PRIME INTEREST

FALL 2013-14

A Publication of the Carolinas - Virginias Chapter of The Risk Management Association

CHAPTER OFFICERS

President:
Mike Hendricks, EVP, CCCO, NewBridge Bank

First Vice President
Jennifer Welch, FVP
NewBridge Bank

Second Vice President
Matthew E. Cheek, Esq.
Williams Mullen

Secretary/Treasurer
James Clark
Supervision, Risk & Credit/Risk & Policy
Federal Reserve Bank

In This Edition:

Message from the President 1

Mark Your Calendars 1

Volunteer Spotlight 2
- BJ Moss

Article Writing Competition—Winning Article 3
- Investing in SBIC Funds

Legal Lines 5
- Intercreditor Agreements - The Basics

Appraisal Compliance Reviews 6

About RMA CAVA 7

RMA National Info 8-9
- About RMA
- Upcoming Programs
- Audio Series
- CRC
- RMA History

MESSAGE FROM THE PRESIDENT:

Mike Hendricks, EVP, CCCO, NewBridge Bank

Greetings! I am honored to serve as your Carolinas-Virginias Chapter President this year! This is an exciting year for RMA as we celebrate our organization's 100th anniversary. Your Carolinas-Virginias Chapter has played a long standing role in the growth of the organization with our own roots being traced back to 1921.

Your Regional Chapter conducts three primary events. Our premier event is the Spring Conference which will be held April 24th and 25th in Pinehurst. This year's event is already shaping up to be an outstanding opportunity for education, peer sharing, and networking. The RMA-ECU Lending Schools will be held May 11th through the 16th. This year's school will include a new design and even more opportunities to further your credit acumen. This is undoubtedly one of the best, most cost effective, educational opportunities for bankers in the country. And finally, our Chapter will host our Roundtable sessions in April. We will offer multiple roundtable opportunities adjacent to the Spring Conference. Please look out for additional details as this is one of the best peer sharing opportunities available.

The other purpose of your Regional Chapter is to help support the activities of your local chapters. I encourage each of you to get involved and play an active role in your local chapter. The local chapter is where the "rubber meets the road" of our organization. Your local chapter brings the educational and networking opportunities to you on a local level based on what the membership in your marketplace wants. The banking landscape has changed significantly over the past few years. These local programs and education opportunities will help you "get back into the game" in today's banking environment providing both new thoughts and ideas as well as a reminder of the basic principles that always hold true.

All of these events, no matter if they are offered at the local, regional, or the national level, will help you become better bankers. Please take advantage of these opportunities by participating in, or even leading, an event. The quality and success of all of these events depends on the membership taking an active role.

I encourage each of you to adhere to RMA's new tag line – Join. Engage. Lead.

Mark Your Calendars

Carolinas-Virginias Annual Spring Conference: April 24-25, 2014, Pinehurst Resort, North Carolina. Come enjoy thought-provoking programs and fellowship with old and new friends, while also enjoying the legendary hospitality and world-class golf courses of the beautiful Pinehurst resort. Presenters will address cybersecurity, sequestration, local and national economic forecasts, community service leadership and other topics. Sponsorship opportunities are still available.

For information contact Matt Cheek at (804) 420-6923 or mcheek@williamsmullen.com.

RMA-ECU Lending School: May 11 - 16, 2014, Greenville, North Carolina. 2014 will mark the 43rd year that RMA and ECU have partnered to provide Commercial Lending Training for banking professionals. The 3 year curriculum emphasizes underwriting, cash flows, loan structure and loan management for both Commercial & Industrial and Commercial Real Estate lending. Instruction is provided by a faculty with extensive banking experience and expertise and involves lectures, case studies, class discussion and participant interaction. The cost for each school is $1,200 and includes hotel (double occupancy), breakfast & lunch each day and dinner Sunday and Thursday evening. For single occupancy, add $250.

Applications available late January 2014 at: http://cpeprograms.ecu.edu/ShowSchedule.awp?~~GROUP~BANK~BANKING

For information contact Kevin Futrell at (843) 724-7012 or kevinfutrell@synovus.com.

Volunteer Spotlight
BJ Moss

Barbara J. (BJ) Moss retired earlier this year after an extensive career at the Federal Reserve Bank of Richmond. In addition to many activities and accomplishments, BJ was an active RMA volunteer. Her participation with RMA started when Gene Johnson, her boss and a Richmond Chapter RMA board member, invited her to a board meeting. Much to BJ's surprise, she was introduced by Gene as his replacement on the Board (what a great tactic!!). This was the start of many leadership roles with RMA. BJ held various positions with the Richmond Chapter board, including education and newsletter chairs, vice president and president. She served as liaison with the FRB President's office to plan and hold the annual Lacker Economic Luncheon for the Richmond chapter. The "Lacker Lunch" is an annual highlight for the Richmond Chapter and the greater Richmond financial community.

