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NORTH CAROLINA BANKING COMMISSION

Transcript of Regular Meeting

Wednesday, May 20, 2009

Second Floor Hearing Room

Office of the Commissioner of Banks

316 West Edenton Street

Raleigh, North Carolina

9:00 a.m.

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Application by Four Oaks Bank & Trust Company, Four Oaks Johnston County, North Carolina, for authority to merge and be the survivor of merger with Nuestro Banco, Garner, Wake County, North Carolina, and to operate in all the locations authorized by Four Oaks Bank & Trust Company and Nuestro Banco	Geoffrey Adams Ayden Lee	6 8
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P R O C E E D I N G S

9:00 a.m.

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Chairman Cowell: Good morning, everybody.

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I'm Janet Cowell. I am chairing the Banking Commission.

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Banking Commissioner Joe Smith is also here. First we'll

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have Deb Williford call the roll.

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Ms. Williford: Honorable Janet Cowell.

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Chairman Cowell: Here.

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Ms. Williford: Larry Chavis.

9

Mr. Chavis: Here.

10

Ms. Williford: Cal Cunningham.

11

Mr. Cunningham: I'm here on the telephone.

12

Ms. Williford: Scott Falmlen.

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Mr. Falmlen: Here.

14

Ms. Williford: Ana Flynn.

15

(Interruption by beep at 9:00 a.m.)

16

Ms. Williford: Ana Flynn.

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Ms. Williford: Marlowe Foster.

18

Mr. Foster: Marlowe Foster is on the

19 line.

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Ms. Williford: John Freeze?

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Mr. Freeze: Here.

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Ms. Williford: James Frye.

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(No response.)

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The Commissioner: Ana Flynn is present she

25 says; right?

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1 Ms. Williford: Zander Guy.

2 Mr. Guy: Here.

3 Ms. Williford: Maurice Hull.

4 Mr. Hull: Here.

5 Ms. Williford: Sammy Jackson.

6 Mr. Jackson: Here.

7 Ms. Williford: Harold Keen.

8 Mr. Keen: Here.

9 Ms. Williford: Donald Lineberger.

10 Mr. Lineberger: Here on the phone.

11 Ms. Williford: Jane Long.

12 Ms. Long: Here on the line.

13 Ms. Williford: Van Phillips.

14 Mr. Phillips: On the phone.

15 Ms. Williford: Raymond Pierce.

16 Mr. Pierce: Raymond Pierce is on the
17 phone.

18 Ms. Williford: Brenda Pollard.

19 Ms. Pollard: Here.

20 Ms. Williford: Bob Southerland.

21 Mr. Southerland: Here.

22 Ms. Williford: James Woodard.

23 (No response.)

24 Chairman Cowell: All right. Thank you. We
25 appreciate those of you who came in person and also those

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1 who joined on the phone.

2 (Interruption by beep at 9:01 a.m.)

3 The Commissioner: There's one other.

4 Chairman Cowell: Is there one other person
5 who just joined?

6 Ms. Flynn: This is Ana Flynn.

7 The Commissioner: Okay.

8 Chairman Cowell: Okay. Thank you.

9 Mr. Frye: This is Jim Frye. I had
10 joined as you were calling the roll, and I didn't know if
11 you had gotten me or not.

12 Chairman Cowell: Great. Is there anybody
13 else who just joined?

14 Mr. Hull: This is Maurice Hull by
15 telephone.

16 Chairman Cowell: Great. Okay. Thank you.
17 We have a new member on the commission, Mr. John Freeze.
18 Welcome.

19 Mr. Freeze: Thank you.

20 Chairman Cowell: Mr. Freeze is from Randolph
21 County. So we welcome him. We have the statement of
22 economic interest that he filed, and the findings of that
23 statement were that they did not find an actual conflict or
24 a potential conflict for Mr. Freeze. So I can pass that on
25 for the record.

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1 Next, of course, we have our conflict of interest
2 statement. Does anyone have a known conflict of interest or
3 appearance of conflict with any item on the agenda for today?

4 Mr. Keen: For item number 1, Harold
5 Keen.

6 Chairman Cowell: Okay. So Mr. Keen for item
7 number 1. Okay. We can have that on the record, and you
8 can recuse yourself for that vote. Is there anything else?

9 (No response.)

10 Chairman Cowell: Okay. Next, do we need to--
11 well, that's item 2. Okay. So the first item on the agenda
12 is the Application by Four Oaks Bank & Trust Company of
13 Johnston County for the authority to merge and be the
14 survivor of the merger with Nuestro Banco of Garner, a Wake
15 County, North Carolina bank, and to operate all the
16 locations authorized for Four Oaks Bank & Trust Company and
17 Nuestro Banco. Do we have speakers that need to be sworn in?

18 (Whereupon,

19 **GEOFFREY ADAMS**

20 **AYDEN LEE**

21 were sworn collectively and made the following presentation:)

22 Chairman Cowell: Do you want to introduce
23 yourself?

24 Mr. Adams: Okay. Good morning, Madam
25 Chair and members of the commission. My name is Geoffrey

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1 Adams, and I'm with the Smith Anderson law firm here in
2 Raleigh. We appreciate the opportunity to address the
3 commission this morning.

4 Smith Anderson represents Four Oaks Bank & Trust
5 Company in connection with its application to merge with
6 Nuestro Banco, a North Carolina based bank in Wake County.
7 The proposed merger, if approved, will be pursuant to
8 Section 12 of Chapter 53 of the North Carolina General
9 Statutes.

10 By way of background, Four Oaks Bank & Trust
11 Company is a North Carolina member bank headquartered in
12 Four Oaks. As indicated in the Commissioner's order, Four
13 Oaks is a profitable, financially sound, and satisfactorily
14 managed institution.

15 The proposed merger, if approved, will strengthen
16 Four Oaks' capital position and enhance its ability to serve
17 the Hispanic community. As required under applicable state
18 law, Four Oaks filed an interagency bank merger application
19 with this commission.

20 Commissioner Smith has entered an order approving
21 Four Oaks' application subject to conditions set forth in
22 the order. We respectfully request that this commission
23 adopt the Commissioner's findings of fact and conclusions of
24 law, approving the application.

25 Ayden Lee, President and CEO of Four Oaks, would

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1 now like to briefly address the commission. Also we'd be
2 glad to answer any questions you have. Thank you.

3 Mr. Lee: Madam Chairperson, members
4 of the commission, thank you for allowing us to come in this
5 morning. Again, I'm Ayden Lee, President and CEO of Four
6 Oaks Banks. We look forward to this opportunity. It will
7 provide us with some much needed tier 1 capital and also
8 allow us the opportunity to expand our operations more with
9 the Hispanic community we currently have. It would also
10 allow them, obviously, more liquid capital for their
11 shareholders. So we think it would be a good mix.

12 We look forward to the opportunity. We already
13 have an operation in Garner. This will help us become more
14 profitable there more quickly. We'll be happy to address
15 any questions you have.

16 Chairman Cowell: Great. And before we go to
17 questions, I just want to remind the folks on the phone, if
18 you do have a question, if you could just identify yourself
19 as you speak that would be very helpful for the note taker.
20 Do we have questions for Mr. Adams or Mr. Lee?

21 Ms. Pollard: Just a quick question. Do
22 you have in place staff that can address questions if
23 there's a language barrier? Has that been discussed?

24 Mr. Lee: Everyone right now at
25 Nuestro Banco except for one are multilingual. In just

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1 about every location we have, we also have people that can
2 interpret Spanish very well.

3 Ms. Pollard: Okay.

4 Chairman Cowell: Are there any other
5 questions?

6 Mr. Frye: Madam Chair, this is Jim
7 Frye. I move approval of the application.

8 Ms. Pollard: Second.

9 Chairman Cowell: Okay. Are there any other
10 comments before we vote?

11 (No response.)

12 Chairman Cowell: All right. If not, all in
13 favor of the motion say aye.

14 Commission Members: Aye.

15 The Chairman: All opposed?

16 (No response.)

17 The Chairman: Great.

18 Mr. Lee: Thank you, everyone.

19 Mr. Adams: Thank you.

20 Chairman Cowell: Thank you for coming. The
21 second item on the agenda is the minutes of the regular
22 meeting of March 18th. Does anyone have any corrections or
23 changes?

24 (No response.)

25 Chairman Cowell: If not, do we have a motion

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1 to approve them?

2 Mr. Southerland: Move approval.

3 Mr. Keen: Second.

4 The Chairman: Okay. All in favor say aye.

5 Commission Members: Aye.

6 The Chairman: All opposed?

7 (No response.)

8 The Chairman: All right. Thank you. They
9 have been approved as submitted. Agenda item number 3 is
10 the Human Resources Committee report. And who will be
11 presenting that report?

12 The Commissioner: Ana Flynn.

13 Chairman Cowell: Okay. So Ana Flynn will be
14 presenting that report.

15 Ms. Flynn: Thank you. This is really a
16 report of the compensation subcommittee, I think is our
17 official title. And it is in reference to bonuses for the
18 March 2008 bonus cycle.

19 Typically bonuses for that cycle would have been
20 paid earlier. Early 2009 I think was the targeted date, but
21 due to the state budget the payoff was deferred. And
22 because a new cycle began in January and it will run until
23 the end of the 2009 year, not wanting to divert further and
24 overlap the new cycle, the Commissioner and HR and the
25 office of the Commissioner asked the subcommittee to review

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1 the 2008 bonuses. We met on May 14th.

2 And to refresh you on the methodology of the
3 bonus policy, employees together with their supervisor
4 develop dashboards at the beginning of the cycle in which
5 they set out the goals that they have for the cycle. These
6 are monitored throughout the year or cycle, if it's a
7 shorter period, and then at the end of the cycle are
8 reviewed by the supervisor, together with the employee, to
9 see where things came out.

10 The supervisor then recommends a level of bonus
11 from 1 to 3, and those recommendations are reviewed by
12 management and then presented to the subcommittee for final
13 review. So as I said, we met on May 14th, reviewed task
14 dashboards.

15 And this year, in response to the subcommittee's
16 recommendations last year that the incentive and the bonus
17 policy as a whole be used to reward stretched goals and
18 above and beyond performance rather than mere fulfillment of
19 usual job duties, HR implemented some additional documentary
20 and administrative vehicles to describe and measure these
21 efforts that fit the above and beyond standard. So
22 employees who achieved performance that fits that standard
23 received the highest bonus level recommendation for this
24 cycle that we were reviewing.

25 The results were that out of 97 staff members

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1 eligible, 74 were awarded bonus recommendation. 18 were
2 not, or got zero for bonus recommendation. The 74 that did
3 get bonuses were distributed in a bell-shaped distribution
4 curve, as we had anticipated could happen.

5 22 were at level 1, which represents a bonus of 1
6 percent compensation, 35 at level 2, which translates to a 3
7 percent bonus, and 22, which is the highest, level 3,
8 represents a 5 percent compensation bonus. The total in
9 dollars for these 74 people represent \$188,676.

10 Given the documentation that we reviewed and what
11 is a relatively small total amount, the subcommittee felt
12 that the recommended bonuses were merited, and therefore we
13 approved them. And we now bring them to you to report on it
14 and answer any questions that you may have about this
15 particular bonus cycle.

16 Chairman Cowell: Ana, this is Janet Cowell.
17 So this is an informational item only; correct?

18 Ms. Flynn: Correct.

19 Chairman Cowell: And then Commissioner Smith,
20 do you want to just give a little context on the State
21 Banking Commission and whether you operate under the Office
22 of State Personnel, et cetera?

