FROM BUTLER, SNOW, O'MARA, STEVENS & CANNADA, PLLC

QUARTERLY REPORT

MISSISSIPPI REGULATORY COMPLIANCE GROUP

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FINANCIAL REGULATION REFORM LEGISLATION ADOPTED

On July 21, 2010, President Obama signed landmark legislation which will permanently change the landscape of bank regulation. The Dodd-Frank Wall Street Reform and Consumer Protection Act consists of over 2,000 pages which are divided into 16 titles, each of which deals with a different aspect of change in the manner with which banks will be governed in the future. The following is a brief summary of 14 of those titles. Title X and Title XIV deal with the creation of the Bureau of Consumer Financial Protection and certain new rules related to mortgage reform and anti-predatory lending will be covered in greater detail in separate articles. The following is a brief summary:

- Title I — Financial Stability.

  This Title creates a new Financial Stability Oversight Council composed of the heads of each of the regulatory agencies charged with certain aspects of financial regulation, as well as certain experienced individuals. The purposes of this new Council are to (1) identify risks exposed by large, interconnected entities, (2) promote market discipline by doing away with the concept of "too big to fail," and (3) providing a mechanism for responding to emerging threats to the financial industry. This Council will make recommendations to the Federal Reserve Board related to prudent standards, reporting and disclosure requirements for systemically significant non-bank financial companies and large, interconnected bank holding companies. The focus of the Council will be primarily on banks with assets greater than $50 billion.

  An amendment referred to as the "Collins Amendment" charges the bank regulatory agencies with setting minimum leverage and risk-based capital levels for insured institutions and their holding companies, as well as non-bank financial companies supervised by the Federal Reserve Board. This Amendment also excludes Trust Preferred Securities and other hybrid securities from inclusion in Tier 1 capital, but provides a three-year phase out beginning 2013 for Trust Preferred Securities issued prior to May 19, 2010 by bank holding companies with assets of more than $15 billion. Bank holding companies with assets less than $500 million are exempt.

- Title II — Orderly Liquidation Authority.

  This Title establishes an orderly liquidation process for large financial

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institutions that are in danger of failing. Amidst much political fanfare, this Title was structured in an attempt to avoid what was perceived as an undesirable choice between bankruptcy of a large, complex institution and a taxpayer-funded bailout of that institution. Once this authority is invoked, liquidation is the only option; shareholders are wiped out and unsecured creditors take their losses.

The legislation empowers the FDIC to wind down failing significant financial companies and includes powers to ban executives or directors of such failing companies from serving in the financial services field in the future. Clawback provisions are included to prevent creditors of failing institutions from receiving more than they would have in the ordinary course of liquidation.

- <u>Title III — Transfer of Powers to OCC, FDIC and Federal Reserve Board</u>.

Under the provisions of this Title, the Office of Thrift Supervision is eliminated at the end of one year after passage and its functions are transferred to the OCC, the FDIC and Fed.

Important changes are enacted to the FDIC deposit insurance function. The "assessment base" for domestic deposits is changed to an institution's assets minus its tangible equity. This change is believed to have a more favorable effect on smaller financial institutions, thus transferring more of the expense of FDIC insurance to larger institutions. The amount of FDIC insurance is permanently increased to $250,000 per depositor and the reserve ratio for the Bank Insurance Fund is raised from 1.15% to 1.35% with a target date of September 30, 2020. The current unlimited deposit insurance coverage for non-interest bearing transaction accounts is extended for two years. Participation in this unlimited coverage is no longer optional and no separate premium payments are required.

- <u>Title IV — Regulation of Hedge Fund Advisers and Others</u>.

Hedge funds and private equity funds are subjected to SEC registration, disclosure and regulation requirements, and changes are made to the "accredited investor" standard to exclude value of an investor's principal residence. This latter provision could have an impact on an institution that seeks to raise capital through a private placement.

- <u>Title V — Insurance</u>.

A Federal Insurance Office is created within the U.S. Treasury Department, although a national insurance charter was not included as part of the legislation. The purpose of this Office is to monitor the insurance industry to identify issues that might contribute to systemic risk and to recommend to the Financial Stability Oversight Council designation of any insurer that should be regulated by the Federal Reserve Board under Title I.

