CREDIT CHRONICLES

A publication of the Hampton Roads Chapter of the Risk Management Association

Spring 2017 Edition

Table of Contents

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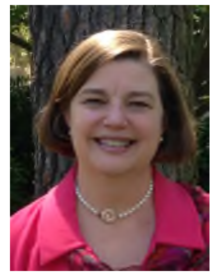
From Your Chapter Vice President



It's hard to believe, but we are already making plans for the final few events of our season! Programs we've offered so far this year included three of our popular Lunch & Learn sessions, a local open enrollment course- "Business Writing for Bankers", and a fun Young Professionals event at O'Connor Brewing Company in Norfolk! We also expanded our focus on student enrollments this year, participating in a Career Fair at ODU.

This Spring, we hosted one additional Lunch & Learn in March and will hold our Annual Luncheon in early June with real estate credit professional, KC Conway from SunTrust Bank, as our featured speaker. During the first week of May, the Virginia-Carolina RMA will hold their annual conference at the Williamsburg Lodge, a hometown event for us! Please join us there if you are able.

We take pride in being part of the local landscape of professional organizations and look forward to a busy Spring filled with renewed business contacts, new friends and lots of success!

All my best,

Susan Towler, Vice President

JOIN. ENGAGE. LEAD.

Spring 2017 Calendar of Events

May 4-5, 2017: Carolinas-Virginias Spring Conference in Williamsburg, VA
June 6, 2017: Spring Program & Membership Luncheon: Town Hall on Real Estate Market Trends; more details below
September 2017: Lunch & Learn program; Date and Topic TBD

Volunteer Spotlight: Tess Baker

Tess Baker is a 2013 graduate of Robert Morris University in Moon Township, PA. Tess came to Hampton Roads after graduating with a BSBA in Finance and started working for a financial advising firm where she created and implemented financials plan. Nearly two years later, Tess had the opportunity to move to the banking industry with TowneBank and started as a commercial credit analyst. Since her move to TowneBank, she has starting working with asset based loans and now small business underwriting.

Tess is new to the RMA board, joining in the summer of 2016 as the chair of the Young Professionals committee. The RMA has given Tess great connections within the industry and several excellent learning opportunities to grow in her career.

Outside of work, Tess enjoys spending time with her husband, working out, golfing and watching cheesy reality television.

The Talent Gap

From the Credit Risk Council 2016 Industry Insights

The major issue facing our industry today, more than regulatory demands or earnings pressure, is a talent gap. As the industry has consolidated over the last thirty years, those that were already employed in the business quickly filled any new jobs that were created. There was little need to attract new talent and banking, as an industry, did not.

While working well at the time by allowing the industry to be more cost efficient, it has led us to the dilemma we face today. We are an industry with an aging workforce with stagnant skills, and we do not have the human capital in our industry required to lead banking organizations into the future.

This is a problem. The primary differentiator and determinate of success of any organization compared to its peers and competitors is its people. Those industries and organizations that attract, educate, engage, empower, and retain the best people will always be better poised to not only survive, but to prosper in the coming years.
To excel in the talent game, an organization must first excel in its corporate culture. Culture encompasses values and behaviors that "contribute to the unique social and psychological environment of an organization." A positive culture is one that allows top performers to prosper and poor performers to select out. The good news is that culture can be measured and, if weak, it can be improved. If an organization has a culture with issues that will frustrate top people, it must be fixed or improving the talent level will prove impossible.

"Recruiting is kind of like shaving. If you don't do it every day, you look like a bum." Will Muschamp, Head Football Coach, University of South Carolina.
Where are the good people and how do we find them? Gone are the old days when filling open positions was as simple as poring over the stack of resumes that were mailed into the bank over the last month. Now recruitment must be deliberately planned with a targeted execution. An organization must know what the top prospect should look like to prosper in their organization. After the profile of these individuals is well defined and known, they must be relentlessly pursued.

The organization must allow multiple points of entry including paid internships, part-time employment, and flexible work schedules. All members of the bank's team must understand the importance of recruiting and always be looking for that next "difference maker."

Training is defined as "the action of teaching a person or animal a particular skill or type of behavior." This is not an activity that will result in an organization developing talent that will differentiate its goods and services from others in the economy. Rather than training, top companies will facilitate education.

Education is a better term. It describes a process of acquiring knowledge, skills, values, beliefs and habits. Those that train assume the responsibility of what skill is needed. Those that educate lead the learner in their own quest to acquire needed skills. The employee drives the process with the organization's assistance. The firm provides the awareness of needs, educational resources, and feedback while the employee assumes the responsibility and does the learning.