BJ also served on the RMA Carolinas-Virginias regional board of directors. She will be remembered for many things, but not the least of which is being famous among a certain select group for the "melt in your mouth" chocolate candies she provided as favors at events she organized. In addition to BJ's many roles with RMA, she was active in volunteer work, including serving on the board of the Longwood University Foundation Fund, regularly donating blood, and participating on projects through the United Way Women's Leadership Group. For her sins, she remains a livelong fan of the Washington Redskins.

BJ started part-time at the Federal Reserve Bank of Richmond in 1973 as a receiving clerk in the Money Department. After graduating with a BS degree in education from Longwood College in 1975, she taught kindergarten for one year in Isle of Wight County before returning to Richmond to start on a Master's in education, supporting herself through substitute teaching in Henrico County and continuing to work part-time at the Fed. When an education career eluded her, BJ went fulltime at the Richmond FRB in 1978 and transferred to the Examining Department in early 1980 as a safety and soundness field examiner, working her way up to assistant vice president.

She graduated from the Virginia Bankers School of Bank Management in 1985 and the Stonier Graduate School of Banking in 1989. Her Stonier Graduate School thesis on asset securitization was accepted into the libraries of the American Bankers Association, the University of Delaware, and the Harvard University Graduate School of Business Administration.

Over her career at the Richmond FRB, BJ oversaw bank portfolios, the small shell bank holding company program, risk and specialty examination staff, internal budgeting and automation units, surveillance, quality control, and served the report review and training functions. Prior to retirement, her responsibilities included policies and procedures development, new hire onboarding, management information system reporting and automated tool implementation.

BJ, from all of us who have known and worked with you over the years, best wishes for an engaging, healthy and happy next phase of your life. Thank you for your professionalism, wit and fellowship.

1985 S&L Crisis: Perhaps one of the most interesting periods in BJ's time at the Fed was the Savings and Loan crisis that began in 1985. She spent 186 nights out of town that year. She was mustered out to examine S&Ls in Ohio and provide a quick report on financial condition. This work had to be done out of the public eye as maintaining confidence in the soundness of financial institutions was key to maintaining liquidity (sound familiar??). Her role in Ohio was cut short by a dive down the hotel stairs, a broken ankle and a time on crutches. But, she returned to Richmond only to be told to back her bags and head to Baltimore, Maryland.

Maryland also had privately insured S&Ls and FRB/Richmond management had been in touch with Maryland Governor Harry R. Hughes to offer support. Maryland had 103 thrifts insured by the Maryland Savings-Share Insurance Corporation (MSSIC), ranging in size from $153,000 to $1.6 billion in assets, and open from a minimum of two hours one night a week to being full-service financial institutions. BJ went to Baltimore with the mission to locate thrifts, set up a contact person for each one and establish a basis for providing discount window credit to the institutions.

Soon after that, FRB/Richmond staff joined Maryland on examinations of two of the largest S&Ls - Old Court Savings and Loan and Merritt Commercial Savings and Loan - and immediately uncovered fraud through a review of official checks, to the extent that it would take down the MSSIC Insurance Fund. While a silent run had been ongoing for several weeks, in early May, the forced resignation of several officials at these large thrifts sparked an actual physical run, with lines around the block and people camping out overnight to get their money. Due to the run and pending liquidity crisis, the governor was forced to issue an executive order on May 14, 1985, limiting withdrawals to $1,000 per month. In the rush to get institutions qualified for Federal deposit insurance, examiners were brought in from across the country. It was at this point that management implemented its contingency plan, and assigned BJ to "logistics". Little did BJ know what "being in charge of logistics" really meant.

Finding hotel rooms for the examiners who were arriving seemed simple enough except for the fact that the legislature was in session, convention season was in full swing and the lists of names of examiners were all hand-written and often indecipherable. Because reserving rooms was such a challenge and the list of arrivals continued to grow, BJ made reservations under made-up names (such as Maryland Cryses). Of course, as conventions came and went, the FRB rooms had to be changed to different hotels. This led to awkward situations when examiners came back from a weekend at home only to find that they had been moved to some different and unknown hotel. BJ had to bear the brunt of this for many years—some folks just do not have a sense of humor!

The hotels were one challenge – another was getting enough rental cars. After the inventory in town was wiped out, BJ started ferrying rentals in from the airport. In all, she ended up with 68 rental cars – it would have been 69, but BJ felt obligated to send back the pink Cadillac convertible. Imagine BJ's reaction when more than one examiner expected her to resolve parking tickets! The Fed examination team had 20 beepers, two walkie-talkies and a cassette tape recorder—communication technology has come a long way since the 1980s! The Fed team was also accepting and processing collateral, pretty much anything it could find. A lot of it had to be rejected as it did not quality. A running joke was that new examiners should be trained like repo men to go out and collect on collateral.