- <u>Title VI — Bank and BHC Regulatory Improvements</u>.

A moratorium is imposed on Industrial Loan Corporations, credit card banks, and trust banks owned by commercial firms for a three-year period. The Federal Reserve is given oversight of functionally regulated non-bank subsidiaries of bank holdings companies, and the Fed is required to examine those subsidiaries engaged in activity permissible for a bank according to the same standards, manner and frequency that would be applied to a bank. The Fed is given authority to issue capital standards for bank and thrift holding companies, and those capital standards are to be "counter cyclical," meaning that more capital will be required in good economic times and that capital levels may be allowed to decrease during worsening economic times. This latter requirement seems problematical.

This Title now codifies the requirement for a holding company to be a source of strength for its depository institution subs, which has long been the policy of the Federal Reserve Board and other regulatory agencies.

Other provisions of Title VI require financial holding companies to be and remain "well capitalized" and "well managed" in order to retain the financial holding company status and engage in extended activities. The "no prior approval" provision of the Bank Holding Company Act for acts that are financial in nature is preserved for acquisitions of up to $10 billion. A potentially beneficial provision will allow de novo interstate branching so long as the state where the branch is to be located will allow a bank chartered in that state to open such a branch. This provision became effective on July 21, 2010 and represents an opportunity for banks that seek to have a presence in a neighboring state.

Limitations are placed on charter conversions for institutions that are under some form of enforcement order, requiring both the institution's present and proposed regulator to agree to the charter conversion. The definition of "covered transaction" is expanded for transactions between a bank and its affiliate to include the value of derivative transactions, repurchase agreements, reverse repurchase agreements, and securities borrowing/lending transactions. A new provision requires purchases of assets from, or sales to an insider of a bank to be on market terms and, if the value should exceed 10% of capital, requires prior board approval. Lending limits for national banks and state banks are modified to include derivative transactions, repurchase agreements, reverse repurchase agreements, and securities lending and borrowing transactions as part of the limited credit exposure.

A new provision allows for payment of interest on demand deposits beginning one year after enactment of this legislation. This provision could trigger a round of increased competition and increased expense to financial institutions. Finally, the "Volcker Rule" was enacted and generally prohibits banks from taking part in proprietary trading or holding an interest in a hedge or private equity fund. Investments and obligations of GMMA, FNMA, FHLMC and certain other GSE's are permitted, as are certain hedging activities. Up to 3% of Tier 1 capital can be invested in a hedge fund or private equity fund, subject to a limit of 3% of the fund's assets, whichever is less.

- <u>Title VII — Wall Street Transparency and Accountability</u>.

Derivatives are subjected to greater oversight by the SEC and the Commodities Future Trading Commission, and most derivatives are required to go through a clearinghouse process and be traded on an established exchange. Banks that sell interest rate swaps to loan customers and that use swaps to hedge their own interest rate risk do not fall under the classification of a swaps dealer.

- <u>Title VIII — Payment Clearing and Settlement Supervision</u>.

The Federal Reserve Board is given an enhanced role in supervising risk management standards for systemically important payment, clearing and settlement activities conducted by financial institutions and other persons. Provisions are included which allow a "financial market utility" to have access to the Federal Reserve discount window.

- Title IX — Investor Protections.

  This Title provides certain reforms to the governance and operations of the credit rating industry, and requires companies that sell asset-backed securities to retain a portion of the risk associated with those securities (e.g., 5% of the credit risk). There are certain exemptions provided for qualified residential mortgages and other low-risk loans.

  Certain changes will have an effect on executive compensation. For instance, shareholders of publicly traded companies are given a non-binding "say on pay" vote on the pay packages provided to senior-most executive officers. Additional requirements are imposed on the independence of compensation committees and a "clawback" requirement is imposed if compensation is paid based on inaccurate financial information. Limits are placed on incentive compensation if regulators perceive those programs to be excessively risky, and financial institutions with assets in excess of $1 billion will be required to report on the structure of all incentive-based compensation arrangements.