All relationships in life have people that come and go. This is true in everyone's personal life and in the life of all organizations. The goal must be in keeping those that are most important to success and allowing others to select other opportunities. While compensation is most often the primary focus of banks and must be competitive, it is not the main reason that good people leave. Good people leave when they do not understand the compelling vision that every successful company must have, or if they do not see a role for them in contributing to that higher calling. Those that do are truly engaged and act as volunteers.

Solving the talent gap problem will ultimately decide who wins and who goes away. It will not be easy for many firms and will require a new skill set for some. In the end, the old adage will prove true. Those that have the best people always win.

RMA Announces the Next Class of RMA Scholars

By Frank Devlin for the April 2017 *RMA Journal*

The Risk Management Association announced in February it had selected 58 new RMA Scholars. The highly qualified college students received RMA Foundation Scholarships ranging from $2,000 to $3,000 for students who demonstrate an intent to pursue a career in banking. Additionally, the Foundation renewed the awards of 23 students who won scholarships last year, bringing the number of active RMA Scholars this year to 81. A total of $202,000 was awarded.

The RMA Foundation scholarships are intended to address banking's talent gap by supporting students on their journeys into the financial services industry. The Risk Management Association, whose mission is to advance the use of sound risk management principles in the industry, created the Foundation in 2014 and seeded it with $5 million. It has since provided another $1 million to the Foundation.

"Helping to pave the way for bright students with a demonstrated interest in working in financial services is important work for RMA," RMA CEO Bill Githens said. "It is very gratifying to be part of such an important effort, and heartening to know that, thanks to RMA's financial commitment, the Foundation will continue to fund RMA Scholars for many years to come."

Applications for the next round of RMA Foundation scholarships will be accepted in the fall. In addition to applying for scholarships, banking-focused students are encouraged to take advantage of free RMA student memberships.

To be eligible for scholarships, students must: be citizens or permanent residents of the United States or Canada; have completed a minimum of two years in college; have a minimum grade point average of 3.0 on a 4.0 scale; be enrolled full-time at an accredited institution in the United States or Canada; and be majoring in accounting, business, finance, economics, banking, or a related area of study with the intention to work in the banking industry.

RMA Scholars are selected based on academic achievement, participation in school or community activities, work experience, demonstrated interest in the banking industry, and their career goals. Financial need is not considered.

To see the full list of scholarship winners, please visit our website:
http://landing.rmahq.org/SRC/scholarships

Article 9 of the Uniform Commercial Code Gets a Makeover

By: David C. Hiltebrand, Attorney at Williams Mullen

Article 9 of the Uniform Commercial Code ("UCC") provides the rules governing most transactions that couple a debt with a creditor's interest, or "security interest," in a debtor's personal property that serves as collateral. Article 9 was substantially revised in 1998 with a July 1, 2001 effective date, and the 1998 revisions are in effect in all 50 states and the District of Columbia. In 2010, a review committee (appointed by the American Law Institute and the Uniform Law Commission) crafted several additional amendments to Article 9, mostly related to filing issues. The review committee designated July 1, 2013 as the effective date, and urged states to adopt the 2010 amendments as quickly as possible. The 2010 amendments are currently in effect in Virginia and North Carolina, amongst many other states. Below is a brief overview of some, but certainly not all, of the 2010 amendments.

One rule that was amended relates to the name of an organizational debtor included on a financing statement. The old rule stated that the name of the debtor on the "public record" was the correct name. Now, the "public *organic* record" is considered the correct name of a registered organization, which is defined as any record available for public inspection.

To ensure the name of a debtor is correct, lenders should not rely on a state's business entity database (e.g., the Virginia State Corporation Commission), but rather the actual charter document used to organize the debtor entity (e.g., Articles of Incorporation for a corporation).

The rule governing the names of individual debtors was amended as well. The amendments offered states a choice between two alternative approaches, and we will discuss the option chosen by Virginia and North Carolina. Known as the "only if" option, the correct name is the name exactly as it is shown on the debtor's driver's license or other unexpired identification. Please note that the identification card must be issued by the state in which the financing statement will be filed. If the individual debtor has no state-issued identification, the correct name is his or her individual name or surname and first personal name. To be safe, lenders should determine the location of a debtor's principal residence, verify that the identification card was issued by the state of residence and has not expired. Lenders should also run a UCC search in the state of residence using name variations.

Sometimes, after you labor to determine the "official" name of the debtor under the new rules, the debtor has the nerve to change its name. Under the old rule, lenders were required to file an amendment to the financing statement with the new name of the debtor. Under the 2010 amendments, lenders need only file an amendment when the existing financing statement "becomes seriously misleading" as to the debtor's name. Lenders have a four month grace period after the name becomes seriously misleading to file an amendment.