23 The Commissioner: Yes. This is--I'd be happy
24 to do that. As longer serving members may remember, the
25 Office of the Commissioner of Banks was released from

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1 portions of the State Personnel Act I think two or three
2 years ago.

3 We have been working since then on working to
4 have a--first of all, what that helped us to do as a main
5 point was to have more flexibility in setting base pay,
6 which has allowed us to properly compensate a number of our
7 people and has also assisted our hiring of new people. It
8 also allowed us, in fact encouraged us, to use an incentive
9 or bonus compensation system.

10 We worked a long time on that. The dashboard
11 process--Lord, it took--it seems like 10,000 years. It took
12 only a year or a year and a half to develop, but it's been a
13 developing art form.

14 We've had one payout--where I think again, older
15 members may remember the Yankee pitcher, Ryan Durant, who
16 was a relief pitcher, who would come in. His first pitch--
17 he had pop bottle glasses. And his first pitch--he would
18 warm up, and then his first pitch right before the guy came
19 up to bat would be to throw one over the backstop.

20 So on our first attempt we paid out fairly
21 significant bonuses, I think two years ago. Those I think
22 were merited. But the subcommittee that Ms. Flynn has been
23 so gracious to chair--which by the way includes Bonnie
24 Hancock from N.C. State, Jim Gilleran, who's a prior
25 executive, manager of the Office of Thrift Supervision and

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1 California Commissioner of Banks, who just happens to live
2 in Raleigh. Bob Southerland has been involved in it. I
3 hope I haven't--I'm not slighting--I can't remember who
4 else---

5 Ms. Flynn: Marlowe Foster.

6 The Commissioner: Marlowe Foster has been
7 involved. And so we've had a truly independent group give
8 us feedback, and the feedback they gave us was the
9 distribution was wrong. They didn't criticize the amounts,
10 but the distribution was wrong. So we went back to the
11 drawing board.

12 And for the year--the half year, which ended
13 December 31 of '08, we did what we were told to do or
14 suggested we do. We could have paid out under our plan in
15 early 2009. Because we had a new administration and because
16 there were obvious fiscal concerns to the government
17 generally and because a number of our fellow state employees
18 were going to go through the--what we thought was the
19 grinder, the employees--we made a management decision to
20 defer payment of these amounts through the end of the fiscal
21 year. We just felt it was right not to pay it out soon.

22 But it's the strong feeling of our management--
23 Debbie Petersen is here, who is our head of HR, who has done
24 a great job in coordinating this--that this was a promise we
25 made our employees and that we should keep it and that we

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1 should keep this process going. I mean sooner or later
2 we're going to get out of the ditch, and the incentive plan
3 is a piece of something we've worked very hard to implement.

4 So the concept of all this is that--if you--your
5 chance to approve it or disapprove it actually will be in
6 the budget because this amount will not be paid in this
7 fiscal year, the fiscal year ending June 30. If approved,
8 and if I don't get in a dutch with my friends with the
9 executive branch, who I'm going to have to talk to about
10 this, we will pay it early in July, in the new fiscal year.
11 It will be one of our first expenditures.

12 I think it's an appropriate expenditure. And I
13 think the amounts--frankly, the amounts are lower than I
14 would like them to be, but to be candid right now, our
15 budget constraints are such we don't have much more to pay.
16 There's not much more we can pay.

17 And I think it was felt by management that it's
18 more important as a matter of principle to keep the promise
19 we made and to keep the program going, even with relatively
20 small bonus amounts, than not to have it at all. And I say
21 this to you as the one person in this agency who cannot get
22 a bonus, so I'm disinterested from that perspective.

23 So I'd be happy, and I know Debbie is here and
24 she'd be happy, or Elizabeth Hammond will speak to you later
25 about our financial situation, but we'd be happy to answer

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1 any questions that you may have.

2 But thank you for asking, Madam Chairman, because
3 this is the end of a long and winding road, and so--well,
4 actually it's not the end. This is part of a long and
5 winding road. We have really good people right now, and I
6 think it's important to the extent we can have incentives to
7 recognize their contributions. They're doing fabulous work,
8 and I just think it's important.

9 Mr. Guy: Did I understand that the
10 committee has recommended approval of this?

11 Ms. Flynn: That's correct.

12 The Commissioner: Yes.

13 Mr. Falmlen: Can I just ask how employees
14 of the commission are impacted by the governor's furlough
15 plan or pay reduction plan or any of those issues?

16 The Commissioner: We're impacted. We have--I
17 believe this is correct. We will receive the--we will be
18 subject to the same pay reductions and comp time as other
19 state employees. And by the way, we feel we are state
20 employees.

21 I have tried to--I've made it clear to the new
22 governor and her staff, and I'd like to make it clear to you.
23 We don't think--I think we are special, and we have a great
24 feeling of sympathy, all of us, for our fellow employees,
25 who are going to really go through a tough time.

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1 I will this say to you: I think this bonus plan
2 to me is a way, to be candid, to make up furlough amounts.
3 If we can do that for now, that's what I'd like to do if we
4 can.

5 Ms. Flynn: And in addition, I think,
6 Commissioner, that they do accomplish that. But as HR has
7 pointed out, and I think it's correct, these are amounts
8 that were promised. They were really earned in 2008 before
9 all this turmoil started.

10 The Commissioner: Right.

11 Mr. Southerland: Ana--Bob Southerland here--
12 you know, you and I chatted about this. My only concern is
13 the use of the word "bonus," and you came back with there
14 was some problem with using the word "performance." I
15 personally feel the word "performance" is a better word to
16 use. I think "bonus" today has a terrible connotation,
17 particularly among the banks.

18 And Joe, you alluded to the fact that we made
19 promises, and I certainly do believe we ought to keep them,
20 but that's what John Thain told Ken Lewis also, and Mr.
21 Paulson. I just feel like the word is a bad word to use
22 today, particularly over at the Banking Commission, and the
23 Banking Commission would suffer. Ana, could you share with
24 us what the problem is with using the word "performance"?

25 Ms. Flynn: There is no problem with the

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1 word "performance."

2 Mr. Southerland: You mentioned something in
3 an e-mail.

4 Ms. Flynn: Performance compensation is
5 usually another euphemism used for bonuses. I have no
6 problem with calling it performance compensation, but I
7 don't think it accomplishes much.

8 Mr. Southerland: Okay.

9 The Commissioner: And also--I'm not sure.
10 Does the plan require--I'm not sure the plan says "bonus,"
11 does it, or does it?

12 Ms. Flynn: I think it's called
13 performance management and bonus policy. That's the title
14 of it. You could call it performance compensation if you
15 want, but again, it doesn't do anything.

16 Mr. Southerland: Okay.

17 The Commissioner: I think the most important
18 thing is to pay the money if we can.

19 Ms. Pollard: Do you need--this is Brenda
20 Pollard. Do we need on a motion on---

21 Chairman Cowell: (interposing) No.

22 Ms. Pollard: We don't. Okay.

23 Mr. Foster: Brenda, before you do that--
24 this is Marlowe--I just had a quick question. Commissioner,
25 do you think--just in terms of--I mean I think it's the

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1 right thing to do. I'm just thinking about politically,
2 political pushback and criticism and that sort of thing.
3 What's your sense of that, and do you have any concerns
4 about that?

5 The Commissioner: Of course I have concerns,
6 but as I said--and I thank you for asking. I mean that's an
7 important question. What I intend to do--what's going to
8 happen is, this is included in our budget for the coming
9 fiscal year. So if you approve the budget for the coming
10 fiscal year, you approve this payment. We just didn't want
11 this to be something we slipped through in line item number
12 422,000.

13 When the budget--if the budget is approved with
14 the payments in it, I'll go to talk to my colleagues in the
15 governor's office at state budget and I'll talk with them
16 about it. We're not going to do this in the dark of the
17 night. We're not going to publicize it in terms of having a
18 press release. But my intention is to pay it if we can pay
19 early rather than late.

20 And I will say that to date--and this--they
21 have--the current administration is doing what it can, I
22 think, to keep us--preserve our independence and not invade
23 our money, but they're in a heck of a mess. So we're not
24 going to do something that's going to put a stick in the eye
25 of the administration.

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1 I mean if you approve it, we may still not be
2 able to pay it, but I will get on my--it's not like often,
3 like Henry Paulson, I get on my knees, but this may be the
4 time. But we have to go through that process.

5 Chairman Cowell: This is Janet Cowell. We
6 have also five employees in the state treasurer's--in the
7 investment staff, our chief investment officer and the four
8 deputies. They passed up a performance bonus plan for them
9 last year, and so of course the timing is going to be
10 sensitive.

11 But I'm interested in this discussion because I
12 mean it's a similar challenge; right? We've had vacant
13 positions for years because we could not recruit people at
14 the salaries in the financial services sectors of
15 government, and I think the Banking Commission has struggled
16 with that.

17 We have struggled with that.

18 And yet you have this incredible context in which
19 you're trying to do performance based pay. So we're going
20 to have the same challenge in the treasurer's office, for
21 fewer people, though. We only have five people that are
22 covered by the plan.

23 The Commissioner: I must say also, if I could,
24 to the--particularly on Jones Street, I mean I think there's
25 great appreciation for what we've done on a number of

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1 fronts, this agency: on the foreclosure prevention front,
2 on the mortgage supervision front, and on banking. There's
3 a deep concern in the General Assembly about the health of
4 our banks.

5 So to the extent that all of these payments are
6 related to any of those, all those three things--I mean I
7 think we have--Lord knows we need good people to manage the
8 pension fund.

9 So I do think there are some skilled positions
10 where a bonus really is--and again, we're not asking--if we
11 were asking--if I were going for ten times this number, then
12 of course that would be another thing, but this is not a
13 huge amount of money. That's the other thing.

14 Mr. Keen: Well, Mr. Commissioner and
15 Madam Chair, I think in both of your cases, both for the
16 investment staff over at retirement and for your people
17 here, the tough times are when it's obvious that you need
18 the kind of professionals that you have to have.

19 The Commissioner: Right.

20 Mr. Keen: And if you can't stand up in
21 the tough times and say, "There's a real need here and we
22 need to compensate these people to get the quality of people
23 and retain the quality of people that we need," then I don't
24 believe you can do it during the good times.

25 The Commissioner: Exactly.

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1 Mr. Keen: So I think you have to go
2 forward, and you have to--because it's right, number one.
3 And you have to say in tough times, "Here's proof that we
4 need these kind of individuals." I think that's true for
5 your staff over there too.

6 Mr. Cunningham: This is Cal Cunningham.
7 This is a question. I understood this is an informational
8 item. Are we voting on this at this point, or are we going
9 to
10 put---

11 Chairman Cowell: (interposing) No.

12 Mr. Cunningham: ---this back in the budget?

13 Chairman Cowell: Yeah. This will be in the
14 budget, so we can move on. It's been a good discussion,
15 though. Again, I appreciate it. But if we're ready to move
16 on, we can go on to the report of the Commissioner of Banks.

17 The Commissioner: All right.

18 Chairman Cowell: Okay. And before you start,
19 I want to tell everybody that you were elected at the
20 Conference of State Bank Supervisors. He is now the
21 national president, chair---

22 The Commissioner: Chairman.

23 Chairman Cowell: Chairman?

24 The Commissioner: Right.

25 Chairman Cowell: ---of that organization, and

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1 gave his speech yesterday in Washington, D.C. So we are
2 appreciative that our state leader is also a national leader
3 in this area.

