COMMUNITY BANKING EXCELLENCE

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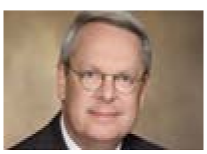
Interview with a Community Banking Professional



Mark Williamson
President
High Point Bank

Q: High Point Bank is a family-owned bank. Has that offered special advantages to your bank during the recession? If so, what are they? Any disadvantages?
A: High Point Bank is fortunate. We were founded in 1905 and since then we have had very patient capital behind the bank. Our shareholders are in it for the long haul, so they are not looking at the numbers exclusively from quarter to quarter. Additionally, our shareholders have been very smart in their appointment of the Board of Directors. The bank is blessed to have a very capable, smart and patient Board at the helm.

If there are disadvantages, it is that we have an abundance of capital. However, we are unwilling to accept the dilution of our stock. In other words, we can't use our stock as currency in order to grow through acquisition. Therefore, we intend to continue to grow organically into the Triad region.

Creditors' Rights

Top 10 Bankruptcy Truths Bankers Should Know
by Rayford K. (Trip) Adams III

Bankers confront the bankruptcy world regularly. It can be a world of somewhat unfamiliar, if not confusing, concepts and terms. Unfortunately, it can also be a world fraught with risk associated with taking actions (or not taking actions) that run afoul of the rules or jeopardize the bank's rights against the borrower. Here are a few of the "truths" that bankers need to keep in mind in the bankruptcy world.

1. The automatic stay is, well, automatic.
The automatic stay goes into effect automatically (no order is issued!) from the moment that the petition is filed, even at 3:07 a.m. on a Sunday morning. Any collection action that is taken after the filing of the case is technically a violation of the automatic stay, even though the bank is without actual notice of the filing of the case.

2. The automatic stay is broad and

Q: What do you think the community banking industry will be like in the next ten years?
A: Well, I am not very good at predicting the future, but it is my belief that there will be a lot fewer community banks in ten years. I also think there will be less branch offices. However, the remaining branches will be more important. They will be less about transactional activities and more strategic, supporting all lines of business - in our case, business and mortgage lending, trust and investment services and insurance.

Q: You recently attended the North Carolina Banker's Association Washington Caucus. What was your primary take away from it?
A: It was a pretty depressing trip. My biggest take-away is how some in Washington believe that every problem can be fixed through more legislation and regulation; although it is not surprising. It only serves to make the community banks weaker and damage the entrepreneurial spirit of the bankers. Community banks did not cause the problems, but are definitely bearing the brunt of the "cure."

Q: What do you enjoy most about being a community banker?
A: Despite what Washington says or tries to do, I clearly believe that community banking is a high calling. We are a fundamental grass roots part of our community economy. My dad was a community banking executive, and I am proud to follow in his footsteps.

Q: As a whole, what do you think community banks are doing right? Where are they falling short?
A: Doing right. We are meeting the credit needs of our neighbors and small businesses. But equally important, community bankers do a great job supporting their communities financially and through supplying a volunteer base for community programs and non-profits. The bankers I know work hard to make their communities a better place for everyone.

Falling short. It is pretty clear that community banks need to do a better job of telling their story. We do so much good in our communities. Community bankers are not Wall Street, and we should not allow the media or the government to paint us with the same brush as those on Wall Street.

Q: What are the best opportunities for growth of community banks?
A: Small and medium-sized businesses and institutions need a "banker" more than they need a bank. Community banks need to be sure that they have qualified, caring and smart people who know the businesses of their customers and provide their customers a direct person to contact. They need to do what they do best, provide financial solutions and serve the needs of individuals and small and medium-sized businesses.

probably covers whatever the bank has already done or wants to do soon.
The automatic stay is the great equalizer: it gives the debtor relief and breathing room (at least temporarily), and it levels the playing field among the creditors by stopping the first-come-first-served, "winner takes all" collection scheme of state law. Therefore, the automatic stay is intentionally broad and applies to all actions to collect debts, perfect liens, attach property, repossess property, setoff accounts, etc.

Read the full article on our website.

Regulatory

The Consumer Finance Protection Bureau: What Community Banks Need to Know

by R. Scott Adams

A creation of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. Law 111-203 ("Dodd-Frank Act"), the Consumer Financial Protection Bureau ("CFPB") is charged with regulating consumer lending activities of financial institutions and, in partnership with state attorneys general, enforcing numerous federal consumer protection laws. Despite recent assurances by CFPB Director Richard Cordray that smaller community banks and credit unions will not face unnecessary regulatory burdens, it is important for bankers in such institutions to understand how the CFPB alters the regulatory landscape.

I. STRUCTURE, PURPOSE AND ENFORCEMENT

Previously, agencies charged with enforcing various consumer protection laws were spread across the government, including Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the FDIC, the Department of Housing and Urban Development, and the National Credit Union Association. (Pub. Law 111-203, § 1061; 12 U.S.C. § 5581.) Some of the 17 laws previously enforced by these

Q: What should be the focus of community banking?
A: Gathering local deposits and meeting the credit needs of their customers and those in the community.

