



# The Virginia State Banker

Regulatory news for Virginia State-chartered Banks

*E.J. Face, Jr., Commissioner*

*Bureau of Financial Institutions - State Corporation Commission*



## FORMER BANK COMMISSIONER SIDNEY BAILEY DIES

|  |   |
|--|---|
| Former Bank Commissioner<br>Sidney Bailey Dies   | 1 |
| CSBS: Regulatory Relief Bill<br>Gives State Bank System<br>Stronger Voice in<br>Washington | 2 |
| State Bank Regulators<br>Express Concern Over Basel<br>II Impact                           | 2 |
| In Memoriam  | 3 |
| Nontraditional Mortgages   | 3 |
| Virginia Bank Directors'<br>College  | 3 |
| Important Phone Numbers  | 4 |

*The Virginia State Banker* is published by the Virginia Bureau of Financial Institutions to provide useful information to the banks and savings institutions that it regulates, and any of their related interests. Reader comments and suggestions are welcome and should be addressed to Ginger Sandler, Bureau of Financial Institutions, P.O. Box 640, Richmond, Virginia 23218-0640, or via e-mail [ginger.sandler@sc.virginia.gov](mailto:ginger.sandler@sc.virginia.gov).

### ACKNOWLEDGMENTS

Thanks to the following persons for their help in producing this issue of *The Virginia State Banker*: Commissioner Face, Jean Bowden, John Crockett, Betty Nolan, Jon Orne, Mark Pinson, and Todd Rose.

For years, it was the common refrain whenever Virginia legislators wrestled with a banking issue:

“What,” the committee chair would muse to the packed hearing room, “does Commissioner Bailey think about that?”

For two decades, until his retirement in 1997, his job was to make sure Virginia financial institutions lived up to their obligations to their customers.

“He felt very strongly about that,” the current commissioner, E. Joseph Face Jr., said. “He felt quite strongly about protecting the public interest.”

State Corporation Commissioner Theodore V. Morrison Jr. said few could spot the first, faint trouble signs in a financial institution’s balance sheet faster than Mr. Bailey.

“In all the trouble with savings and loans, we never had a Virginia bank or savings institution go insolvent,” Morrison said, referring to the days in the 1990s when S&Ls across the country had to close their doors.

“If he saw something, he’d call them in and say: ‘You need an infusion of capital,’ or, ‘I’ll give you a week to get a federal charter,’” Morrison said. “If the feds had seen what he

saw, we wouldn’t have had to pay out all those billions.”

Those who stopped with his public face, with his deep-voiced West Virginia rumble and stolid-as-granite expression of his points of view, risked missing the real man.

“The toughness, that was just a façade,” said Mary Lou Kelly, his longtime assistant. “He had a heart of gold.”

Colleagues remember a dry wit—the poker-faced Mr. Bailey would at times recite a favorite definition of a bank regulator: “wrinkled, unintelligent, cold and passive . . . With the eyes of a codfish.” The slow smile came only after an uninitiated listener’s jaw dropped.

A native of Summers County, W.Va., Mr. Bailey enlisted in the Navy out of high school and served in the Air Force during the Korean War.

He received a business degree from the University of Virginia and began a two-decade tour with the U.S. Office of the Comptroller of the Currency. He left that agency in 1977.

Copyright Richmond Times-Dispatch, used with permission from an article by David Ress, Times-Dispatch staff writer



## CSBS: REGULATORY RELIEF BILL GIVES STATE BANK SYSTEM STRONGER VOICE IN WASHINGTON



CSBS applauded Congress for passing regulatory relief legislation (S. 2856).

The Financial Services Regulatory Relief Amendments Act of 2006 contains several key provisions sought by CSBS. These include the following:

- Establishing the chairman of the State Liaison Committee as a full voting member on the Federal Financial Institutions Examination Council (FFIEC)
- Improving the supervision of multi-state, state-chartered banks by recognizing the CSBS interstate cooperative agreements and prohibiting unilateral fees on host state branches
- Increasing from \$250 million to \$500 million the asset size of well-capitalized, well-managed institutions

eligible for the extended 18-month exam cycle

“CSBS congratulates Rep. Jeb Hensarling of Texas and Idaho Sen. Mike Crapo, who sponsored the bill, and House Financial Services Committee Chairman Michael Oxley and Senate Banking Committee Chairman Richard Shelby and ranking minority members of the Senate Banking Committee and the House Financial Services Committee, Maryland Sen. Paul Sarbanes and Rep. Barney Frank of Massachusetts, for their diligence in getting this bill approved this session,” said CSBS President and CEO Neil Milner.

“In particular, we are extremely pleased that the measure provides for state bank regulators, who charter more

than 70% of the banks nationwide, to have a vote on the FFIEC,” he said.

This important provision will allow state bank regulators to have a voice in policy-making at the federal level.

Massachusetts Commissioner of Banks Steven L. Antonakes currently chairs the State Liaison Committee and will fill the FFIEC state seat.