Retirement (in her own words): "In retirement - I have been staying up way too late watching Leno and Fallon, and then sleeping in. I have been able to stay up late enough to see the end of evening pro football games. I have been traveling with my aunt, helping her complete items on her bucket list, such as a helicopter ride around Manhattan and a hot air balloon ride over Hanover County. I accompanied her to Kings Dominion, where she and her son rode various roller coasters and I watched and took pictures. My plans to totally gut my kitchen have not yet gotten underway - too much other fun stuff happening to devote time to that. I can now plan lunch and dinner dates with friends, and made a trip to the beach for a mini vacation. I am putting my toe in the water on various volunteer projects and have joined the Federal Reserve of Richmond Retirement Club, where we meet for breakfast one day a month and also have quarterly formal meetings. I continue to serve as treasurer of my homeowners association, which is almost like a second job."

2012-13 Article Writing Competition

The top three articles in last year's completion were as follows:

First Place: *Investing in SBIC Funds* written by Kevin Brooks, Mario Ichaso, Ian Flanders, Tim Robbins, and Marty Weitzel from Access National Bank in Reston, VA.

Second Place: *Lending to Continuing Care Retirement Centers* written by Nevin Sheppard from BB&T in Winston-Salem, NC.

Third Place: *Erring on the Side of Disclosure* written by Jessica L. Kimble from Spilman Thomas & Battle, PLLC in Winston-Salem , NC.

Congratulations to all these authors!!! The winning article follows below and continues on page 4.

INVESTING IN SBIC FUNDS

Risk Management Association 2013 Article Competition
Kevin Brooks, Ian Flanders, Mario Ichaso, Timothy Robbins, and Martin Weitzel

In 1958, a Federal Reserve report to Congress identified a growing gap between capital markets and long term funding for growth-oriented small business. In response, Congress enacted the Small Business Investment Act of 1958 to facilitate the flow of capital in the U.S. economy. The Act led to creation of the Small Business Investment Company (SBIC) program within the Small Business Administration (SBA), whose efforts continue to foster the growth of small businesses and the U.S. economy. Regulatory changes and the current economic environment have led to a growing trend of banks investing in SBIC funds. There are many benefits for banks to continue pursuing these investments, but these are in conjunction with their own unique risk factors. This article examines the SBIC program and the unique dynamics that arise for banks considering such investments.

The SBIC program is aimed at funding middle-market growth companies through private-equity funds and mezzanine lenders. This program offers private-equity funds two to three times leverage for the private capital they raise up to $150 million, resulting in a total fund size of $225 million. Investment funds seeking to participate in the SBIC program submit an executive summary of the fund's investment strategy and the management team's qualifications. The SBA then reviews the summary to ensure that the fund meets all program requirements, which includes investing at least 75% of total capital in U.S. small businesses. The businesses must have fewer than 500 employees, no more than 49% of employees overseas, a tangible net worth of less than $18 million, and an average after-tax net income of less than $6 million over the prior two years. The remaining 25% of the fund's capital must be invested in smaller firms with no more than 49% of employees overseas, a tangible net worth of less than $6 million, and an average after-tax net income of less than $2 million over the prior two years. Investments may be in the form of loans, convertible debt, and/or equity to qualifying businesses active in manufacturing, transportation, consumer products, and other sectors that are not contrary to the public interest. Prohibited investments include those made to companies active in project finance, real estate, financial intermediaries or others deemed contrary to the public interest.

Currently, investment funds licensed as SBICs have the option to apply for three different types of licenses. Funds may pursue a Standard License, which has the broadest investment mandate. This license is approved on a rolling basis and is eligible for two tiers of leverage capital with a $150 million cap. The Impact Investment License is for funds with an investment mandate targeted for social and financial returns. The managers of these funds are required to invest 50% of their capital in "Impact Investments" and are eligible for an expedited licensing process. The SBA defines Impact Investments as those made in target areas of critical national priority such as underserved markets and communities facing barriers to credit and capital. A fund may also apply for an Early Stage Innovation License. This license is designed to attract investment fund managers with experience supporting companies in their earliest stages of growth. They have access to one tier of leverage with a $50 million cap. Once licensed, investment funds may choose to receive a commitment from the SBA to provide a specific amount of leverage over a set investment horizon. It should be noted that SBICs may choose to forgo the use of leverage from the SBA and rely solely on private capital.