4 The Commissioner: Thank you very much. The
5 second prize is two years as chairman. We had it--by the
6 way, our convention had been scheduled for San Diego,
7 California, and then events occurred. So it was scheduled--
8 we had it at the Seidmand Center, which is named for Bill
9 Seidmand, who, may he rest in peace, just deceased, which is
10 a perfectly serviceable FDIC, Federal Deposit Insurance
11 Corporation, conference center.

12 Chairman Cowell: It's not San Diego.

13 The Commissioner: Yeah. The reception was
14 milk and cookies, but you had to bring your own cookies, but
15 anyway, thank you very much. It's an honor. And if I seem
16 a little more diffuse than usual it's because I got back
17 last night at 8:30.

18 So because my friend and colleague, Mark Pearce,
19 Chief Deputy Mark Pearce, has got to complete negotiations
20 of a very important piece of our legislative package for
21 this year, I'd like him to go first and discuss briefly the
22 foreclosure issue and any other mortgage supervisory things
23 he'd like to do, and then he's going to have to leave to do
24 battle with somebody. I forget. And also tell them about
25 Beazer.

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1 Mr. Pearce: Thank you. I appreciate the
2 Commissioner allowing me to go first so I can go do battle
3 with unnamed parties. First, on the foreclosure project, I
4 won't go into history. Everyone is familiar, I think. I'm
5 happy to talk with some of the new members about the project
6 off line.

7 But over the last six to eight months, we have
8 been working really hard to try to prevent as many fore-
9 closures on subprime loans as we can. We can't prevent them
10 all, but we're going to prevent as many as we can, which
11 until the last year or so has been really the driver of
12 increased foreclosures in North Carolina.

13 It was a bit of a slow start in seeing the
14 evidence of success. We thought we were making a
15 difference. We put together 25 counseling agencies and
16 designed a computer database in the course of six weeks to
17 accept foreclosure filings from over 100 servicers and had
18 it all working with the Administrative Office of the Courts.

19 It was a very complex program involving the bar
20 association. We trained 400 volunteers to help review loan
21 documents, so it's a really massive undertaking and
22 partnership. I just want to give a quick update.

23 We sent a report to the General Assembly a month
24 ago, and if you haven't gotten that, I want to make sure you
25 do. I think we sent it out to you, but if we didn't, I can

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1 make sure you get a copy. But as of the latest report of
2 success, we have had 800 foreclosures that we can confirm
3 that have been prevented as a result of our program.

4 Over 3400 homeowners have gotten free financial
5 counseling and assistance so far. We think a lot of those
6 3000 are going to end up having the foreclosure prevented
7 because the history is that's a pretty successful--a pretty
8 high success rate. So the program is going absolutely
9 fantastic as far as I can tell.

10 We've got a great team of people who've got a big
11 wipe board in their office where, you know, they keep
12 changing the number every time--almost on the hour. I
13 actually worry that they're spending too much time looking
14 at the number, but it's just been fantastic.

15 We've started getting some nice stories in the
16 media that, you know, we had nothing to do with, but people
17 who have had success. WRAL ran one last week, you know,
18 where a family had the miracle that they had been able to
19 prevent foreclosure, and we didn't even know about it until
20 we read their story online. So we do think it's having an
21 impact and doing some good work, and it's just a fantastic
22 team of people. Tami is here, so I'll say nice things about
23 her.

24 But we've had--we started out with about 25
25 counselors, and Tami has been managing that counselor rela-

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1 tionship. For 25 small nonprofits around the state, she's
2 been the point person for all of them to make sure that we
3 can help them find some money, help them get trained on the
4 program, and help them understand how our database works.

5 So not only has she managed those relationships,
6 but we are now up--probably by the end of this month we'll
7 have 34 counseling agencies. So we're continuing to try to
8 add capacity because we just think that there's still a big
9 problem out there.

10 Economically, it depends on how my math works,
11 but we think if you just took the 800 foreclosures prevented
12 to date and looked at the economic impact, both of
13 preventing losses in the financial sector and in keeping
14 home values from falling further, the total impact, as we
15 calculate it--we didn't come up with this calculation, but
16 we use it--is \$70 million of impact.

17 And just as a reminder, the budget that we
18 allocated--that you allocated last year for this project was
19 \$1.5 million, so we've got a pretty high impact leverage
20 ratio on this particular project. I'd be happy to answer
21 any questions on what we're doing.

22 Mr. Southerland: One question. Of the 800,
23 I'm assuming you have some debt reduction in the rewrite of
24 a loan. Tell me what the IRS has ruled on the imputable
25 income on debt reduction.

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1 Mr. Pearce: That's been a--and I
2 probably can't off the top of my head remember the exact
3 details. It's been the subject of a lot of debate in
4 Congress. And they passed something last year that would
5 enable, I think, if I'm right, where you don't get--you
6 don't have to pay taxes on that reduction of income for
7 certain types of loans, but maybe not all loans. So I know
8 there's been an ongoing debate about whether you had to pay
9 taxes on some portion of it or not depending on---

10 Mr. Southerland: (interposing) Well, the
11 reason I asked, I was just curious as to whether or not---

12 Mr. Pearce: (interposing) But I can get
13 you that.

14 Mr. Southerland: As these people are working
15 with them trying to help them, maybe it should be discussed
16 that we've got good news, bad news, a possibility. The good
17 news is your monthly payment is less. The bad news is you
18 may get a 1099.

19 Mr. Pearce: Right. And most of the time
20 in these deals the principal balance isn't getting reduced.
21 The interest rate is. And so a lot of times that doesn't--
22 it isn't driving a tax recognition.

23 The Commissioner: Tell them about Beazer.
24 Come on. Tell them about Beazer.

25 Mr. Pearce: We announced yesterday a

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1 settlement with Beazer Mortgage, which has been the subject
2 of a lot of attention, especially out in the Charlotte area,
3 where they agreed to refund \$22 million to North Carolina
4 homeowners. There are about 1200 of them that will get, you
5 know, roughly \$2,000 each.

6 We did an examination of them in 2007 and
7 partnered with the U.S. attorney's office on further
8 investigations of them. And we believe that they were
9 charging discount points, where--you know, a discount point
10 is something where you're supposed to pay a little bit of
11 money up front so you can get a lower interest rate.

12 Well, based on our analysis, when Beazer charged
13 a discount point, it didn't really lower your interest rate.
14 It actually was more like an origination fee that was just
15 going into Beazer's pocket.

16 And so we didn't think that--it didn't meet the
17 definition of a discount point, and North Carolina has good
18 law actually on what a discount point is. So we were able
19 to use that law and get Beazer to refund those discount
20 points to consumers.

21 There is still actually an ongoing federal
22 criminal investigation on Beazer, which hopefully will wrap
23 up in the near future. We had actually worked with them to
24 try to have our two trains reach the station at the same
25 time. But we eventually concluded that couldn't happen, so

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1 we went ahead and worked with Beazer to release those
2 refunds now.

3 The Commissioner: And finally, I think there's
4 one other settlement we've had. I'm going to say this
5 because you have to go now. But before you do, you need to
6 tell them about the settlement we had with a large national
7 mortgage company that was bought by a large national bank.

8 As you know, in the legislation, the General
9 Assembly directed us to essentially give \$600,000 to
10 community groups for counseling, but you've trumped that.
11 The Countrywide settlement trumped that, and I think you
12 might say a word or two about that if you would. I hate to
13 put you on the spot, but---

14 Mr. Pearce: Sure. Well, I'm always
15 happy to talk about success of the team.

16 The Commissioner: Yeah. I was going to say
17 this is a good story. We need to talk about it before the
18 budget, okay?

19 Mr. Pearce: So last fall we reached an
20 agreement with Countrywide, which was acquired by Bank of
21 America. And as a result of the settlement, Countrywide
22 refunded roughly \$11 million to North Carolina homeowners
23 for some problems we had seen in some Countrywide loans.

24 And in addition, at the same time Bank of America
25 made grants of \$2 million to the same counseling agencies

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1 that we're working with on the foreclosure project. And so,
2 you know, not only did we directly fund these counseling
3 agencies of \$600,000, but we were able to work with Bank of
4 America to have another \$2 million to go to these counseling
5 agencies to really help them build capacity.

6 We know that for some of those agencies, it has
7 made the difference in them being able to do this work or
8 not. A lot of these agencies are funded by a local United
9 Way and local contributions, and across the board those all
10 went down last year. And so having additional funding
11 coming in right now really helped some of them actually
12 survive. So we think that was good. We also managed to
13 recover for our investigation work \$1.6 million in that
14 particular case.

15 We can't always--you know, my view of this sort
16 of thing when I'm talking to companies is we need to make
17 sure consumers get paid back first. We always prioritize
18 that. It's always nice when we're able to cover our
19 investigative costs as well, but sometimes we have to give
20 that up in order to make sure consumers are made whole. In
21 this case it worked out. Is there anything else you want me
22 to talk about?

23 The Commissioner: No. That's it. Those are
24 all your successes; right?

25 Mr. Pearce: That's about it.

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1 Ms. Pollard: I have a quick question back
2 to the foreclosure project. You have 25 counselors. You're
3 going to increase that. Are those sprinkled across North
4 Carolina or concentrated?

5 Mr. Pearce: There are 25 agencies. The
6 actual number of counselors is 65 or 78. I can't remember
7 what the exact number is lately. We actually know since we
8 started the program, the capacity has increased probably 70
9 percent.

10 The counselors are distributed across the state.
11 We've tried to--in some areas like Charlotte, we have two or
12 three counseling agencies because it's a big city. But
13 we've tried to reach all parts of the state, from Wilmington
14 to the northeast corner to the mountains. So we think we've
15 got counselor availability in every county in the state.

16 Ms. Pollard: Okay.

17 Ms. Hinton: We have 150 counselors now.

18 Mr. Pearce: 150.

19 The Commissioner: Thank you.

20 Mr. Pearce: Thank you.

21 Chairman Cowell: I have to chair another
22 committee, so I'm kind of double booked this morning. So
23 I'm going to hand it over to Commissioner Smith. Before I
24 go, Derwin Dubose, from the treasurer's office, will be
25 presenting to you on the Bank On initiative. So he'll be

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1 here in my stead and I appreciate it, and I will hand it
2 over.

3 The Commissioner: Fine. Thank you.

4 Chairman Cowell: Thanks.

5 The Commissioner: The commission may wish to
6 designate one of its own to act as chair or you may allow me
7 to just continue if that's okay. I mean it's up to you.
8 I'm your servant.

9 (No response.)

10 The Commissioner: Okay. Thank you, Madam
11 Chairman.

12 Chairman Cowell: Thanks.

13 (Chairman Cowell exits at 9:38 a.m.)

14 The Commissioner: We do need to discuss the
15 budget, and that was the next item on the agenda. So
16 Elizabeth Hammond, who is our Director of Finance, will be
17 presenting that. Elizabeth, please.

18 Ms. Hammond: Good morning, Commissioner
19 and commission members. I am Elizabeth Hammond, and I am
20 the Director of Finance. At the March commission meeting we
21 discounted bank assessments by 50 percent. Today I would
22 like to review our current financial position as well as
23 review our budget for the coming fiscal year. In your
24 agenda you will find under tab 3 a copy of the March 31st,
25 2009 financials, which I will review first.

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1 Our projected cash balance at the end of the
2 fiscal year is expected to be \$2.5 million as a result of
3 the discounted bank assessments. You will note that our
4 total expenditures are in line with our projections,
5 averaging \$1.25 million per month, with our ending cash
6 balance at \$6.3 million for March.