The 2010 amendments also assist lenders with respect to perfection issues arising on after-acquired property when a debtor (individual or organization) moves to a new state or merges with an entity located in another state. The old rule provided that perfection by filing continued for four months after the relocation or merger, but only with respect to collateral owned by the debtor <u>at the time of the change</u>. The new rule gives the filer perfection for four months in collateral acquired <u>after</u> the move or merger. Please note that for this grace period to apply, the lender must file a new financing statement in the proper state within that four month period. If lending to a debtor that relocated from another jurisdiction, it would be wise to conduct a lien search in the original jurisdiction during the grace period to make sure nothing "carried over" from another lender in that jurisdiction.

The above rules are not the only ones that changed when the 2010 amendments were adopted, but they are among the most significant. Please note that in addition to the changes in the rules, several UCC forms were amended as well. Lenders should make sure all of their filers are using the most recent forms to avoid any problems with perfection of the security interests.

Trends in Small Business Lending at Community Banks

By: Jeff Bajek

Is Small Business lending falling out of favor with community banks? Not according to a recent survey conducted by The Risk Management Association. In fact, 70% of respondents to the survey reported a strategic initiative to generate small business loans.

During this same period, large banks became more active in the small business lending space, capturing the loan volume not being originated by community banks. This trend continued up until the Great Recession, whereupon many community banks were forced to tighten their underwriting standards – a change that included more robust underwriting on all sizes of small business loans. Today, nonbanks and fintechs are emerging as key competitors for small business loans.

Despite the changing landscape, community bankers are looking once again to small business lending for revenue streams and portfolio diversification. But new strategies may be needed to challenge the new competitors and win over small business owners. Data shows that demand for small business loans is strong, so now is the time to define those strategies and begin recapturing this loan volume.

To find out more, the full article is available in the March 2017 issue of The RMA Journal, available online at http://www.rmahq.org/thermajournal/.

Credit Risk Certification (CRC)

Why CRC?

In today's rapidly changing financial services industry, you need practical, day-to-day knowledge that will help you excel in your profession. You need the latest skills—skills that are current and complete. And you need the demonstrated ability to serve a diverse base of clients. Plus, you need all of your knowledge, skills, and abilities to be validated by a respected organization like RMA.

For more information, visit http://www.rmahq.org/crc.

Credit Risk Management Audio Conference Series

May 9, 2017: Construction Lending Update

June 13, 2017 – CECL Is Here – Don't Panic

Time: All audio conferences will be held at 1:00 p.m. Eastern Time (10:00 a.m. Pacific Time).
Fees*
RMA Associate members: $120 for each audio conference (per phone line).
RMA Professional members: $130 for each audio conference (per phone line).
Nonmembers at RMA member institutions: $130 for each audio conference (per phone line).
Nonmembers: $180 for each audio conference (per phone line).
*Additional listeners cost $0.

Visit www.rmahq.org for the complete list of upcoming Credit Risk Management, Enterprise Risk Management (ERM), Operational Risk, and Regulatory Audio Conferences.

2017 Spring Program & Membership Luncheon: Town Hall on Real Estate Market Trends

Presentation by: K.C. Conway, Senior Vice President, Credit Risk Management at SunTrust Bank
Date and Time: June 6, 2017: 11:45 AM to 1:15 PM
Location: Holiday Inn Norfolk Airport, 1570 N. Military Highway, Norfolk, VA 23502

Registration: $25 for Members and $30 for Non-Members (Lunch included)

About RMA

Founded in 1914, The Risk Management Association is a not-for-profit, member-driven professional association whose sole purpose is to advance the use of sound risk management principles in the financial services industry. RMA promotes an enterprise approach to risk management that focuses on credit risk, market risk, and operational risk. Headquartered in Philadelphia, Pennsylvania, RMA has 2,500 institutional members that include banks of all sizes as well as nonbank financial institutions. They are represented in the association by more than 18,000 risk management professionals who are chapter members in financial centers throughout North America, Europe, and Asia/Pacific.

Mission Statement

RMA is a member-driven professional association whose sole purpose is to advance sound risk management principles in the financial services industry.

Why should you join?

RMA helps our members use sound risk principles to improve institutional performance and financial stability, and enhance the risk competency of individuals through information, education, peer sharing, and networking.

Our chapter presents opportunities for individuals to get involved. Chapters rely on the talents of volunteers to stage many of their programs, conduct membership development efforts, and promote the ideals of the Association. To find out more about how you can get involved in our chapter, email Philip E. Richard at PhilRichard@XenithBank.com.