  The SEC is authorized to grant shareholders proxy access in order to nominate directors of publicly traded companies, and those companies will be encouraged to split the role of Chairman and CEO, or else explain to shareholders in proxy materials why one person occupies both roles. Whistle-blowers are provided with both rewards and greater protection, and publicly traded companies with assets of less than $75 million in capital are granted an exemption from the auditor attestation requirements of the Sarbanes-Oxley Act § 404(b).

- Title XI — Federal Reserve System Provisions.

  This portion of the legislation is designed to ensure that emergency lending by the Federal Reserve Board in the future is aimed at providing liquidity and cannot be used to bail out failing financial institutions. Increased collateral requirements are imposed for loan transactions, and the Government Accounting Office is given the authority to review credit facilities established by the Federal Reserve Board. A one-time audit by the GAO of the financial assistance provided in the recent credit crisis is authorized, and a legislative-based mechanism is created whereby the FDIC can guarantee obligations of solvent institutions during periods of economic distress.

- Title XII — Improving Access to Mainstream Financial Institutions.

  The Treasury Department is given authority to provide incentives and support for financial institutions to encourage offering more traditional products and services (low cost small loans, low fee deposit accounts; financial education and counseling, etc.) to persons not previously served (the non-banked and under banked).

- Title XIII — Pay It Back Act.

  This provision reduces TARP authorization from $700 billion to $475 billion and prohibits new TARP programs. It also requires that proceeds from the sale of FNMA, FHLMC and FHLB obligations and securities acquired by the U.S. Treasury Department be used for deficit reduction.

- Title XV — Miscellaneous Provisions.

  This brief Title simply requires the U.S. Executive Director of the IMF to take steps to ensure that IMF loans to countries whose debt exceeds their GDP will be repaid and that loans which are unlikely to be repaid will be opposed.

- Title XVI — Contracts.

  This Title provides that certain swaps required to be exchange traded will not be treated as Section 1256 contracts under the Internal Revenue Code which requires covered contracts to be marked to market and any gain/loss recognized.

Obviously, the foregoing is a very brief synopsis. This legislation will form the basis of numerous new and complex regulations, and the banking industry will undoubtedly discover many additional important provisions tucked away in the 2000 plus page legislation. Obviously, we will all be alert for the many changes that are to occur.

(Ed Wilmesherr)

RECENT LEGISLATION ESTABLISHES BUREAU OF CONSUMER FINANCIAL PROTECTION

Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed by President Obama on July 21, 2010, establishes for the first time a Bureau of Consumer Financial Protection within the U.S. Department of Treasury. This Bureau (BCFP for short) is an almost totally independent entity, the sole focus of which is going to be upon consumer protection. The BCFP now has virtually all of the rule-writing authority with respect to regulations that address consumer credit, products and services. The scope of its authority encompasses all "financial products or services" which takes in virtually everything that a bank does for a consumer customer.

THE BCFP

The Bureau will be headed by a Director who is appointed by the President and confirmed by the Senate for a term of five years. Elizabeth Warren, a Harvard professor and long-time consumer advocate, is one of the front-running candidates to be appointed as the Bureau's first Director. Ms. Warren has often expressed the opinion that the banking industry and Congress have long enjoyed a cozy relationship to the detriment of consumers. Should she be appointed, it appears likely that she will usher in a period of staunch consumer protection initiatives.

The BCFP is divided into five divisions: an Office of Research, a division devoted to collection and tracking of complaints, an Office of Fair Lending, an Office of Service Member Affairs, and an Office of Financial Affairs for Older Citizens. Each of these five divisions will be separately staffed and charged with their own set of responsibilities. Although the Office of Fair Lending can be counted upon to be the most aggressive, each of the other divisions will undoubtedly develop and enforce their own initiatives to protect the segment of the consumer population that falls within their sphere of responsibility.

MISSION OF BCFP

The BCFP's stated mission is to ensure that consumers have access to markets for financial products and services and that those markets are fair, transparent and competitive. Further, the Bureau is charged with ensuring that consumers are provided with timely and understandable information and are protected from unfair, deceptive or abusive acts and practices, as well as discrimination.