7 And I just reconciled our April figures, which
8 you do not have a copy of, which I will forward to you if
9 you're interested, and our cash balance at the end of April
10 is \$5.1 million. This still puts us in line to maintain our
11 funds at \$2.5 million or two months' reserve as of June
12 30th. If you have any questions or comments concerning our
13 monthly financial reports, I'd be happy to answer them.

14 (Pause.)

15 Ms. Hammond: Now we're ready to present
16 our budget where we will review the revenue sources
17 available to our agency. If you will turn the page, the
18 annual budget is the next page under tab 3.

19 Each year the annual assessments for our bank and
20 consumer financing licensees are reviewed and the timing of
21 payments are approved in accordance with the provisions of
22 General Statute 53-122. Both bank and consumer finance
23 assessments are based on the company's prior year end assets
24 because we actually bill in arrears.

25 Previously we've billed bank assets on a semi-

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1 annual basis, with half of the statutory rate billed in
2 September and the remaining balance adjusted as needed
3 during the March commission meeting. The semiannual billing
4 process has helped us better manage our cash reserve.

5 The full statutory bank assessment rate for the
6 fiscal year 2009-2010 will produce just under \$9.4 million.
7 This is \$300,000 more than last fiscal year's total bank
8 assessments. We modified 53-122 two years ago so that we
9 would--as large institutions such as BB&T grow, it incre-
10 mentally makes their assessment less, so that it takes our
11 dependence off of the larger institutions as they grow much
12 bigger, and that has been very successful, which is why our
13 total assessment has only grown by \$300,000.

14 However, this year we are requesting our ability
15 to collect the bank assessments monthly or as needed to meet
16 our cash flow requirements and maintain appropriate
17 reserves. We're still unsure of our ability to preserve our
18 current cash balance because of the statewide financial
19 crisis. Therefore we may need additional flexibility in
20 collecting bank assessments this year.

21 My plan is potentially to not have to collect it
22 monthly because that puts an additional burden on our
23 accounting divisions of our banks. I would love to
24 potentially look at collecting quarterly, but if I can at
25 least have the approval to collect monthly, then it just

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1 opens us up to do what we need to do to manage our financial
2 position.

3 Consumer finance assessments continue to be
4 billed annually during the first of the fiscal year at full
5 statutory rate. The consumer finance assessment rates for
6 the upcoming year are approximately \$400,000. This is
7 actually \$50,000 less than last year because we've lost
8 several consumer finance companies, the biggest being
9 Household, and that definitely has impacted our assessment
10 total.

11 In addition to assessment revenue, our agency
12 also collects fees from other regulated entities, including
13 application fees, renewal fees, exam fees, and inspection
14 fees, which are defined in the applicable statutes or rules.
15 These fees total just over \$3.7 million.

16 In addition, the last part of our revenue source
17 is a miscellaneous revenue. We have budgeted \$750,000 of
18 miscellaneous revenue. \$150,000 of that--we've actually
19 sold our online system to the state of Massachusetts, so we
20 are already expecting \$150,000 from the sale of that
21 software.

22 Therefore, total revenues, including all assess-
23 ments and fees, are projected at \$14.2 million. You'll see
24 a breakdown of all the revenues in the lower section of the
25 report, and if you have any questions on specific line

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1 items, I would be more than happy to answer any revenue
2 questions at this time.

3 The Commissioner: If I could comment a bit on
4 a few of the items in the budget, a number of things have
5 changed. We have tried this year to preserve the cash
6 balances that are essentially all bank money, which is
7 essentially what the law requires anyway, and we've gotten
8 good cooperation so far. Our cash balances have not been--
9 what should I say--appropriated. So we've tried to be good
10 stewards in that regard.

11 In the past we have been able to discount from
12 the bank rate, and that is not going to be possible in the
13 coming year, at least I can't promise it right now, and I
14 don't think it's likely, and there are several reasons for
15 that.

16 One is we've really run it down to the--I mean
17 we're down to the tread. We're down to the axle in terms of
18 reserves. In ordinary times this would not be the right way
19 to--this would not be prudent, but I think it is prudent
20 under the current circumstances.

21 We are funding a number of special programs that
22 will go at least another year, and we hope longer, if we can
23 afford them. I mean the foreclosure project you just heard
24 about is an investment by this agency, and by you, as a
25 commission, in the well-being of some of our communities

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1 really.

2 The beneficiaries ultimately in foreclosure
3 modification are the neighbors and the neighborhoods in
4 which people who would be foreclosed live. They are the
5 people who really benefit, and also town tax rolls.

6 We have been able to hire recently up a full
7 complement. We have the highest complement of people, which
8 I am somewhat uneasy about, being a light staff guy by
9 nature. But our examination staff this year, bank
10 examination staff, will do 60 examinations. That is
11 stunning. We could not have come close to that in any prior
12 year, and with high quality people.

13 So we are doing now lead examinations in our
14 largest banks, BB&T and First Citizens. For some of our
15 lead banks we're actually taking a lead role in some of the
16 work, which was unheard of in the past. So the money is
17 being spent in a way that I think is appropriate to our
18 mission.

19 I will say the other thing is this budget--I'm
20 very uncomfortable with all of this because I used to manage
21 the old-fashioned way. We had a cash balance. I managed--I
22 mean she would tell me all these--Elizabeth would tell me
23 all these things. I just keep looking at the cash balance.
24 If you don't have it, you don't spend it. And if my cash
25 balance is going--my reserves are going down, I'm spending

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1 too much, and so we've had to go into a new era.

2 And I will tell you now, this budget is what we
3 intend to do, but we will keep watching our revenues, and
4 there are a number of items in this budget that if we don't
5 have the money, we're not going to do them.

6 We've had a large debate internally about the
7 things that we have to do this year that we have not done in
8 the past, like the foreclosure project. The foreclosure
9 project is the biggest piece.

10 In the budget proposed we had a research contract
11 with UNC that does help us. If we don't have money--Pearce
12 knows. If we don't have money, we're not doing it. Web
13 site redesign, if we don't have money, we're not doing it.
14 I mean I can't remember--there are a bunch of other items.
15 I mean the things that don't move are salaries, basic
16 salaries, the rent, just the overhead, and that's it.
17 That's it. We are going to have to take revenue actions
18 this year.

19 Mark is aware that on the mortgage side, in the
20 House, we have gotten new powers from the General Assembly
21 to get paid back for our exam--to charge examination fees.
22 And the way we used to do in banks--I don't know about
23 banks, but certainly in the thrift industry, there used to
24 be bank examination fees. We're going to mortgage
25 examination fees now, so we're going to collect revenue for

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1 that.

2 We're selling our software to other states, which
3 is going to be a source of revenue. We may have some more
4 settlements, where we understand now that we do need to
5 treat--consumers need to get the money first, and we need to
6 be sure we recover our costs of investigation. There are a
7 lot of overheads this agency has been able to carry easily
8 in the past that we still have to carry.

9 We have a wonderful--Tami heads a consumer
10 finance group that I guarantee you is good for the banking
11 industry, good for the mortgage industry, and good for North
12 Carolina. It's not--I mean it doesn't generate revenue. It
13 provides service. So we have tried as hard as we can to be
14 good stewards.

15 I wish I could say I was going to give bonuses
16 this year. I'm going to have to--assuming you approve this,
17 I've got to write my friends, the presidents of the banks,
18 and tell them it's going to be the full ride this year.
19 We're probably not going to have a discount.

20 And to put that in context, I must say, if you
21 compare our full assessment with the OCC, Office of the
22 Comptroller of the Currency, or the OTS, the last time I
23 looked, our whole year's assessment was less than one-half
24 of their assessment. So we're not really--I mean it's a
25 rough year for banks, so every dollar is important. Believe

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1 me, I understand that. But we are not--what we do is not
2 expensive relative to an opportunity cost basis.

3 So I say this to you as your servant. You
4 obviously have the right to require amendments or to not
5 approve this. I will tell you that this budget has been
6 achieved after weeks of internal negotiation. I mean we
7 didn't--we used to just mark up the old one. Unfortunately
8 we can't do that anymore.

9 I think this agency is doing more--it's doing the
10 most it has ever done since I've been commissioner. We are
11 at the high point of our performance this very instant,
12 right now. And so yes, I'd ask you for your support. I
13 hope you'll approve it, but I understand it's other people's
14 money and you are my adult supervisors. So have a perfect
15 right to ask questions and to ask for changes.

16 Ms. Hammond: Before you approve it, I
17 wanted to go over some of the expenditures in the top
18 section of the upcoming fiscal year. The first line item
19 is salaries and benefits. We project expenditures based on
20 a full staffing basis.

21 This year we have increased our salaries line
22 item because of 15 new positions that we were granted last
23 fall. We consider the office fully staffed as the
24 Commissioner mentioned. However, we do still have four
25 vacant positions--seven vacant positions.

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1 We have not included any market adjustments to
2 base salaries or cost of living raises because we are not
3 expecting this to be an option as a result of the state's
4 fiscal emergency.

5 And the current legislation proposals that are
6 being considered, the likelihood of us actually having to
7 assess an across the board pay cut is very likely based on
8 the budget proposals that are coming out of the House and
9 the Senate. So that's why we didn't include any type of
10 raises in any of those figures.

11 As discussed with you earlier by the compensation
12 committee, the performance bonus I actually allocated at
13 \$200,000, which is a little bit over where the actual
14 numbers came in. This will obviously cover, as was
15 mentioned earlier, the bonus that was deferred from the
16 spring. We plan to pay it out in July.

17 Although our current performance cycle runs
18 through the calendar year, as Ms. Flynn was discussing, we
19 will consider those payments in next--not this coming fiscal
20 year but the following year's budget. So we will actually
21 do that analysis. And then based on our ability to make a
22 bonus recommendation, then we will make that determination
23 at that time.

24 The general expenses line item includes \$100,000
25 for background checks on licensees, and that's actually

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1 covered by a fee that's imposed on the applicant. There's
2 also \$140,000 for membership dues and subscriptions,
3 covering memberships, but also accreditation expenses to the
4 Conference of State Bank Supervisors. The banking side is
5 actually accredited, and this year we are working to get our
6 mortgage division accredited, which is a national accredita-
7 tion, and that is expected to cost up to \$20,000.

8 The IT consultant expense includes the expenses
9 of continuing modifications to the State Foreclosure
10 Prevention Project that we created, as well as modifications
11 to the mortgage licensing system because of changes as a
12 result of the S.A.F.E. Act legislation.

13 ITS, that's--ITS consolidation is happening
14 statewide. It is becoming very expensive, but it is some-
15 thing that we don't have the choice of whether we
16 participate in consolidation or not, so--however, I am
17 breaking that out as a specific line item so we can begin to
18 see just how much that consolidation expense will run us
19 yearly.

20 This year we're going to account for all travel
21 costs separately from training related travel so that we
22 will really be able to analyze how much doing the
23 examination and the required regulated travel runs versus
24 training, so that if we need to make potential budget cuts,
25 then we'll be able to analyze what can and can't be done

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1 there.

2 The Commissioner: And I think it's fair to say
3 on training, we will do more local, and probably do much
4 more in the way of online training. We have been slow to do
5 that, and I think that--and this is nationwide.