When the investment fund is ready to make an investment with SBA leverage, it draws down on the SBA commitment by issuing a debenture. The debenture entitles the SBA to collect interest and principal payments over a period of time; with the most common form of financing being a Standard Debenture. This debenture is an amount equal to or less than two times the amount of private capital committed to the fund. For General Partners who have previously managed a successful fund in the program, the SBA may allow them to access debentures in an amount equal to or less than three times the amount committed to the fund. Therefore, the SBIC fund may have access to a maximum of $150 million for a single fund and $225 million for multiple funds under common control. The debenture rate is based on the 10-year treasury plus a premium (usually a spread of 70 to 80 basis points) and the terms are commonly 10-year non-amortizing securities with semiannual interest payments. A second type of financing (called a discounted debenture) has the same face value as a standard debenture, but is issued at a discount. As the debenture matures, the security appreciates to face value. Discounted debentures with maturities of five years do not require interest payments, while those with ten year maturities require semiannual interest payments during the last five years of the term. The SBIC debentures are pooled by the SBA in March and September of every year and sold to the public in the form of debenture participations certificates. These certificates are fractionally undivided interests in the pool of debentures and are backed by SBA guarantees.

Continued on Page 4

INVESTING IN SBIC FUNDS -

CONTINUED FROM PAGE 3

Banks may participate in the SBIC program either as bank-owned SBICs or as Limited Partners (LP) with other investors. Investment funds in the SBIC program are generally formed as limited partnerships, with fund managers acting as the General Partner (GP). LPs supply the majority of the private funding and are typically institutional investors, banks, and high-net-worth individuals. Banks that choose to own their SBIC are unleveraged. This allows banks to have control of the fund while avoiding risks from leveraged financing.

Banks investing in SBIC funds find unique benefits beyond the traditional realm of investments, including investing in funds that are blocked by the Volker rule, as the SBIC funds are exempted from this rule. The program offers competitive returns to banks when compared to investments in similar asset classes as a direct result of employing low-cost, SBA-guaranteed debentures to supplement the fund's private capital. In addition, SBIC funds usually lend to companies on an unsecured basis, which means the fund is able to provide capital to a company at a higher interest rate than senior debt but at a lower cost than new equity. Banks choosing to invest in SBIC funds located within the bank's market area may generate additional benefits through supporting local community growth, while supporting the bank's CRA rating and improving public image. For instance, the SBIC program allows banks to receive credit for Community Reinvestment Act (CRA) purposes as a qualified investment. The investment test accounts for 25% of the bank's CRA rating, the results of which are available to the public. This also represents an opportunity for prospective banks to form mutually-beneficial financial relationships with companies that compose the SBIC's portfolio, as well as the fund managers. In 2012, the SBIC program reported its third consecutive year of providing record-breaking growth capital at zero cost to the taxpayers. In addition, the program issued $1.92 billion in new commitments with $3.13 billion in financing dollars invested in small businesses, thus facilitating the growth of 937 companies and the creation of over 56,000 jobs. Notable companies that have benefited from the program include Callaway Golf, Outback Steakhouse, Intel, Pandora and Federal Express.

Although there are many benefits for banks investing in SBICs, there are also important risks that must be considered. The three major risks of investing in SBICs are the loss of principal (or lack luster performance), the illiquid nature of these funds, and increased dependence on the fund manager's performance. Unlike other SBA programs, investments in SBICs are not guaranteed by the SBA. Leveraged SBICs contain elevated risk characteristics based on the SBA having a priority interest in the event of a fund's liquidation. The invested capital is committed for the life of the fund, which is typically ten years. As a result of their illiquid nature, banks may not be willing to commit large amounts of capital for an extended period of time as required by a fund. Prior to making any investment in a SBIC, the bank must also evaluate the prospective fund managers to ensure their competency. The fund's management team is of particular importance because they will be responsible for making investment decisions, directly impacting the fund's performance. In addition to the risks associated with management's control of the fund, they may also maintain an advisory role in the companies invested. In response to these risks, the SBA has strengthened its licensing process. As a result, the bulk of the liquidations have been for funds licensed prior to 1985, when the program revisions were implemented.

Despite the risks associated with SBIC funds, we are likely to continue to see a growing trend by banks moving towards this type of investment. The current economic environment of low interest rates and excess liquidity will continue to make SBIC investments an attractive alternative to traditional assets. The relative high returns of between 10% and 20% make these investments more profitable in contrast to traditional investments, such as treasury securities with rates of return below inflation. In addition, it is in all bank's interest to help stimulate growth by creating a mutually-beneficial relationship with businesses in their local community. SBIC financing programs can increase the availability of funds to local communities, helping to foster the growth and development of small businesses that may have otherwise been unable to obtain financing. These funds are not without risks. They will require banks to analyze all aspects of the investment and their own risk appetite in order to determine if such funds supplement their own strategic plan.

Bibliography

"News and Issuances." OCC: *OCC Publishes Insights Report Covering How Banks Can Use Small Business Investment Companies to Expand Business*. N.p., n.d.Web. 15 Apr. 2013.

"SBIC Program I SBA.gov " *SBIC Landing Page* I *SBA* .gov. N.p., n.d. Web. Web. 16 Apr. 2013

Askari, Ammar. "Small Business Investment Companies: An Investment Option for Banks." Community Developments. (2012): n. page. Web. 15 Apr. 2013. <http://www.occ.gov/topics/community-affairs/publications/insights/insights-sbic.pdf>.