PRIMARY FUNCTIONS

The legislation lists the following primary functions for the BCFP:

- Conducting financial education programs;
- Collecting, investigating and responding to complaints;
- Collecting, researching, monitoring and publishing information relative to the market for consumer financial products and services;
- Supervising for compliance and taking necessary enforcement action; and
- Issuing rules, orders and guidance with respect to consumer financial laws.

COLLECTION OF INFORMATION

The BCFP has the authority to gather information regarding the organization, business conduct, markets, and activities of banks and other covered persons. Banks and others can be required to file annual or special reports or answers in writing to specific questions and provide specific information as needed for the Bureau to fulfill its mission. Banks and others should expect that the amount of statistical information they are required to collect and report will increase significantly and that this data will be used both for purposes of writing new regulations, as well as examining for issues such as discriminatory loan origination and pricing practices.

SUPERVISORY AUTHORITY

The BCFP has direct supervisory responsibility for banks larger than $10 billion. Banks under that number will continue to be examined by their prudential regulator; however, the prudential regulator must provide all reports, records, and documentation related to examinations to the Bureau on a timely and continual basis. Thus, the Bureau will have access to any report of examination or financial condition made by the FDIC, the OCC, or the Federal Reserve. Although the legislation provides that your regulator "may" furnish any report voluntarily to the Bureau, it is clear that each of the bank regulatory agencies will feel pressure from the Bureau to report and to be aggressive in their enforcement of consumer protection laws and regulations.

What emerges from the legislation is something of an MOU for the bank regulatory agencies, similar in effect to what was put in place by FinCEN with respect to the Bank Secrecy Act. The regulatory agencies must report violations to the Bureau, and the Bureau is charged with notifying the regulator of its recommendation for appropriate action to be taken. Upon receiving such a recommendation, the regulator is required to provide the Bureau with a written response within sixty days.

MISCHIEF

The legislation contains a number of miscellaneous provisions that have the potential to be troublesome in their implementation. For instance, the Bureau can take any action necessary to prevent "unfair, deceptive or abusive" acts and practices. The definitions of the terms "unfair," "deceptive" and "abusive" are very general and could be applied to any of a number of products and services that a bank offers. The legislation further requires that disclosures in consumer contracts must, at a minimum, use plain language, contain a clear format, be easily readable and succinct in explaining information. For many years, consumer advocates have lobbied for "plain English" contracts and disclosures. The Bureau may, for the first time, make real progress towards implementing such a requirement. New combined Truth-in-Lending and RESPA disclosures may be required. And there is a new requirement that banks make information available to consumers, upon request, concerning any product or service that the consumer has obtained from the bank. Standardized formats for responding to such consumer requests will be developed.

PRESERVATION OF STATE LAW

The new federal statute preempts any inconsistent state laws or regulations; however, the legislation clearly provides that a state law is not inconsistent simply because it provides greater protection to a consumer than federal law does. This opens the door for state legislatures to adopt legislation that may be more protective of state residents than the federal statutes that banks are familiar with. Also, a state Attorney General can bring a civil action in any state or federal court to enforce any regulation related to consumer protection, state or federal.

ENFORCEMENT POWERS

The BCFP can conduct investigations of potential violations by any covered person, and will have authority to issue subpoenas, demand documents and conduct discovery. A new special Cease-and-Desist order is provided which can go into effect on a temporary basis simply by service upon a bank. The Bureau's enforcement powers include rescission or reformation of contracts, refund of monies, restitution, payment of damages, public notification requirements, limits on activities, and civil money penalties.

CIVIL MONEY PENALTIES

Similar to other federal statutes that provide for civil money penalties, this new legislation creates a three-tier CMP assessment procedure. The first tier, which applies in the case of any violation, provides for a penalty of up to $5,000 per day. The second tier applies in the case of reckless violations and allows a CMP of up to $25,000 per day. The third tier, which applies to knowing violations, could see penalties of up to $1 million per day. These penalty amounts will be adjusted according to the size of the bank, the severity of the violation, etc.