6 I mean the CSBS, of which I'm the chair, has a
7 separate foundation that does training, and they understand
8 now that this idea of traveling someplace pleasant to sit in
9 an air conditioned room is interesting, but you can sit in
10 an air conditioned room at home and get the stuff at 5:00 in
11 the afternoon in your house, and you don't have to do the
12 travel. So we're going to--we'll make savings there.

13 Mr. Falmlen: Is the slight overage in
14 this fiscal year for training because of the new employees
15 or because of turnover?

16 Ms. Hammond: We require all of our
17 examination staff to receive training. However, yes, that
18 increase in the training line item actually comes because we
19 have added 28 new employees since October--I believe that's
20 right--and most of them are examiners.

21 So especially when you get a new examiner on
22 staff, it requires more training to get them trained because
23 it's a three year training program. So there's a higher
24 training expense on the front end. And once we get them
25 experienced, then we kind of level to one training

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1 opportunity a year.

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Mr. Falmlen: And just a side question to
3 that: on the bonus scheme, the criteria, is there a
4 longevity, for lack of a better word? Is there a minimum
5 amount of time that you have to work at the commission to be
6 eligible for a bonus?

7

Ms. Hammond: You have to be a permanent,
8 full-time employee. So if you're in training status, you
9 are not eligible for a bonus.

10

Mr. Falmlen: How long is that period?

11

Ms. Hammond: Three years.

12

Mr. Falmlen: Okay.

13

Mr. Guy: Is there a total number of
14 examiners, field examiners?

15

Ms. Hammond: On the banking side, we have
16 54 examiners, and on the consumer finance side, we have
17 eight examiners, and on the mortgage--I can tell you if
18 you'll give me one minute--I want to say there's 18, but I
19 can give you a breakdown of those specifically. I've got it
20 here somewhere.

21

(Pause.)

22

Ms. Hammond: I'll follow up with you
23 after this presentation and get you the exact numbers, but
24 yes, we do have a breakdown of examiners, which is really
25 the majority of our staff.

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1 The last item I just wanted to point out was the
2 State Home Foreclosure Prevention Project. We're expecting
3 those expenses to run \$400,000 this year. That will cover
4 their salaries, the phone support system that we have--that
5 is a statewide system that we've set up--and the cost of
6 mailing over 10,000 letters per month.

7 The other two items that are below the
8 foreclosure prevention project are items that--we are
9 actually planning this year to meet monthly and review our
10 revenues versus expenditures.

11 And the research line item and the communications
12 line item, that will only be funded assuming that we
13 actually pull in the revenues that we have projected. So,
14 as Joe mentioned earlier, there are specific expenditures
15 that will be postponed until we can verify that we have the
16 revenue to cover those expenditures.

17 The Commissioner: And it's going to have to be
18 more than that because--don't believe--if you want to not
19 believe something, don't believe the \$7,000 number at the
20 bottom of the budget page. That will not happen. I mean
21 I'm still a cigar box accountant, so I'm still going to look
22 at what's in the cigar box.

23 I'm hoping we're going to start the year with \$22
24 million in the cigar box, and we'll be talking with each
25 other over time about where the cigar box ends up, because

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1 it ain't going to be 7 grand, I promise. So---

2 Ms. Hammond: (interposing) That's
3 assuming that we didn't begin the year with the \$2.5 million
4 for some reason. I'm not expecting that to happen.

5 The Commissioner: We have presented a balanced
6 budget, and this is consistent with what we're going to
7 present to legislative research, to the General Assembly,
8 which requires us to report to them, which is fine.

9 But as long as you understand there is
10 flexibility in this budget in the sense that the old cigar
11 box accountant is still going to be watching the cash
12 balance every month. And I'll be happy to discuss with you
13 over the year--as much pain as you'd like to share with me I
14 can share--but we will discuss how we're managing our
15 expenditures. There are certain expenditures we have to
16 make. Those we will make. Everything else is everything
17 else.

18 Mr. Falmlen: I just have one other
19 question. On the foreclosure project, why the big
20 difference between this year's figure and next year's?

21 Ms. Hammond: Last year we paid out
22 \$625,000 in one-time grants. That actually was to increase
23 their infrastructure, whether it was to add a new person or
24 add computers, or add whatever they needed to provide the
25 counseling services that we required.

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1 The Commissioner: Also we have broken out
2 their IT costs too.

3 Ms. Hammond: Yes. Also we created the
4 system in three months, and that was a fairly hefty expense.

5 The Commissioner: This has caused--this whole
6 exercise has caused terror in the ranks because I've
7 actually had to pay attention this year. It's been terrible
8 for them.

9 Ms. Hammond: These expenditures for the
10 coming year are estimated at \$14.2 million, which cuts total
11 expenditures from the previous fiscal year by \$1 million.
12 Using these figures, we've projected our cash balance for
13 year end 2009-2010 should remain at \$2.5 million, assuming
14 that the cash balance that we have will carry forward.

15 Because of a tight budget, management does plan
16 to meet monthly to make sure that we are where we need to
17 be. And if you have any additional questions on revenues,
18 expenditures, or any part of the budget, I'll be happy to
19 answer them now.

20 Mr. Guy: Did you say the \$2.5 million
21 will take care of two months? Is that what you said earlier?

22 Ms. Hammond: Uh-huh. It's two months.
23 We estimate that we spend about \$1.25 million a month.

24 Mr. Falmlen: I move approval.

25 Mr. Guy: Second.

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1 The Commissioner: It's been moved and seconded
2 that the commission approve the budget as submitted to you.

3 Is there any further discussion?

4 (No response.)

5 The Commissioner: Very well. All in favor
6 please signify by saying aye.

7 Commission Members: Aye.

8 The Chairman: Are any opposed?

9 (No response.)

10 The Commissioner: Thank you very, very much.
11 I promise, I promise, we'll spend it properly, and I've got
12 adult supervisors who will make me do that. So thank you
13 very much. Thanks to Elizabeth Hammond, who has done a--I
14 mean the level of financial reporting you all get now has
15 improved.

16 I mean we had a wonderful person who did it
17 before, but we've got somebody who knows how to--she thinks
18 like a businesswoman, which is good. Mac Chestnut will do a
19 report on our legislative situation, please.

20 Mr. Chestnut: Thank you, Commissioner, and
21 ladies and gentlemen of the commission. We have actually
22 only had three bills to this agency generated. I've kept an
23 eye on 20 others moving--or excuse me, 17 others moving over
24 there that could impact our agency.

25 Our big bill, the one that's most important, we

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1 think--well, it's actually two bills. Senate 668 amends the
2 banking law to allow banks to issue preferred stock and to
3 pay a dividend on that preferred stock under the Troubled
4 Asset Relief Program, TARP. In order to get federal
5 assistance, they had to--the bank had to sell preferred
6 stock to the treasury and pay a 5 percent dividend on that
7 stock. We wanted to clarify the statutory authority.

8 That has made it all the way through the process
9 in a very short period of time by legislative standards, and
10 is now sitting on the governor's desk awaiting a signature.
11 So we expect that to be signed perhaps as early as this week.

12 The Commissioner: And by the way, excluded
13 from it was the clause that the Commission did not want in,
14 which was regarding the resolution of banks. So you still
15 can share my pain if we have to resolve any more banks. I
16 welcome you.

17 Mr. Chestnut: And anytime you've got a
18 question about any of these laws, or if you want me to
19 circulate those reports, you just please let me know. And
20 I'm sure Ha has your e-mail addresses.

21 The Banking Commission--for new members, you may
22 not know this--but you act and serve as an appellate review
23 body. Hearings do begin before the Commissioner. It could
24 be an enforcement hearing. It could be an appeal because a
25 license application has been denied. And after that is

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1 heard, then the party, if they're not satisfied with it, can
2 appeal that decision to this body, and you actually serve as
3 a--pretty much essentially as an appellate court.

4 And we had been doing it right for 75 years and
5 still think we were doing it right, but two years ago the--
6 well, excuse me--about 14 months ago the Court of Appeals
7 said we weren't doing it right. They didn't understand it.
8 I said, "Well, read the law. You'll understand it." But
9 they didn't buy my argument, the Court of Appeals, and
10 remanded the Advance America decision back down to Superior
11 Court for further consideration.

12 And so I have tightened up that language,
13 clarified the appellate process. It's made it through the
14 Senate, through the House Financial Institutions Committee,
15 and is now sitting in the House Judiciary Committee. It may
16 be slowed down a little bit because some of you may that
17 know Representative Blue, who was chair of the J-II, was
18 sworn into the Senate yesterday.

19 I don't think it's going to be a problem. I
20 don't know who's going to replace him, but we'll hopefully
21 move that out of J-II within the next week and get it into
22 the House. There's been no controversy with the bill, and
23 all it does is clarify the appellate process for you and for
24 the court system as well. I don't see a problem with it on
25 moving very quickly.

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1 The big bill of the session I think would be
2 House Bill 1523, the S.A.F.E. Mortgage Lending Act. Federal
3 legislation required us to rewrite the Mortgage Lending Act.
4 We have the best mortgage lending act in the country, in my
5 opinion, and a lot of the federal law is based on our act.

6 But they did revise the federal law, and have
7 given the states, as us, up until June 30 to get our law in
8 line with federal law or we would actually lose regulation
9 to the federal government. They really don't want that and
10 we don't want it either. We have moved that bill in record
11 time through the House. It has now gone to the Senate, and
12 the beauty about that is the sponsor on the House side was
13 Representative Blue, who is now Senator Blue.

14 So we will keep that in high gear. We're hoping
15 to get it in the Senate Commerce Committee as early as next
16 Tuesday. We are negotiating the fine points with the
17 manufactured housing industry and with a couple other
18 groups. If we have to go with it like it is we will, but we
19 are attempting to always satisfy all parties that we
20 possibly can.

21 Again, I don't really see a problem. It's just,
22 you know, sometimes they move very slowly. Last week was
23 crossover, meaning bills had to get from one house to the
24 other or they were dead for the session, and it was a flurry
25 last week. It was just--we were all tired by last Thursday,

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1 believe me.

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 There are many other bills that I am watching
3 that could affect the agency. There are four different
4 proposals to rewrite the Consumer Finance Act. None of them
5 have proceeded. I'm told now that one of the consumer
6 finance bills will probably make it to a study to look at
7 North Carolina consumer finance, which is under the
8 jurisdiction of this agency.

9

 I guess the surprise of the session that we had
10 not anticipated was the possibility of regulating appraisal
11 management companies. There is a bill, House Bill 716 and
12 Senate Bill 829, Regulation of Appraisal Management. It
13 appointed the appraisal board to be the regulatory agency,
14 but I was given a proposal, a proposed community substitute,
15 about ten days ago that put it under this agency. I'm not
16 sure where that came from.

17

 The primary--the sponsor on the House side is
18 Brubaker from Randolph County, who's been a friend of this
19 agency for a very long time. Mark and I are meeting with
20 all of the stakeholders and with Representative Brubaker
21 this afternoon to kind of see why they're wanting us to do
22 it.

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We did not ask for it, and we would be delighted to ease it
24 along to somebody else, but sometimes you don't get that
25 choice over there.

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1 When they are as good to us as they are--and this
2 agency has a significant presence with the General Assembly
3 as having done things right and staying on top of things,
4 although we can go to any committee and all of a sudden
5 they'll ask Joe to stand up and comment on anything to do
6 with banking. We could be in a House education committee,
7 and he'll be asked to stand up and comment on banking.

8 It's been kind of an interesting session thus
9 far, but they're down to having to set a budget, so I guess
10 it's going to turn ugly kind of quickly. Are there any
11 questions from anyone? I'll be glad to try to answer
12 anything.