Q: How is High Point Bank addressing the onslaught of new regulations being issued?
A: Like every other bank, we are adding compliance staff and will continue to do so for the foreseeable future. The cost of the onslaught of excessive regulation puts pressure on earnings and requires us to grow simply to absorb the increased cost burden of compliance. Each bank will have to determine its magic number for being big enough to absorb the increased cost of regulation. It is going to force a lot of community banks to grow or merge with others; otherwise these regulations can put you out of business.

Q: Bankers and banks (regardless of the size of the institution) are being demonized by politicians and the news media. I think you would agree that this is unfair but what can and should community bankers do to rehabilitate their image?
A: Community banks need to continue to donate time to the community, volunteer and be deeply involved with their neighbors. Community bankers usually do not like attention, but we all need to be a little less modest. Most bankers do things because they are the right things to do, not necessarily to get attention. But now community bankers need to get their stories out and let everyone know how they positively impact their communities. It really is critical to draw a distinction between the public's perception of Wall Street and what we do as community bankers.

Q: If community banks would substantially decrease in number, through consolidation, failure, etc., what effect, if any, do you think it would have on the communities that they presently serve?
A: It really hurts those smaller communities when their local community bank merges or goes away. We have seen it time after time. Those small towns are not as vibrant without the support of a local bank.

Q: What would you tell someone wants to be a community banker?
A: I would tell them that they need to truly believe in the purpose of community banks - to serve small businesses and neighbors; otherwise you will not survive because it is challenging and tough work. One has to be committed to it, because like I said, it is a calling. You have to keep your spirit up and press forward.

High Point Bank was founded in High Point, NC in 1905 by a small group of local businessmen. Since then, it has grown to 8 full service branches plus a commercial office in Greensboro, N.C. As of December 31, 2011 it had assets in excess of $792 million. Finally, its financial strength is showcased in that it did not accept TARP funds.

agencies that will now be enforced by the CFPB include the Fair Debt Collection Practices Act ("FDCPA"), the Fair Credit Reporting Act ("FCRA"), the Equal Credit Opportunity Act ("ECOA"), the Truth-in-Lending Act ("TILA"), and the Real Estate Settlement Procedures Act of 1974 ("RESPA"). (§ 1002; 12 U.S.C. § 5481.)

Read the full article on our website.

Regulatory

The JOBS Act Provides Opportunities for Community Banks

by Hugh B. Wellons

The U. S. House of Representatives overwhelmingly passed the JOBS (Jumpstart Our Business Startups) Act Tuesday, March 27, after receiving it from the Senate. The President signed the bill April 5, 2012. The JOBS Act is best known for its crowdfunding provisions, which I will address shortly, but it also is a boon to many community banks. Community banks often are formed with many investors. Some state regulators encourage maximizing local shareholders, because local bank shareholders often do business with the bank they own. Banks and holding companies become "public" and must file with their federal regulator (banks) or the SEC (holding companies) when the shareholders of record exceed 500. Even banks with fewer shareholders at formation, over time, through sales and inheritance, find themselves over the 500 shareholder limit. Accordingly, a large number of community banks and bank holding companies must file periodic reports with either the SEC or the federal regulator, in addition to call reports and other filings with the state and federal regulator. As public companies, Sarbannes Oxley and difficult provisions in Dodd Frank, in addition to SEC regulations, apply to these banks. The added regulatory burden for this can be hundreds of thousands of dollars each year. Adding this on top of a stagnant economy, low interest rates, declining real estate values and a soft lending market, makes it very difficult for community banks to turn a profit.

THE DRIVE-THRU

Mr. UNTERMYER: Is not commercial credit based primarily upon money or property?
Mr. JP MORGAN: No, sir; the first thing is character.
Mr. UNTERMYER: Before money or property?
Mr. JP MORGAN: Before money or anything else. Money cannot buy it.
Mr. UNTERMYER: So that a man with character, without anything at all behind it, can get all the credit he wants, and a man with the property can not get it?
Mr. JP MORGAN: Because a man I do not trust could not get money from me on all the bonds in Christendom.

I recently finished The House of Morgan by Ron Chernow. It contained this exchange between JP Morgan and Samuel Untermeyer, which took place at the Pujo Hearings in 1912 and 1913. Morgan's comments struck me because of his emphasis on character, which is that variable that many community banks, who know their customers, are best situated to understand and take into account (obviously, I am not advocating against the use of strict underwriting requirements too). This understanding and flexibility is what community banks can bring to the table for their customers.

Good News for Community Banks

The JOBS Act increases the threshold for SEC registration and periodic filing from 500 shareholders of record to 2,000. Banks approaching the 500 shareholder threshold will be relieved. In addition, banks now have room to maneuver if they were considering a bank combination but did not want the transaction to create a public company, with all the associated fees and added compliance. Perhaps more important, the Act increases the threshold for SEC deregistration ("going dark") from 300 shareholders of record to 1200. This permits any community bank (or holding company) that can certify that it has fewer than 1200 shareholders of record to deregister as a public company. The process is simple, and we will go through that in our next newsletter.

Read the full article on our website.

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