DURBIN AMENDMENT

This Amendment affects the Electronic Funds Transfer Act and requires that interchange transaction fees charged by an issuer of credit/debit cards with respect to electronic debit transactions be "reasonable and proportional to the cost incurred by the issuer with respect to the transaction." These costs can be adjusted by any amount necessary to provide for fraud prevention. Issuers with less than $10 billion in assets are exempt, and merchants are allowed for the first time to provide discounts for cash, check or payment card transactions. This Amendment is widely expected to cost banks of all sizes a significant portion of the profits derived from such interchange fees.

MISCELLANEOUS

The BCFP is given the authority under this legislation to restrict the use of consumer arbitration agreements. It is widely assumed that they will do so. The Act provides whistle-blower protections for employees that report violations committed by a financial institution, and there is even the prospect of criminal referral to the Department of Justice if criminal activity should be involved.

The creation of the BCFP is a game changer. The unintended consequences flowing from the creation of this new Bureau could have a significant impact on a bank's profits, its operations, its Board of Directors and senior management, and a bank's business model as a whole. Serious consideration will need to be given to staffing of the compliance function within a bank and the amount of support which that function will require in the years to come. Obviously these are matters that we will continue to track on a routine basis and address through the Bank Group.

(Cliff Harrison)

THE MORTGAGE REFORM AND ANTI-PREDATORY LENDING ACT

If you are looking for an example of the type of laws and regulations which will be proposed by the newly created Bureau of Consumer Financial Protection, look no further than the Mortgage Reform and Anti-Predatory Lending Act which was enacted as Title XIV of the larger financial regulatory reform legislation discussed elsewhere in this newsletter. This particular Act was incorporated into the Senate version of the reform legislation as a compromise with the House of Representatives, and it attempts to address certain of the perceived problems in the mortgage loan origination process which contributed to the recent subprime mortgage crisis.

As with much corrective legislation, there is a great deal more detail here than is probably necessary. And many of the practices it attempts to correct were not engaged in by the vast majority of community banks. For instance, this Act prohibits the payment of yield spread premiums or incentive compensation based on terms other than the size of a loan originated. It requires mortgage loan originators to verify that a borrower has the "reasonable ability to repay." This determination of ability to repay will have to be verified by significant income and other borrower-related information, thus complicating the loan origination process.

Limitations are imposed on certain transactions to refinance an existing mortgage loan, including limits on points and fees, interest rate and balloon payments, among others.

A product called a "qualified mortgage" is created with certain rate restrictions, limits on points and fees, and debt-to-income limits. That "qualified mortgage" must be offered to a consumer before any alternative mortgage products are presented. If the consumer chooses the "qualified mortgage," other alternatives cannot be presented.

Certain products or practices are restricted or prohibited, e.g. single premium credit insurance, mandatory arbitration clauses, and most prepayment penalties.

Additional disclosures are required for mortgage loans, including periodic billing statements or payment books.

These amendments are changes to the Truth-in-Lending Act, and the civil penalties provision for violations of TILA are doubled. In addition, the statute of limitations for bringing civil actions for violation of TILA is extended to three years. The consumer is allowed a defense and/or offset in foreclosure for any damages resulting from violations of these mortgage loan consumer protections, such as the ability to repay requirements.

As with all changes to TILA, extensive regulations interpreting and expanding the statutory provisions can be expected. The Act requires the BCFP to issue regulations within 18 months to become effective no later than 12 months after issuance. Quite obviously, the mortgage loan origination process will be significantly altered. Unfortunately, this may be only an example of the many ways in which bank services and products will be impacted.

(Virginia Wilson)

FINAL GUIDANCE ON INCENTIVE COMPENSATION

The Federal Reserve, OCC, FDIC, and OTS recently joined together to issue final Guidance on Sound Incentive Compensation Policies (the "Guidance") in an effort to prohibit bank executives and other employees from taking unnecessary risks which may be harmful to the long-term safety and soundness of the bank.

The Guidance applies to senior bank executives who are responsible for the oversight of the bank's activities, individual employees who may expose the bank to material risk, and groups of employees who, alone, may not expose the bank to material risk, but may do so collectively. An employee may expose the bank to material risk if the employee's activities are "material to the organization or are material to a business line or operating unit that is itself material to the organization." An employee may expose the bank to risk even if the employee's transactions are subject to approval prior to consummation. No category of employee is exempt from the Guidance, but tellers, bookkeepers, couriers and data processing employees are not likely to expose the bank to material risk. The determination of covered employees should be made on a case-by-case basis at each individual bank.