According to CSBS, the bill clarifies the primary role of the home state supervisor for its interstate banks. The bill also prohibits host states from unilaterally assessing out-of-state, state-chartered institutions.

Mr. Milner said the legislation will help give state banking a stronger voice in Washington.

## STATE BANK REGULATORS EXPRESS CONCERN OVER BASEL II IMPACT

In testimony before the Senate Banking Committee on September 26, 2006, New York State Superintendent of Banks Diana L. Taylor said that proposed international bank capital accord (known as Basel II) would reduce capital levels for the nation’s largest banks to the detriment of community banks’ competitiveness and could further erode the balance in the nation’s dual banking system.

Representing the Conference of State Bank Supervisors (CSBS), Ms. Taylor told the panel that CSBS supports the original goal of Basel II, to better align regulatory capital requirements to underlying risks and provide incentives to banks to hold lower-risk assets in their portfolios, but urged caution in moving ahead with the implementation of Basel II’s Advanced Approach, which could result in a drastic drop in capital for the banks using this approach.

“I do not believe we should be basing competitive equality on reduced capital,” she said.

Ms. Taylor agreed that U.S. banks must remain internationally competitive.

“But our first priority must be preserving the safety and soundness of the system and then ensuring a level playing field for our domestic institutions,” she said.

CSBS has proposed that federal bank regulators seek public comment on the simpler Standardized Approach for U.S. banks.

“Our domestic financial system could benefit from a less complex, more risk-sensitive approach to monitor risk-based capital requirements,” Ms. Taylor said.

Ms. Taylor told the committee that state bank supervisors should have a more substantive role in the Basel II process.

“Ultimately, the intention of Basel II is to produce a stronger international system that does not weaken our domestic dual banking system. As U.S. regulators, our first priority must be our domestic institutions,” she said.

Ms. Taylor’s testimony may be found at <http://www.csbs.org/AM/Template.cfm?template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=15>.

###

Commissioner Face is Chairman of CSBS, the nationwide organization for state banking, representing the bank regulators of the 50 states, the District of Columbia, Guam, Puerto Rico, the Virgin Islands, and approximately 6,200 state-chartered financial institutions. CSBS is responsible for defending state authority to determine banking structure and the products and services state-chartered institutions can offer and for improving the quality of state bank supervision by providing department performance evaluation and accreditation programs and supervisory education/training programs for state banking department personnel.

Both items on this page are reprinted with permission from CSBS.



## IN MEMORIAM

Raymond L. (Ray) Sutphin, a senior financial analyst with the Bureau's Banks and Savings Institutions Section, passed away on July 30, 2006. He is survived by his wife, Elena Buenano; sister, Laura Sutphin; brother, Jesse Sutphin; and many nieces and nephews. Funeral services were held at Arlington National Cemetery.

Ray retired from the Navy after 20 years of service and graduated from Old Dominion University before joining the Bureau. He will be missed by his colleagues.

## NONTRADITIONAL MORTGAGES

While our examiners have not indicated a great deal of activity in Virginia-chartered banks related to option ARMs and other nontraditional mortgages, several banks are making interest-only loans. The various types of nontraditional mortgages, especially the option ARMs, have received a lot of attention in the press. Congress has begun to criticize the Federal regulators for not being more active in

restricting the use of these loans. More guidance on this subject will be forthcoming.

Prudence dictates a complete review of a loan customer's ability to repay a loan under all conditions that might arise during the life of the loan. Many published reports indicate this is not happening in many cases—especially where brokers are

involved—and therefore, consumers who obtained an option ARM are now facing financial hardship and/or loss of their homes. Many of these loans should never have been made. It is our hope that Virginia-chartered banks are (and will continue) using prudent underwriting standards in building all sections of their loan portfolios.

## VIRGINIA BANK DIRECTORS' COLLEGE

Virginia's bank directors heartily endorsed the one-day format of the "Emerging Issues" sessions of the Directors' College recently held in Abingdon, Dulles, Newport News, and Staunton. A total of 180 directors attended the program. Many thanks to the representatives of the Federal Reserve, FDIC, CSBS, and Bureau for their combined efforts in presenting interesting and informative topics.

Plans are being made for a Spring 2007 "Essential Principles" session. Information will be mailed to banks after the first of the year.

## IMPORTANT TELEPHONE NUMBERS

- Banks and Savings Institutions (804) 371-9704
- Consumer Finance and Mortgage Companies (804) 371-9701
- Licensing (applications, name changes, annual reports) (804) 371-9690
- Consumer Complaints (804) 371-9705
- Corporate Information (SCC Clerk's Office) (804) 371-9733
- Bureau's FAX number (804) 371-9416
- TDD (804) 371-9206

---

*State Corporation Commission  
Bureau of Financial Institutions  
1300 East Main Street, Suite 800  
Post Office Box 640  
Richmond, Virginia 23218-0640*



---

Check out our Web site at  
[www.scc.virginia.gov/division/  
banking.](http://www.scc.virginia.gov/division/banking)

---