Federal Reserve of San Francisco. "CRA Investment Handbook." (n.d.): n. pag. Center for Community Development Investments. Federal Reserve of San Francisco, Mar. 2010. Web. 14 Apr. 2013.

"SBICs Sizzle, Offering Alternative to Bank Loans - Capital Markets - CFO.com." SBICs Sizzle, Offering Alternative to Bank Loans - Capital Markets - CFO.com. N.p., n.d. Web. 15 Apr. 2013.

LEGAL LINES

INTERCREDITOR AGREEMENTS – THE BASICS

By: C. Grigsby Scifres, Esq.

It is commonplace for the capital stack of a business to have more than one source of debt capital. This can take many forms – senior debt and mezzanine or junior debt sharing the same collateral, different lenders secured by different collateral, seller financing that is subordinate to senior debt used to finance the acquisition of assets, etc. In each of these situations and many others an Intercreditor Agreement is used to determine the rights and obligations of lenders regarding payment and collateral. Subordination agreements, widely used in real estate credits, are just another version of an Intercreditor Agreement. Set forth below are some of the basic business issues to consider when negotiating an intercreditor arrangement.

Shared Collateral vs. Split Collateral. The common scenarios involve (i) the senior lender and junior lender sharing the same collateral, (ii) each lender having a lien on different collateral and (iii) a senior secured lender and an unsecured lender. Typical issues in these situations are:

- Should each lender have a junior lien on the collateral of the other lender (in split collateral situations)
- Just lien subordination or both payment and lien subordination
- Rights with respect to guarantors
- Debt caps
- Standstill with respect to exercise of remedies

Guarantors. If the same guarantor is obligated on both credit facilities then the Intercreditor Agreement should address the respective rights of each lender with regard to the guarantors. Similarly, if only one credit facility is guaranteed or if there are different guarantors supporting each credit, then the Intercreditor Agreement may prohibit the non-guaranteed credit facility from obtaining any judgment against or liens on assets of a guarantor.

Payment Subordination. Typically, both payment subordination and lien subordination are addressed. Some of the business points surrounding payment subordinations include:

- Absolute payment blockage or permitted payments outside default situations
- Duration of payment blockages and when do they commence
- Unlimited or limited number of payment blockages during a definite time period
- What senior debt defaults trigger payment blockages--any default, only payment defaults or defaults where the senior debt has been accelerated
- Subordination legend on and/or possession by the senior lender of the junior debt instrument

Lien Subordination. These concepts vary depending on whether there is shared collateral, split collateral or an unsecured junior lender. They are accompanied by a "turnover clause" that obligates the junior lender to pay over to the senior lender any proceeds (whether in cash or in kind) from the senior lender's collateral. Some of the discussion points include:

- Establishing lien subordination regardless of lien perfection or the relative priority under applicable law
- Specifying rights to collateral in the split collateral situation
- Blocking an unsecured lender from obtaining any future lien rights
- Providing for collateral proceeds to be paid to the senior lender
- Waivers and assignments of rights if the borrower becomes a debtor in a bankruptcy case

Debt Caps. Often a discussion point is a limit on the extensions of credit by one or both of the lenders. Some of the issues that arise include:

- What are the components of the debt--principal, interest, fees, costs, collection costs, indemnity payments
- Are new extensions of credit subject to the cap and if so what is the limit
- Are protective advances or over-advances limited by the cap
- Are bank products, such as treasury management services and interest rate protection devices, included
- What is the scope of the junior debt and is additional junior debt permitted

Debt Modifications. The senior lender in the shared collateral situation and both lenders in the split collateral situation want the right to modify both their debt and financing documents without having to provide notice to or obtain consent from the other lender. These considerations include:

- Are limitations negotiated in the debt cap discussion implicated
- Should the risk to the junior lender be materially increased without its consent
- Administration of the senior debt without being restricted by the junior lender

Standstill Provisions. Standstill provisions are a necessary component of the subordination concept. These provisions are triggered when an event of default or a bankruptcy occurs. They block the junior lender from exercising any remedies with respect to its debt or its collateral (at least in the shared collateral situation). Some of the issues that arise in this context are:

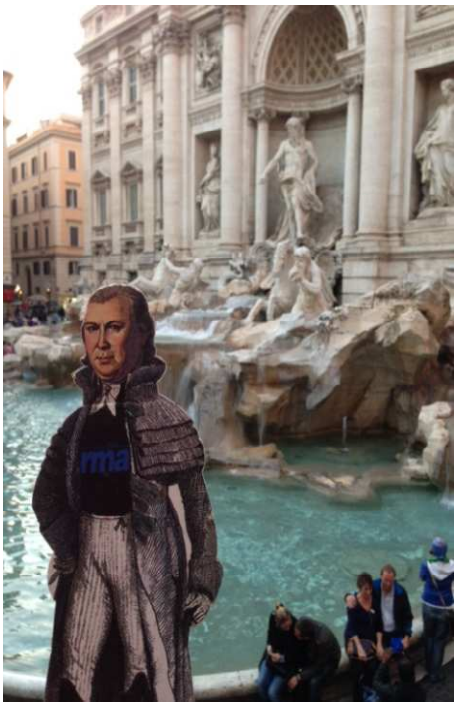
- When does the standstill period begin
- How long will the standstill period last
- Assigning to the senior lender the junior lenders voting rights in a bankruptcy case
- Waiver of the junior lender's rights to contest positions taken by the senior lender in the debtor's bankruptcy
- Assignment to the senior lender of rights to payments on the junior debt
- Waiver of the junior lender's right to object to a sale pursuant to §363 of the U.S. Bankruptcy Code.

INTERCREDITOR AGREEMENTS – THE BASICS
By: C. Grigsby Scifres, Esq.
Continued from Page 5

Fiduciary Duties. A well-drafted Intercreditor agreement will contain express waivers of any fiduciary obligations between the junior and senior lenders. Also included will be an acknowledgement that each party had the right to review all information that it deemed pertinent regarding the credit facilities, the collateral and the debtor. These provisions are important to eliminate any argument that the junior lender was relying on the senior lender's underwriting, credit decisions, document drafting or any other similar type theories.

Intercreditor arrangements vary depending on the relative leverage of the parties and the types of credit facilities involved (e.g., a revolver with a borrowing base vs. term debt secured by fixed assets). An understanding of the business issues at the outset of negotiations and drafting is key to both protecting a lender's position in the customer's capital stack and leveling what often times is a very uneven playing field for a junior lender.

Grig Scifres is a partner in the financial services section of Williams Mullen and has represented regulated and non-regulated lenders for over 30 years. For additional information contact Grig Scifres at (757) 473.5370 or at gscifres@williamsmullen.com



Appraisal Compliance Review

By: GREGORY J. ACCETTA

Excerpt from the November 2013 RMA Journal

Independence, analysis, and expertise are key in meeting agency standards for the review of appraisal reports used to support a federally related transaction.

As part of the credit approval process and prior to making a final credit decision, an institution must review real estate appraisals for federally related transactions. When this review is performed by an appraiser, it is commonly known as a "technical" or Standard 3 review. Standard 3 refers to the requirements in the Uniform Standards of Professional Appraisal Practice (USPAP) for the performance and reporting of such reviews by an appraiser.

When the review is performed by a non-appraiser, it is known as a "compliance" or "administrative" review. Compliance reviews are usually performed by designated bank staff. The appraisal regulations issued by the various federal agencies[1] include five minimum standards for preparing an appraisal. Specifically, the appraisal must:

• Conform to generally accepted appraisal standards as evidenced by the USPAP and promulgated by the Appraisal Foundation's Appraisal Standards Board (unless principles of safe and sound banking require compliance with stricter standards).

• Be written and contain sufficient information and analysis to support the institution's decision to engage in the transaction.

• Analyze and report appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, nonmarket lease terms, and tract developments with unsold units. (This is commonly called the "as is" value of the property.)

• Be based on the definition of market value set forth in the appraisal regulation.

• Be performed by state-certified or licensed appraisers in accordance with requirements in the appraisal regulation.

A Very Basic Approach

How can an institution's review staff determine that an appraisal complies? Let's start with a very basic approach.

*Conformance with USPAP

*Sufficient information and analysis

*"As is" value

*Definition of market value

*State-certified or licensed appraisers

*Reviewer Qualifications and Depth of the Review

To ensure that appraisals contain the required information and analysis, an institution should implement a risk-focused approach to determining the depth of the review needed. This process should differentiate between high- and low-risk transactions so that the review is commensurate with the risk. The depth of the review should ensure that the methods, assumptions, data sources, and conclusions are reasonable, well supported, and appropriate for the transaction, property, and market. This review also should ensure that an appraisal contains sufficient information and analysis to support the credit decision.[3]

In some cases, the results of the compliance review or the risks related to the transaction will require a more intensive technical appraisal review performed by a qualified appraiser. Criteria for escalating the review process should be established in a bank's policy and procedures.

Based on an examination of the appraisal report by bank personnel who have the required skill, the compliance review process can be an effective tool for determining that an appraisal report used to support a federally related transaction meets minimum regulatory requirements.

To read this article in its entirety, please visit http://www.rmahq.org/RMA/RMAJournal

RMA CAROLINAS—VIRGINIAS CHAPTER NEWS

CAVA is fortunate to have many active local chapters. These include: Virginia/West Virginia: Hampton Roads, Richmond, Potomac, Southwest Virginia and West Virginia Chapters; North Carolina: Eastern North Carolina, Triad, Charlotte and Great Smokies Chapters; and South Carolina: Upper South Carolina, Coastal Carolinas and Charleston Chapters.