Just as no exemption for specific employees is provided for in the Guidance, there is also no exemption for any category of compensation. For instance, there is not a specific exemption for all 401-K, profit sharing, or ERISA plans. However, the Guidance does note that plans that base compensation solely on the bank's overall performance will not likely provide employees, other than senior bank executives, with incentives to take unnecessary risks. While golden parachutes are not prohibited by the Guidance, the Guidance encourages banks to carefully review such vesting arrangements and the potential impact on safety and soundness.

The Guidance uses a principles based approach that may be adapted to each bank according to its size, complexity, and needs. All banks are managed differently, so a "one size fits all" approach would be ineffective. The Guidance takes into account the differences in compensation systems of small and large banks and reduces the burden of compliance for small banks while setting forth specific requirements for Large Banking Organizations (LBOs).

Incentive compensation systems should: (1) balance risk and financial reward in a manner that does not encourage employees to expose the bank to unnecessary risks; (2) be compatible with the bank's internal controls and monitoring processes; and (3) be supported by the bank's corporate governance and monitored by the board of directors.

Principle 1- Balance

A balanced incentive compensation plan factors in both the risks and benefits of an employee's activities as well as the effect on the bank's overall safety and soundness. The bank should take into account the following types of risk: credit, market, liquidity, operational, legal, compliance, and reputational.

There are four methods, or "balancing features," that are currently being used by banks to balance risk and reward in incentive based compensation systems. They are: (1) risk adjustment of awards; (2) deferral of payment; (3) longer performance periods; and (4) reduced sensitivity to short-term performance. This list is not exclusive and the factors may not always need to be applied separately; they may be combined as necessary. Further, each method has pros and cons and may be more effective when applied to one specific set of circumstances than to another. The bank should tailor its use of balancing methods to its specific employees and operations. A brief description of each method is below.

Risk adjustment of awards is accomplished by adjusting the amount of an incentive compensation award for an employee based on the amount of risk that the employee's activities may pose to the bank. The deferral of payment method is accomplished by delaying payment beyond the completion of an employee's performance period and adjusting that payment to reflect any losses that become known during the employment period. Similarly, increasing the length of time of an employee's performance period will allow for the realization of the risks associated with an employee's activities to occur prior to payment. The "reduced sensitivity to short-term performance" method is accomplished when the bank reduces the rate by which an employee's compensation increases as an employee achieves higher levels of performance.

Every bank, its employees, and its operations are subject to different risks among its various operations and employee types; therefore, compensation systems may vary widely among organizations. Just as risks vary among organizations, they also vary among employee types or job categories. The bank must separately review incentive compensation arrangements for all categories of employees.

The bank must communicate the effects of a balanced compensation plan with all appropriate employees. Employees should understand how they may be compensated and informed of the risks associated with their specific employment activities and how those risks may be used to adjust their compensation.

Principle 2- Effective Process and Controls

Banks must have processes and controls in place that support the development and monitoring of balanced compensation systems. Risk-management personnel and other appropriate personnel (such as human resources and finance) should have input into the development and implementation of the necessary processes and controls because the development of incentive compensation systems requires an understanding of all organizational risks, including compliance risks. The level of monitoring that is required will depend on the size and complexity of the bank. The bank should maintain the documentation used in the development, implementation, and monitoring of incentive compensation processes into other compliance reviews.

Compensation systems should be designed so that an employee is rewarded for reaching a performance goal, but also so that when goals are not met, compensation is reduced. The compensation for risk-management and control personnel should not be based substantially on the performance of the bank unit that they are responsible for reviewing, but should be based on the achievement of goals associated with their specific job functions.

Principle 3- Strong Corporate Governance

The bank's board of directors has the ultimate responsibility for ensuring that the bank's compensation systems are balanced and do not create safety and soundness concerns. This responsibility includes the direct approval of the compensation of senior executives, the review of the bank's compensation by analyzing data in reviews and reports, and acquiring knowledge of, experience in, or access to expertise in risk management and compensation practices in financial institutions. The required knowledge or experience in risk management or compensation practices of financial institutions may be held collectively as a board or may be obtained through use of outside counsel or another advisor. This knowledge may also have been gained directly from a director's experience as a board member. Smaller banks may not find this specialized knowledge and expertise necessary.