13 Mr. Guy: This, Mac, is more or less
14 to the Commissioner. In the event that that's done, and we
15 are responsible for handling that, is there any impact on
16 our budget?

17 The Commissioner: Well, that bill--actually
18 the good news about the bill is that it has money attached
19 to it. It has a fee schedule, which Mark Pearce tells me
20 after looking at it is sufficient to pay the marginal costs,
21 and also we would not hire additional staff for that. We'd
22 just treat it as marginal revenue. We just have to make do,
23 but the short answer is that would not hurt us financially.
24 There are other bills. The unfunded mandates we can't
25 afford anymore. But this one is--it's sufficient. Good

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1 question.

2 Mr. Chestnut: And we're not really sure.

3 This kind of came out of the clear blue on us as to why that
4 happened. We'll perhaps learn more about that later this
5 afternoon.

6 The Commissioner: Right.

7 Mr. Chestnut: I stay over there almost all
8 of the time from Tuesday through Thursday moving our things
9 along and keeping an eye out to make sure that somebody is
10 not throwing some pass that we don't want to catch. It's an
11 interesting process. If anyone has any other questions,
12 I'll be glad to try answer them.

13 Mr. Southerland: McNeil, the first one you
14 had up there on the preferred shares---

15 Mr. Chestnut: Yes, sir.

16 Mr. Southerland: That's to enable the banks
17 that accept stock money to comply with these efforts?

18 Mr. Chestnut: Yes, sir. And Joe can tell
19 you how many banks accept---

20 The Commissioner: (interposing) We've had
21 30-some that have. The banking law has some wonderful
22 provisions from 1931, with 1931 accounting in it, and it
23 makes it difficult in some situations for a bank to pay back
24 the TARP by preferred stock dividends, plus it was difficult
25 for our banks to issue preferred for years.

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1 The other--the second paragraph, though, is about
2 facilitating recapitalization of banks using preferred or
3 preference shares, and it's a forward-looking provision,
4 just to be sure. Lord knows what people are going to come
5 up with. You know how these things go, Bob. I mean people
6 come up with new wheezes all the time.

7 So I just wanted to be sure we had the capacity
8 to--we didn't want our existing banking law to get in the
9 way of a recapitalization that could help a bank get what it
10 needs to get through this mess.

11 Mr. Southerland: BB&T will just send theirs
12 back and not have to issue the preferred stock?

13 The Commissioner: Yeah, but there's also--I
14 think the thing to keep your eye on is private capital.
15 There's a lot of private equity that's interested in our
16 banks. And so I think that's the more--to me, almost the
17 more important piece. The TARP is one thing, and we could
18 talk about that all day. But the more important thing to me
19 is be sure we don't run off private capital, private
20 investors. Thank you. That's a good question.

21 Mr. Chestnut: Any further questions?

22 Ms. Pollard: Of the appeals---

23 Mr. Chestnut: (interposing) Yes, ma'am.

24 Ms. Pollard: ---you're tweaking which one?

25 Mr. Chestnut: Yeah. 53-92 says that the

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1 Banking Commission--it used to say they can appeal a
2 decision. Well, the Court of Appeals came out and said, "We
3 don't understand what appeal a decision means." I said,
4 "You're an appellate court and you don't understand what
5 appeal a decision means?"

6 And that was an interesting argument that day. I
7 came close to losing my patience with them, which you're not
8 really supposed to do in an appellate argument environment.
9 But anyhow, we came back and used the term that the
10 Administrative Procedure Act uses, "file a petition for
11 judicial review," because that's all the Court of Appeals
12 does.

13 If an appeal leaves you and goes to Wake Court
14 Superior Court, the judge doesn't re-review the facts. The
15 judge looks at did you have the legal authority to do what
16 you did, are there sufficient facts, even though he or she
17 may disagree with the facts, to back up your decision, and
18 was anybody's rights violated. And if we pass muster on all
19 of that, they affirm the decision.

20 Ms. Pollard: So a follow-up question:
21 the appeals that have been made---

22 Mr. Chestnut: (interposing) Are fine.

23 Ms. Pollard: ---are grandfathered?

24 Mr. Chestnut: Are fine. Yes, they're
25 fine. They said the process we used was not clear. So we

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1 went back and revised that, and we're using Administrative
2 Procedure Act terminology, and I think that will make them
3 happy.

4 Ms. Pollard: Thank you.

5 Mr. Chestnut: You're welcome.

6 The Commissioner: All right. Thank you, Mac.

7 Mr. Chestnut: Thank you.

8 The Commissioner: Finally in my report, we
9 have had three members of this commission resign in the last
10 little bit: Stephen Rosenburgh from Charlotte, J.W. Davis,
11 our good friend, and Dr. David Miller from Charlotte also.

12 It has been a tradition here to honor their duty.
13 I don't know if copies are at your places, but we have
14 resolutions of appreciation, different ones for each. I can
15 read them to you if you'd like. They are excellent, and I
16 didn't write them. I think Mac and Deb wrote them, so thank
17 them.

18 It is your--you are the commission. I am not.
19 So your endorsement or approval of these resolutions and
20 adoption and authorizing us to frame them or something, send
21 them---

22 Mr. Keen: (interposing) I move
23 approval of all three.

24 Ms. Pollard: Second.

25 The Commissioner: Is there any discussion of

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1 that motion?

2 (No response.)

3 The Commissioner: If not, all in favor please
4 signify by saying aye.

5 Commission Members: Aye.

6 The Commissioner: Are there any opposed?

7 (No response.)

8 The Commissioner: Thank you. That concludes
9 my report. Now, being a man of a certain age, I'm at a
10 crossroads here. Derwin Dubose, a very bright, very capable
11 young man who works for the treasurer's office, is going to
12 give a presentation on Bank On North Carolina. It's very
13 important.

14 We could take a small break here. I would like
15 to take a small break here actually, being a man of a
16 certain age, but if we take a break, I would appreciate it
17 if you promise to come back. Is it the sense of the
18 Commission that a five minute break would be sufficient?

19 Commission Members: Yes.

20 The Commissioner: All right. So for those of
21 you online, please stick around. We're going to have a very
22 interesting presentation.

23 The Reporter: Off the record. 10:13 a.m.

24 (A brief recess was taken.)

25 The Reporter: On the record. 10:22 a.m.

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1 The Commissioner: It is my privilege to
2 introduce Derwin Dubose, a Morehead scholar and member of
3 the staff of the--but don't hold that against him--and
4 member of the staff of the state treasurer's office, who is
5 in charge--I don't know if this is good news or bad news;
6 it's good news for me--of the Bank On North Carolina
7 project, which the treasurer has taken the lead on, and
8 which I support wholeheartedly. Derwin.

9 Mr. Dubose: Thank you to the chairman in
10 her absence and the Commissioner, members of the commission.
11 It's an honor to be here to talk about such an important
12 program. I promise that I'll be brief. I learned that rule
13 in church. You know, after you get to that hour point, you
14 get done and people are happy.

15 I also want to thank the treasurer for giving me
16 the opportunity to work on this, and Joe and his staff,
17 especially Tami's work, on the Bank On initiative and trying
18 to get it moving. I just want to spend a few minutes
19 talking about, you know, what is Bank On and what need we're
20 trying to alleviate.

21 Bank On is a program that will try to connect the
22 unbanked population of North Carolina to bank accounts. So
23 these are people who don't have any bank account at all.
24 They are relying on check cashers. They're relying on
25 pawnshops. They're relying on these bill payment centers

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1 where they go and charge you a fee to submit your bill.

2 And it may seem like a small population and it
3 may seem like it's a targeted population, that it's only
4 people who are not legally in the United States, but
5 actually 14 percent of North Carolina's population does not
6 have a bank account or any kind of relationship with a bank.
7 That's about 472,000 people within the state.

8 Again, they're looking at check cashers. You see
9 them when you drive through especially--I think you get a
10 good view in some of the major cities. They go get money
11 orders. Whether they be from a bank or from a post office,
12 they're paying fees on getting those money orders instead of
13 using checking accounts. They're using the bill payment
14 centers, and they're using short-term loans from pawnshops.

15 North Carolina is great because we have
16 legislated away predatory lending by the legislative
17 definition of it, but those pawnshops still remain and give,
18 you know, high interest, short-term loans that can cause
19 problems for people.

20 There are 1400 check cashing centers in North
21 Carolina. That may not seem like a lot, but we rank fourth
22 in the nation for per capital check cashing centers. We're
23 behind California, Mississippi, and Virginia in the number,
24 and we're 134 percent more than the national average on the
25 number of check cashers, so it's a dire problem for us.

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1 It's a dire problem because these check cashers
2 make a lot of money. There are wild estimates on this, but
3 they are processing somewhere between \$1.3 million and \$15.8
4 million worth of checks every year.

5 Now, that's a huge scope there in the different
6 estimates, but that's a lot of money that's being processed
7 that could easily be done through banks, helping our economy
8 and helping people, because they are spending exorbitant
9 fees. Up to 5 percent, on average, of their salary is
10 devoted to fees. The average unbanked person makes about
11 \$22,000 a year, and they're spending up to \$1200 a year on
12 fees alone.

13 Just to give you a comparison, the state retire-
14 ment system takes 6.5 percent out. I'm a month into the
15 state retirement system. I think that number is correct.
16 So 5 percent of their money is just paying fees to use their
17 money.

18 So just think if we could free up that 5 percent
19 for them to save personally in their own private retirement
20 system or just for college for their children or, you know,
21 buying a home. So if we can free up that 5 percent we'd be
22 doing a great thing.

23 So Bank On is a great program because it is a
24 truly public-private venture and very successful in other
25 cities. It's kind of spearheaded on the research end by the

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1 folks at the Pew Charitable Trust and the Pew Safe Banking
2 Opportunities Project. They do all of our research for free
3 and give us information.

4 This is a model that's been tried in different
5 places, I guess most successfully in San Francisco, where
6 the city and county of San Francisco got together, found
7 financial institutions who would be willing to offer low to
8 no fee bank accounts, that would be willing to accept
9 different forms of identification.

10 Obviously we have to look at our political
11 climate and people's willingness to do it, but going at the
12 undocumented population, to take alternate forms of ID other
13 than a driver's license or a passport.

14 But the key is no to low fee, and then forgiving
15 one overdraft--if we could get rid of overdraft period, that
16 would be great--and also exploring the option of not giving
17 people checks and having a debit card only used, so that
18 when you would run out of money, you would run out of money.

19 And finally, San Francisco allowed people to be
20 second chance people. So if you have completely defaulted
21 or overdrafted and someone kicked you out of a banking
22 system, they would waive that and let you come in one more
23 time under this program.

24 What's different about this program from I think
25 many other approaches to take on this problem is that we

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1 look at the two major barriers to people getting bank
2 accounts, and I'll dispel the first that you might think of.

3 Most of the check cashing locations in the state
4 of North Carolina and nationwide are within one mile of a
5 banking branch, because my initial perception coming into it
6 was that, "Oh, there's a concentration of the population in
7 major cities that don't have a bank," and that's not the
8 case for the most part. Within the North Carolina MSAs,
9 between 63 and 89 percent of these check cashing locations
10 are one mile from a banking branch.

11 So the biggest barrier from the consumer side is
12 lack of trust and perception. People are afraid of banks.
13 If you're a low income individual, you know, struggling to
14 make it, you come in in your work clothes and there are all
15 these people in these suits and they're very formal and
16 they're typing on computers, and you're just like, "Wow,"
17 you know, "I'm a little intimidated by it."