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, contact: Jennifer Jefferson at (336) 369-0920.

2013 - 2014 OFFICERS AND COMMITTEE CHAIRS

President: Mike Hendricks, EVP, CCCO
NewBridge Bank
(336) 369.0908; Mike.Hendricks@newbridgebank.com

First VP: Jennifer Welch, FVP
NewBridge Bank
(336) 369.0926; Jennifer.Welch@newbridgebank.com

Second VP: Matthew E. Cheek, Esq.
Williams Mullen
(804) 783.6923; Mcheek@williamsmullen.com

Secretary/Treasurer:
James Clark, Supervision, Risk & Credit Risk & Policy
Federal Reserve Bank of Richmond
(704) 358.2466; james.clark@rich.frb.org

AT-Large Directors

Past President: Anne Burnett, Director of Financial Bank of Richmond
Richmond Federal Reserve
(804) 697.4080; Anne.Burnett@rich.frb.org

At-Large Member: C. Grigsby Scifres, Esq.
Williams Mullen
(757) 473.5370; gscifres@williamsmullen.com

At-Large Member: Jennifer Jefferson, VP
NewBridge Bank
(336) 369.0920; Jennifer.Jefferson@newbridgebank.com

At-Large Member: Jason Paisley
Business Finance Group
(703) 352.0504; jpaisley@businessfinancegroup.org

At-Large Member: Jennifer Jefferson, VP
NewBridge Bank
(336) 369-0920; Jennifer.Jefferson@newbridgebank.com

At-Large Member: Ron Paull, Examiner
Federal Reserve
(704) 591.8133; ronwpaull55@gmail.com

At-Large Member: Kevin Futrell, Credit Risk Manager
NBSC, a division of Synovus
(843) 724.7012; Kevinfutrell@synovus.com

At-Large Member: David Bell, SVP/Regional Credit Manager
First Citizens Bank
(919) 716.7555; David.Bell@firstcitizens.com

At-Large Member: Greg Tripp, EVP, Director of Commercial RE Leasing
Essex Bank
(804) 784.4066; gtripp@essexbank.com

Committee Chairs:

By-Laws/Long Range/Policy Committee:	Jennifer Welch
Roundtable Program Committee:	Jennifer Welch
ECU Lending School Liaison:	Kevin Futrell
Public Relations/Newsletter Committee Chair:	Grig Scifres
Nominating Committee Chair:	Ron Paull
Article Writing Competition Committee Chair:	Babette Stone
Audit Committee:	Anne Burnett
Membership Committee Chair:	Jennifer Jefferson
Young Bankers Committee Chair:	Jason Paisley
Education Committee/Program Chair:	Matthew E. Cheek

State Liaisons:

North Carolina:	David Bell
Virginia/West Virginia:	Greg Tripp

RMA Southeast Regional Manager: Cindee Munro

Virginia/West Virginia:

President - Potomac	Dana Bomkamp
President - Richmond	Kristopher De Long
President - Southwest	Vicki Shortt
President - Hampton Roads	Curt Solomon
President - West Virginia	Chris Morris

North Carolina:

President - Eastern NC	Jonathan N. Krieps
President - Triad	Cheryl Hancock
President - Charlotte	Lynn Baldwin
President - Great Smokies	Lacy Cross

South Carolina:

President - Upper SC	Brian Wildrick
President - Coastal Carolinas	Theresa Arrighi
President - Charleston	Jim Hutto, III

ABOUT THE RISK MANAGEMENT ASSOCIATION

The Risk Management Association is a not-for-profit, member-driven professional association serving the financial services industry. Its sole purpose is to advance the use of sound risk principles in the financial services industry. RMA promotes an enterprise approach to risk management that focuses on credit risk, market risk, operational risk, securities lending, and regulatory issues. Founded in 1914, RMA was originally called the Robert Morris Associates, named after American patriot Robert Morris, a signer of the Declaration of Independence. Morris, the principal financier of the Revolutionary War, helped establish our country's banking system.

Today, RMA has approximately 2,500 institutional members. These include banks of all sizes as well as nonbank financial institutions. RMA is proud of the leadership role its member institutions take in the financial services industry. Relationship managers, credit officers, risk managers, and other financial services professionals in these organizations with responsibilities related to the risk management function represent these institutions within RMA. Known as RMA Associates, these 16,000 individuals are located throughout North America and financial centers in Europe, Australia and Asia.

Members actively participate in the RMA network of chapters. These chapters are run by RMA Associates on a volunteer basis and they provide our members with opportunities in their local communities for education, training, and networking throughout all stages of their financial services career. Chapters are located across the U.S. and Canada as well as in financial centers internationally.

