sector financial institutions, community groups and non-profits and others to support this year's theme to "Start learning today for a strong financial tomorrow – Financial literacy: it pays." All citizens are encouraged to take full advantage of free financial education programs and activities provided throughout the state.

For more information, please visit the California Financial Literacy Month page on the DFI web site at: <http://www.dfi.ca.gov/cflm/2008/default.asp>.

## California Summit on Financial Literacy

The California Society of CPAs and the California Jump\$tart Coalition are hosting a second California Summit on Financial Literacy at the Sacramento Convention Center on April 23, 2008. Over 600 attendees are expected.

Participants will connect with a variety of programs, organizations and dedicated individuals working to improve the level of personal financial education of all Californians.

DFI will attend and participate in panel discussions on adult financial literacy and community empowerment.

To learn more about the Summit, you can visit <http://www.calcpa.org/summit>.

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## Commercial Bank Activity

### New Bank

Capital Bank

31351 Rancho Viejo Road, San Juan Capistrano, Orange County

(949) 489-4200

(949) 489-4205 – fax

Officers: J.M. “Mike” Justice, Jr., President and Chief Executive Officer

John R. McGill, Executive Vice President and Chief Operating Officer

Frank J. Ford, Jr., Executive Vice President and Chief Credit Officer

Amy K. Dickerson, Senior Vice President and Chief Financial Officer

Capitalization: \$15,003,220.00

Website: <http://www.mycapitalbank.com>

Opened: 3/26/08

### Acquisition of Control

James M. Ryan, to acquire control of Exchange Bank

Filed: 2/27/08

Approved: 3/18/08

## Industrial Bank Activity

### Acquisition of Control

Community Bank Investors of America, L.P., to acquire control of Silvergate Bank

Filed: 2/21/08

Markel Corporation, to acquire control of Centennial Bank and LandAmerica Financial Group, Inc.

Filed: 2/25/08

## Premium Finance Company Activity

### New Premium Finance Company

Xpress Premium Finance, Inc.

5862 Wedgewood Drive, Granite Bay, Placer County

Filed: 3/18/08

Approved: 3/20/08

### Acquisition of Control

Premium Financing Specialists, Inc. to acquire control of AMGRO, Inc.

Filed: 3/28/08

**Acquisition of Control (Continued)**

Spectrum Equity Investors, to acquire control of AGIA Premium Finance Company, Inc.  
Approved: 3/13/08

**Voluntary Surrender of License**

APFS, Inc. dba American Pioneer Financial Services  
Effected: 3/20/08

**Foreign (Other State) Bank Activity****New Facility**

Irwin Union Bank and Trust Company (Facility – Insured Bank)  
12677 Alcosta Boulevard, San Ramon, Contra Costa County  
Notified: 3/13/08

**Discontinuance of Facility**

Manufacturers and Traders Trust Company  
15635 Alton Parkway, Irvine, Orange County  
Discontinued: 3/10/08

**Credit Union Activity****Field of Membership**

Two credit unions received approval to add three new fields of membership during February 2008.

**Bylaw Amendment**

Six credit unions received approval for seven bylaw amendments during February 2008.

**Merger**

Arrow Credit Union, San Leandro, to merge with and into Spectrum Federal Credit Union, San Francisco  
Filed: 3/14/08

First Future Credit Union, to merge with and into California Coast Credit Union, San Diego  
Filed: 3/28/08

**Errata**

It was erroneously reported in the February 2008 Monthly Bulletin that one credit union received approval to add three new fields of membership, and that three credit unions received approval for three bylaw amendments during January 2008. Five credit unions received approval to add 29 fields of membership during January 2008. Four credit unions received approval for four bylaw amendments during January 2008.

## **Transmitter of Money Abroad Activity**

**New Transmitter**

Trans-Fast Remittance, Inc.  
Opened: 3/28/08

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CAROL D. CHESBROUGH  
Interim Commissioner of Financial Institutions

Bulletin for Month ended  
March 2008, issued pursuant  
to Financial Code section 258



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