18 Or you can go to a check casher, where people
19 look a lot like you. They're relaxed. You know, they'll
20 offer you some coffee. You can sit down. It's very
21 different. And if you notice how bareboned those check
22 cashing and bill payment centers are, just the ambience
23 there is so different than our banks.

24 The second barrier, conversely, is that banks
25 aren't willing to, you know, take these second chances. It

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1 is a slightly risky investment that could pay off, by all
2 the Pew's models, to be something profitable for banks. But
3 it is an initial push to get them to sign on.

4 So our model to combat that, and working with the
5 commission and the people at Pew, is to first start with
6 local elected officials meeting with the legislative
7 delegation from the major areas in North Carolina.

8 We've identified Durham as our starting point
9 simply because of size. It's a manageable population. It's
10 a majority minority city, so we've got a lot of people in
11 that target population, and we don't have to pay for travel
12 right now since we don't have money to travel until July 1,
13 so it's a good place to start.

14 So we are hoping to go talk to the Durham delega-
15 tion very soon to get their buy-in, and then have a meeting
16 with the mayor of Durham, the city administrator, and then
17 the Chamber of Commerce to get their buy-in and support.
18 And then from there, get banking institutions on board to
19 offer a product that is low to no fee, second chance,
20 alternate forms of identification to people.

21 Then the key is getting community groups. You
22 balance that or you fight that lack of trust and lack of
23 perception if you get people who you know to sell the
24 product. So if people are learning from their pastors about
25 banking, it's probably going to be a lot better than if they

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1 get a banker to try to sell them on banking, or it's better
2 if there is a banker they know, one of their church members.

3 So it's identifying community groups like
4 churches, different neighborhood alliances, to talk about
5 the product and sell it. And then we track it, look at our
6 results, and see how we can grow the program.

7 What you have in your printouts and also on the
8 screen is our strategic plan, kind of our methodology of why
9 we chose the route we chose, specifically what's up now, why
10 we chose Durham. Attached to that plan are profiles,
11 provided by the Pew Safe Banking Opportunities Project, of
12 the unbanked population in our major cities in North
13 Carolina. It's very interesting to look at.

14 Charlotte has the largest unbanked number in the
15 state, one of the largest in the nation, and that
16 surrounding area in Charlotte is--it's very interesting to
17 see that. But it gives the statewide profile and then a
18 breakdown of the major metropolitan areas. And there's a
19 methodology to explain how Pew came up with that information
20 as well if you have questions about that.

21 But our hope is to start in Durham and have some
22 success and have that program launched and running by next
23 year, and then we'll look at where we can expand. I
24 promised to be brief, but I probably talked fast.

25 Mr. Keen: What kind of consumer

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1 education will be done for these individuals up front?

2 The Commissioner: That's a good question.

3 Mr. Dubose: We are hoping that financial
4 institutions will provide at least two--San Francisco
5 required four hours. We've been talking about it, but at
6 least two seminars as a part of their banking operation and
7 their Community Reinvestment Act commitment.

8 We will have promotional materials that explain,
9 "Hey, this is banking. This is how it works." That's
10 pretty much our approach for now. Do you have any
11 suggestions on how we can kind of fine-tune that?

12 Mr. Keen: Well, I'll be real arrogant
13 and tell you what I think has to happen for you to be
14 successful.

15 The Commissioner: Well, you can be humble and
16 tell us too.

17 Mr. Keen: Okay. I think if you don't
18 have someone from that community that can convince them that
19 working within the banking system is helpful to them that
20 they very quickly will learn how to use the system.

21 My bank offers a no fee checking account program,
22 no cost, try to get them to use debit cards, try to get them
23 to keep their money there safe. The money goes in the
24 account. The next day they come in and take 99.9 percent of
25 the money out in cash, leave \$6 in the account, and the bank

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1 loses its rear end on the account, okay? That's the reality
2 of the program.

3 And unless there is massive consumer education to
4 change the mentality--you and I grew up with banking
5 accounts. We think that's what you do with your money, you
6 know? There is a whole segment out there who do not trust
7 banks, and they'll do what they have to do to get access to
8 their money.

9 If they work for Company A and Company A says,
10 "We're going to do direct deposit and here's where your
11 money is going, and the bank is going to give you a debit
12 card so you can go get your money as you need it," 95
13 percent of them will go get the money that day or the next
14 day, and they will only leave what they're required to have
15 in the account, period.

16 And so, you know, if you can't change the
17 financial culture of those people, you will not be success-
18 ful. And frankly, on a massive scale, a bank can't afford--
19 simply cannot afford to do that, you know. A \$6 checking
20 account, I think all of you will agree, is nonprofitable,
21 very nonprofitable for the financial institution if that's
22 all that stays in there, in a lot of ways.

23 You've got to cash checks and you've got to, you
24 know, have cash available when they come and get it, and all
25 those things you have to do to support that. So I think

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1 it's a massive, massive educational project.

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And without that up front--you know, without you
3 having that in place, I don't think you ought to go to a
4 bank and try to get them to buy in because all you're doing
5 is getting them to be social conscience and community
6 conscience and lose a lot of money. So I think they have to
7 go hand in hand.

8

Mr. Dubose: You've got a good point.
9 It's public record, but my grandmother will tell me--my
10 grandmother is one of those people. The last time I went
11 home--I grew up in Alabama--she gave me the tour of the
12 house to tell me where everything is stored in case
13 something happens, because she grew up in the tail end of
14 the Depression.

15

And she said, "All this news--I had \$500 in the
16 bank, and all this news about this--Paulson and all these
17 people," she said, "I took my money out, so it's in the
18 mattress." But I knew there was no need for me to say
19 anything because she'd say, "Oh, you work for those people."

20

But her pastor did a--just a brief talk during
21 Sunday morning about, you know, "Hey, this is what's going
22 on in the economy," and she slightly changed her mind. She
23 put \$250 back in the bank, but she's got \$250 in that
24 mattress. So you are right.

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The key to this program--and we have to make sure

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1 we're investing a lot in--is with the community groups. And
2 you look at--I think churches are the big key because people
3 trust their pastors for the most part. I've been doing
4 these community grassroots groups to sell the product.
5 Don't let the banks sell it. Let these community groups
6 sell it, and tie in an education component.

7 But we'll talk, and I'll make sure we have a
8 conversation about how we can add education to it, and there
9 might be room to put minimums--I'll have to talk to Pew--a
10 minimum balance requirement for the banks so it remains
11 somewhat profitable for them.

12 Mr. Southerland: Has the Banking Association
13 signed off on this?

14 Mr. Dubose: Yes.

15 Mr. Southerland: And the fact that they get
16 CRA credit, I would think banks that need that would jump
17 all over this.

18 Mr. Johnson: I think CRA credit is more
19 for lending. I mean that's where the big CRA credit is, for
20 lending. How are you going to get around the Patriot Act's
21 requirements for documentation? They are very stringent,
22 and the requirements for identification are spelled out
23 clearly. So how are you going to get around the Patriot
24 Act's requirements for documentation and identification of
25 those on accounts?

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1 Mr. Dubose: The San Francisco program
2 used official documents provided by the Mexican government
3 specifically because that's where their population was.
4 Again, that's one of those issues--we're in North Carolina.
5 We have to discuss that, but it would have to be official
6 government identification to satisfy that requirement, not
7 necessarily U.S. in the San Francisco example, but not
8 necessarily ours.

9 The Commissioner: I think one thing that
10 Derwin has mentioned but bears repeating--and this is a good
11 point. These all good points--is that the issue about
12 unbanked and underbanked people isn't merely an immigrant
13 issue. It includes the African-American community. It
14 includes a number of white working lower income people,
15 lower middle income people.

16 As regards to the immigrant folks, first of all,
17 for good or ill, however you come down on that, I think that
18 problem--the number of people from south of the border is
19 declining. I think there's a negative flow now, so it's
20 less an issue that it has been, although it's still an issue.

21 The lead banks on this thing are going to be--I
22 grind my teeth to say it--probably Bank of America and Wells
23 Fargo. Those are the two--B of A is the biggest, although
24 I'm hopeful state chartered banks will participate.

25 I mean I don't want the largest banks--what I

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1 like about Durham in some ways is it's less dominated by the
2 largest banks and there are more state chartered banks in
3 Durham that actually have a presence, so we can actually do
4 some good.

5 Mr. Johnson: Let me tell you something
6 about the second chance that may help you. If you have a
7 customer that has a problem with Bank A, you probably can
8 get somebody to give them a second chance. But if they have
9 a problem with Bank A, B, C, and D, you're not going to get
10 a banker to give them a second chance.

11 So you've got to distinguish between the people
12 that have had a genuine problem and the people who are
13 habitual. I mean there's a distinction that's got to be
14 made. And I think if the banks understand that, you know,
15 Sammy really had a one-time problem, they'd probably buy
16 into that. But if Sammy's had a problem with every bank
17 he's been to, that won't be a sale.

18 Mr. Dubose: I think that San Francisco
19 worded it--that's a very good point--and I apologize because
20 I don't know this end of the banking side--it's a one
21 check system flag. If you show up in the system once,
22 fine; more than once you're not eligible.

23 Mr. Freeze: Just out of curiosity, I
24 assume that Pew Trust did some analysis of the 14 percent,
25 which is a fairly small target market. Of that, how much

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1 can be legitimate either because of a second chance or
2 because of being illegal? What's that 14 deteriorate to?

3 Mr. Dubose: They can't--and it was
4 shocking to me. They don't have any reliable data to break
5 that down. They suggest that upwards of 60 to 75 percent of
6 them are eligible to participate.

7 Mr. Freeze: So you could be having a
8 legitimate target market of less than 8 percent?

9 Mr. Dubose: Uh-huh. We are shooting our
10 goal with Durham at simply 5 percent. And the numbers that
11 Pew has provided, that's \$1.4 million a year in just Durham
12 alone. That's saving, you know, the 3500 consumers we'd be
13 targeting \$1.4 million. If we look at it on a statewide
14 level, it could grow up to \$15 million if you took care of
15 just that eligible percentage.

16 The Commissioner: And I think you'll find too
17 that that market is bigger than that. There are people who
18 have bank accounts who don't have much in them. There are
19 people who have bank accounts who don't use them properly.
20 He's taking the hard part first.

21 And the reason I took this job in part was
22 because of this issue. You've got somebody smart and young
23 and knows how to deal with these things. I've failed three
24 times on it for the reasons that have just been mentioned.
25 I mean there are all kinds of reasons you can't succeed.

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1 If you look at the EITC--I mean one thing we can
2 do, Harold, that we've tried to do and have not been able
3 to, and the nonprofits can help in this effort, is that the
4 earned income tax credit can give working people, low wage
5 working people, a slug of money that could be used as a
6 basis for a bank account. It never is.

7 I mean it--gosh, it goes--Jim Stovall is not here
8 anymore. Car dealers and appliance stores and all kinds of
9 other places will do your taxes for you. That's because
10 they're going to glom on to that money. And that is a
11 necessary edge to this because otherwise you'll keep--but
12 then if it's \$1,000 or \$2,000, which the average thing is,
13 will it stay in the account is the issue.

14 But two or three years ago 750,000 EITC tax
15 filings were made. You can't be illegal and have one of
16 those. You can't get one if you don't have documentation--I
17 mean don't have an IT--and I think you have to have a social
18 security number. I think only U.S. citizens can get it. So
19 that's 750,000 North Carolinians. If you assume that's a
20 low wage worker and a child in a household, that's a million
21 and a half people. Well, that's my target market, and
22 that's more than--that's a lot of people.