The board must pay close attention to incentive compensation arrangements for senior executives. If senior executive compensation packages include a "clawback" provision or some deferred payment plan, then the board should review the provision and determine whether the provision has been triggered and appropriately executed.

The bank should disclose appropriate amounts of information regarding its compensation systems and methods of control to its shareholders. The shareholders may monitor the compensation plans and take actions as necessary to restrain compensation arrangements that may encourage inappropriate risk taking.

The Guidance became effective immediately. Bank management, human resources, finance and compliance personnel should become familiar with the Guidance. Existing incentive compensation plans should be reviewed and any necessary adjustments made. Any new incentive compensation plans should be developed following the principles outlined in the Guidance. The bank's board of directors should review and approve the overall design and operation of incentive compensation plans and should directly approve and monitor incentive compensation arrangements for senior management.

(Memrie Fortenberry)

MRCG QUARTERLY MEETING TO BE HELD ON AUGUST 19, 2010

The MRCG will hold its Quarterly Meeting on August 19, 2010, at the Mississippi Sports Hall of Fame & Museum Conference Center, 1152 Lakeland Drive, Jackson, Mississippi. Registration will begin at 9:00 a.m. with the Quarterly Meeting to begin at 9:30 a.m..

During the August Quarterly Meeting, we will discuss the Dodd-Frank Wall Street Reform and Consumer Protection Act including the new Bureau of Consumer Financial Protection, the Mortgage Reform and Anti-Predatory Lending Act, Fair Lending Initiative we are about to begin, and the regulators new guideline on incentive compensation.

As always, the dress code for this occasion is casual, and lunch will be provided. We ask that you fax or e-mail your registration form attached with this copy of the *Quarterly Report* to Liz Crabtree no later than **Friday, August 13, 2010** so that arrangements for lunch can be finalized. We look forward to seeing you there.

(Cliff Harrison)

MRCG COMPLIANCE CALENDAR

10/01/08 – Electronic Disclosure Regulation effective	**02/22/10** – Reg. Z implementing changes to open-end credit and credit card accounts under Credit Card Act effective
11/01/08 – Red Flag Guidelines compliance mandatory	**02/27/10** – Reg. CC disclosure changes effective
01/16/09 – RESPA Servicing Transfer Disclosure revised	**04/01/10** – Escrow requirements effective for site-built homes
07/30/09 – Reg. Z early disclosures for dwelling secured loans effective	**06/01/10** – Unlawful internet gambling enforcement regulation compliance date.
08/20/09 – Reg. Z changes on time to make payments on open-end accounts effective	**07/01/10 –**Reg. E changes for ATM and debit card overdrafts
08/20/09 – Reg. Z changes on notices of changes in terms on credit card accounts effective	**07/01/10** – FFIEC Accuracy and Integrity Guidelines effective
10/01/09 – Reg. Z higher priced mortgage loan regulations effective	**08/19/10** – MRCG August Quarterly Meeting
10/01/09 – Reg. Z servicing practices regulations effective	**08/22/10** – Reg. E rules on gift certificates and gift cards effective
10/01/09 – Reg. dwelling secured advertising disclosures changes effective	**09/16/10 –** MRCG Steering Committee Meeting
10/01/09 – HMDA changes for reporting rate spreads on higher priced mortgage loans effective	**10/01/10** – Escrow requirements effective for mobile homes
10/01/09 – Reg. Z HOEPA changes on verification of repayment ability effective	**10/01/10** – S.A.F.E. Act regulations effective
11/20/09 – Reg. Z disclosures on transfer of mortgage loans effective	**11/18/10** – MRCG November Quarterly Meeting
01/01/10 – RESPA GFE and HUD-1 disclosure changes effective	**01/01/11** – Risk-based pricing rules effective
01/01/10 – Reg. DD changes on disclosure of OD fees and providing balance information effective	
02/14/10 – Reg. Z disclosures on private education loans effective	