RMA members also avail themselves of benefits offered through headquarters in Philadelphia, Pennsylvania. To assist members in advancing sound risk principles, RMA keeps members informed and provides access to industry information at this site; publishes a journal (*The RMA Journal*) and a variety of newsletters, books, and statistics; conducts many workshops and seminars; holds several conferences, an annual convention (Annual Risk Management Conference); and has numerous committees working on a variety of projects.

RMA welcomes all personnel involved in lending and risk management in member organizations to become RMA Associates.

Information About RMA Programs, Chapters and Opportunities:

Cindee Munro, Southeast Regional Manager – Chapters and Community Banks
The Risk Management Association | 1801 Market Street, Suite 300, Philadelphia, PA 19103
T: 623.266.2344 | F: 623.266.0963| cmunro@rmahq.org | www.rmahq.org

Upcoming Programs:

Chapter Leaders Conference: Philadelphia, PA, June 19–20, 2014

Executive Leadership & Risk Management Program Scottsdale, AZ, March 09 - 14, 2014

Enterprise Risk Management Forum Dallas, TX, May 13 - 14, 2014

Credit Risk Management Audio Series

December 10, 2013—Commercial Credit Risk Ratings: You No longer Can Just Set It and Forget It
January 14, 2014—ALLL – Regulatory Impact for Community Banks
February 11, 2014—Credit Review – Increasing the Profile of the Third Line of Defense
March 11, 2014—Small Business Lending--What Are Banks Doing to Book Loans?
April 15, 2014—Role of Risk Management in New Product Development
May 13, 2014—Stress Testing: De-Mystifying Stress Testing—Its Not Just for the Big Guys Anymore
June 10, 2014—Lending to the Health Care Industry—Opportunities and Challenges

Time: All audioconferences will be held at 1:00 p.m. Eastern Time (10:00 a.m. Pacific Time).

Fees: Multiple listeners permitted free on the same line (include as many as can fit around your speakerphone).

RMA Individual Members: $800 for all ten audioconferences; $100 for five to nine per selected audioconference; or $120 for each selected audioconference up to four (per telephone line).

RMA Member Institutions: $900 for all ten audioconferences; $110 for five to nine per selected audioconference; or $130 for each selected audioconference up to four (per telephone line).

RMA Credit Risk Certification

Why RMA-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. Obtaining your CRC is an investment in your career. For information: http://www.rmahq.org/tools-publications/rma-university/credit-risk-certification

THE BIRTH OF RMA - CENTENNIAL UPDATE

The Risk Management Association is marking the 100th year of serving its members. The official observance, be- ginning at this year's Annual Risk Management Conference in Philadelphia (November 17-19), will continue through and beyond the 100th anniversary date—June 25, 2014. Throughout the celebration, The RMA Journal is highlighting key moments in RMA history in this space each month.

What's worse than hearing that a company that owes you money is about to go under? Realizing that it might owe plenty to several other creditors, too.

That was the unfortunate situation facing several financial institutions in 1914, when a New York Times headline blared, "Receivers Take H.B. Claflin … Notes Held by 5,000 Banks." H.B. Claflin was a dry goods company whose stores included Lord & Taylor. It was also a big-time borrower, but many creditors didn't realize to what extent. Despite its stellar credit rating, Claflin was over-extended after backing the debt of several struggling department store affiliates.

The receivership news broke just as the National Association of Credit Men was holding its convention in Rochester, New York. There was a bit of a stir, to say the least. Bankers raced out of the meeting hall to find phones. Some attendees left the site altogether and went home to get a better handle on their Claflin positions.

That 1914 gathering was also notable because it hosted the first meeting of The Robert Morris Club of the National Association of Credit Men, the organization you now know as The Risk Management Association. The club was not formed in response to the panic of the day; the meeting was planned beforehand. But its raison d'être— promoting relations between bankers so they could share credit information was certainly applicable to Claflin. The club's early members hoped that such relations would minimize future losses.

The Robert Morris name honored the founding father known as the primary financier of the Revolutionary War and one of only two people to sign the Declaration of Independence, the Articles of Confederation, and the Constitution. (Roger Sherman, who helped draft the Declaration, was the other.) Morris also served as the young nation's powerful Superintendent of Finance and, with Alexander Hamilton and Albert Gallatin, is widely credited with developing the U.S. financial system.

But his illustrious career also includes a sad footnote. After amassing great wealth through shipping and other endeavors, Morris went bust later in life after a leveraged land speculation play went badly. He ended up in debtors' prison and was released only after a special appeal by George Washington led to bankruptcy law reforms.

But perhaps Morris's financial downfall made him an even more apt namesake for the organization that became RMA. After all, his life is a lesson in the vast potential-and pitfalls-of credit. Morris used credit to borrow against his name and finance the war effort. Later, borrowing helped put him in prison when the value of his investments plummeted.

Times have changed, and the draconian penalty of debtors' prison has long been abolished. But, as ever, the financial world remains a risky place indeed.