23 And the issue to me for the industry is--and yes,
24 a piece of this is--I don't think it's just optics. The
25 industry itself--and we've been tarred, you have been

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1 tarred, you bankers have been tarred, unfairly, with the
2 fact that this system is unfair. It favors the rich. It
3 favors the Wall Street guys. It favors everybody else. I
4 think it's actually important for the industry.

5 But I think it's important for bankers to go
6 forward and do this as a matter of fairness. And yeah,
7 there is a social concern, but it's also for the banks.
8 It's to show a piece of what the franchise is.

9 Mr. Pierce: Joe, this is Raymond Pierce,
10 and I could not agree with you more. Well said.

11 The Commissioner: Well, thanks. But the other
12 piece of it is to make it profitable you need a short-term
13 loan that the do-gooders won't let you make yet. But this
14 young man has got a--we need to support him. We're going to
15 support him. The first step is to get people in the banking
16 system. Let's see if we can make that work.

17 Then we can start a negotiation about what kind
18 of short-term loans banks can make that make sense to them,
19 to charge interest rates that reflect the risk, so that
20 people can make it from payday to payday, not payday loans
21 of the traditional sort, but some kind of higher rate loan,
22 a personal loan, that will allow people to make ends meet,
23 and that would make it more profitable.

24 But our ideals and economic reality haven't--but
25 unless we work together, including the community crowd, to

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1 try this, we'll never get there. And I think the banks--
2 because you're right. If it's just a bank account, it
3 will--that gets cleaned out, it ain't going to work--well,
4 it will work, but it won't work as a business proposition.

5 (Mr. Guy exits at 10:45 a.m.)

6 Mr. Johnson: Well, one of the things
7 that--you were talking about the churches, and you're
8 exactly right. If the pastor will invite the banker in and
9 say, "On Tuesday night we're going to have an education
10 session and invite two or three bankers in," it's--I've
11 never been to one of those that the church wasn't full.

12 I've been to a lot of them and the church is
13 always full, and there's always a lot of interest because
14 the pastor says, "I've asked John to come in and talk to you
15 about credit repair," or whatever the subject is, and it
16 gives credibility. I've never been to one of those where
17 the pastor invited us in and we didn't fill up the church.

18 Ms. Pollard: May I?

19 The Commissioner: Yes, ma'am.

20 Ms. Pollard: Brenda Pollard for those on
21 the phone. I live in Durham. I welcome this pilot program
22 as a public member to focus on the education. I know you
23 want to address it to the churches.

24 But we have a Durham neighborhood college--I'm a
25 graduate--and they focus on educating those who are invited

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1 to that college, and they want to educate you so that you
2 can go out in your community and talk about the things that
3 we're talking about today.

4 And lastly, we have neighborhood associations.
5 You want to reach them. You want to reach the churches, but
6 you want to reach those in the Durham neighborhood college
7 and the neighborhood associations. Thank you.

8 Mr. Freeze: Another collaborative party
9 is the North Carolina Partnership for Children, who has a
10 Parents as Teachers network, which is in the Hispanic
11 community weekly and does a marvelous job, and that would be
12 almost as good a forum as this to reach people.

13 Mr. Lineberger: Joe?

14 The Commissioner: Yes.

15 Mr. Lineberger: This is Don Lineberger.

16 The Commissioner: Hey, Don.

17 Mr. Lineberger: I just want to make one
18 little comment or observation. Of course, I think there are
19 a lot of details that have got to be worked out as to what
20 is acceptable now to the banks as they are trying to assist
21 with this program.

22 And one of the biggest things that we run into in
23 my experience is this thing of somebody bringing in a
24 payroll check drawn on a Chicago bank and expecting it to be
25 cashed today and have no money in their account.

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1 And I think that as the details of this are being
2 worked out with the banks, somehow they have to accept some
3 guidelines, and maybe any checks that are drawn on banks in
4 town, which is a one day collection, you know, maybe could
5 be paid. But those that are drawn on funds from out of
6 town, they may have to make some considerations.

7 The other thing is if they are given a debit card
8 and in fact they can insert the debit card to check informa-
9 tion and check the balances, encourage them to do that
10 before they try to make a withdrawal, and will cut down on
11 many, many NSF's. These are just a couple little things.
12 These are little minute, minor details---

13 The Commissioner: No, they're not at all.

14 Mr. Lineberger: ---that maybe need some
15 improvement on. But, you know, I'm sitting here right in
16 the middle of First Union, BT&T, City National Bank, First
17 Community Bank, small banks, RBC Bank, and I'm just sort of
18 thinking about all of those banks and how we've handled
19 things in the past.

20 The Commissioner: Thank you. I think the
21 other thing we're trying to do is get direct deposit going.
22 I think we'd like that. See, I think another beneficiary is
23 going to be the employer of low wage working people, if it
24 can make it worth the bank's while to do it. So we've got a
25 lot of allies we've got to get going.

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1 Mr. Dubose: Well, am I allowed to ask
2 questions of you?

3 The Commissioner: Sure. Go ahead. This crowd
4 seems to know something.

5 Mr. Dubose: Is there any advice you have
6 on how do we make this a good sell? We want to go in with
7 our best foot forward. So how do we sell this to the
8 banking community? Do you have any tips? We've gotten some
9 good advice so far as far as profitability and minimums and
10 outreach. So how do we do a better job of selling this to
11 bankers the first time we approach them?

12 Mr. Keen: For me it's the education
13 piece. You've got to go in and say, "Here is what we're
14 going to do up front," so these people will--you know, I
15 almost hate to say it, but a lot of times work within the
16 system. It doesn't mean the system can't be accommodative
17 to them, because it certainly can be. My bank does that.

18 We have accounts. We have multiple employers
19 that we put on direct deposit. You know, everybody
20 benefits. They don't line up at our counter on Friday
21 afternoon to get their checks cashed. Hopefully some of the
22 money stays in the account. They don't have all that cash
23 in their pocket on Friday night for somebody to rob them. I
24 can give you some examples of that. So it works for
25 everybody.

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1 But I think--I think if you just go to a bank and
2 say, "Hey, we want you to do this," they're going to see a
3 charitable program coming along. And if you show them that
4 this is a united, coordinated effort, so that they're going
5 to have a somewhat educated customer, then you've got a lot
6 better chance of selling it.

7 Mr. Johnson: Why did you cut the
8 education session from four--I think that's what you said
9 they used in San Francisco--to two? Did you say that you
10 will reduce the required counseling sessions?

11 Mr. Dubose: Well, the benefit of this--
12 you're getting us at the starting block, and we can revise
13 it. It's just sheer population size. It's a smaller
14 population, and therefore if we're asking banks to partici-
15 pate in this for the first time--because isn't part of the
16 Community Reinvestment Act requirement some kind of outreach
17 into the community?

18 Mr. Johnson: Yeah, but the outreach was a
19 bigger piece in the past.

20 The Commissioner: But the service test is
21 helpful, and the chairman of the FDIC is hot on this stuff.
22 So I mean it won't get overweight necessarily, but you'd get
23 help. I mean it would do you some good to do it. I agree
24 with you, but you don't get to second base if you haven't
25 left. But if you have left, this can be a--it can be of

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1 help. The service test is---

2 Mr. Johnson: (interposing) The more
3 people that you give assistance, the better off the banks
4 are. There's no question about that. How you do it is what
5 the banks will be interested in.

6 But I think the banks are interested--I spent a
7 lot of years trying to get people to open checking accounts.
8 You know, banks want people to open checking accounts. I
9 think the opportunity is there, but back to Harold's point
10 of making sure that everybody is on the same page about what
11 to expect.

12 The Commissioner: Right.

13 Mr. Dubose: Thank you.

14 The Commissioner: Thank you. Thank you very
15 much. By golly, I finally got somebody young and smart to
16 handle this. I've been failing at it for years, so this is
17 good. That's all we've got.

18 One other thing just for your information: I'm
19 not sure about this yet. We may--the chairman is
20 considering holding the July meeting of the commission in
21 Charlotte rather than here in Raleigh.

22 (Ms. Hammond shakes head negatively.)

23 The Commissioner: No?

24 (Ms. Hammond shakes head negatively.)

25 The Commissioner: We're not. Okay.

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1 Ms. Hammond: Well---

2 The Commissioner: (interposing) We've gotten
3 canceled for financial reasons. That's right.

4 Ms. Hammond: I will tell you that I was
5 hoping to get the documentation before this morning's
6 meeting. I was talking to state budget yesterday. I
7 mentioned it to McNeil, who has now left.

8 The Senate budget bill--and he said the House
9 even cut another \$2 billion out of their bill. I hate to
10 have to be the bearer of bad news, but state budget told me
11 yesterday that they may cut the \$15 per diems to all
12 statewide boards and commissions for all of next fiscal
13 year. So my fear is that if they are already looking at a
14 \$15 per diem cut, I'm not convinced that they're going to
15 allow a travel period for commissions.

16 The Commissioner: Right.

17 Ms. Hammond: We can plan it, but I have a
18 feeling that it won't happen.

19 The Commissioner: I should have asked you
20 first. Well, I take it back.

21 Ms. Hammond: Well, we didn't get to talk
22 about that.

23 The Commissioner: I would like some feedback.
24 I think we would all like feedback on this go to meeting
25 thing. There's a side of me that hates this because it's

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1 nice to have the commission together, physically together.

2 On the other hand, I know it's convenient for people.

3 So to the extent, those people who are still on
4 the line out there, if you can at your leisure give us a
5 sense of how effective this means of holding a meeting is, I
6 think we would be interested to know.

7 Ms. Flynn: Without at your leisure,
8 Joe--this is Ana Flynn--I think it's great. It saves me a
9 lot of time. But what I'm seeing though is that the--I
10 couldn't see anything on the screen to go to meeting. There
11 was the agenda and then it went blank.

12 The Commissioner: Okay. We'll work on that.

13 Mr. Pierce: Joe, this is Raymond Pierce.
14 It works. However, I am considering for the next meeting,
15 if it's allowable, just coming in on my own dime. I mean I
16 don't mind. Obviously other members of the commission came
17 in; is that correct?

18 The Commissioner: Yeah. You're allowed to
19 travel on your own money. There's no law against that.
20 I've been doing it often these days.

21 Mr. Pierce: It's proved effective. It
22 works, you know, long distance. But I think next time I'll
23 just come in on my own.

24 The Commissioner: Okay. Got you. Well, thank
25 you all very much.

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1 Mr. Pierce: What we just had I mean was
2 incredible. I mean I was just eating this up. When there
3 is some more time, I'd like to talk to you about some of
4 these things.

5 The Commissioner: You ought to talk to Derwin.
6 He's the guy with the brains, and he's coming to your town.
7 He may even live there. I don't know. Anyway, thank you
8 all very much. Without objection, we're adjourned.

9 (The proceeding was closed at 10:54 a.m.)

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STATE OF NORTH CAROLINA
COUNTY OF WAKE

C E R T I F I C A T E

I, Alexandra Hartman, Notary Public-Reporter, do hereby certify that the foregoing proceedings were taken by me and transcribed by me and that the foregoing 82 pages represent a true and accurate transcript of the meeting of the North Carolina State Banking Commission held on May 20, 2009 to the best of my ability.

In witness whereof, I have hereunto set my hand, this 24th day of June, 2009.

Alexandra Hartman, CVR
Court Reporter