



# Monthly Bulletin



**Volume 15, Number 2**

**August 2011**

## Liquidation of Sacramento District Postal Employees Credit Union

On August 12, 2011, the Commissioner of Financial Institutions took possession of Sacramento District Postal Employees Credit Union (Sacramento Postal), Sacramento and ordered that it be liquidated. The Commissioner then appointed American Share Insurance (ASI) as Liquidating Agent, and ASI accepted the appointment. All of the member share accounts and most of the assets of Sacramento Postal were assumed by Southern California Postal Credit Union, Long Beach.

## Technology Systems Survey Due September 16, 2011

An email notification was sent to licensed banks and credit unions on August 15, 2011 requesting an online IT Survey be completed and submitted no later than September 16, 2011.

The information obtained through this survey will aid the DFI in planning the IT examination schedule and determining the IT expertise necessary to manage the IT portion of the Safety and Soundness examination. Additionally, the IT Survey can provide institutions with a greater understanding of the focus of the DFI IT examinations.

If your institution has not yet submitted the survey, please access the Licensee Portal at <https://www.survey.dfi.ca.gov>. For more information on accessing the Survey, contact Kristine De Young at [survey@dfi.ca.gov](mailto:survey@dfi.ca.gov) or 916-324-7488.

If you have questions about the content of the Survey, please contact Bob Lipot at [rlipot@dfi.ca.gov](mailto:rlipot@dfi.ca.gov) or 213-897-3417.

45 Fremont Street, Suite 1700, San Francisco, CA 94105-2219	(415) 263-8500
300 South Spring Street, Suite 15513, Los Angeles, CA 90013-1204	(213) 897-2085
1810—13 <sup>th</sup> Street, Sacramento, CA 95811	(916) 322-5966
7575 Metropolitan Drive, Suite 108, San Diego, CA 92108-4421	(619) 682-7227
Consumer Compliance	(800) 622-0620

## **DFI Issues Guidance for SBLF Participation**

### **No Approval Needed for Direct Exchange of Preferred Shares from TARP to SBLF**

It has come to our attention that the U.S. Treasury would like to invest funds in bank stock under the Small Business Lending Fund (SBLF) in the most expeditious manner possible. In the case of banks which have outstanding preferred stock previously issued under the Troubled Asset Relief Program (TARP), Treasury proposes to accept new preferred shares issued under the SBLF in exchange for the outstanding TARP shares of the bank.

In reviewing the Order of Exemption issued by Commissioner Haraf on May 31, 2011, we believe that the Order is broad enough to cover the direct exchange of shares proposed by Treasury. Accordingly, no other approval from the Department is needed to effect that exchange. Furthermore, if the amount of SBLF money exceeds the value of the TARP shares cancelled in the exchange, the Order allows for the sale of additional SBLF shares for cash.

On the other hand, if the amount of funds received under the SBLF stock sale is insufficient to provide for the retirement of all of the outstanding TARP shares, any bank wishing to retire the remaining outstanding TARP shares through the payment of cash may do so only with the approval of the Department. Such a request must be made in writing pursuant to the requirements of Financial Code Section 644(a).

Finally, this is to remind bankers and their attorneys that the Certificates of Determination that sets forth the rights, preferences and privileges of preferred stock sold to Treasury through the SBLF must be approved by the Department prior to filing the document with the Secretary of State.

If you have any questions regarding this announcement, please contact Kenneth Sayre-Peterson, Counsel for the Department, at 916-322-1570 or by email at [ksayre-peterson@dfi.ca.gov](mailto:ksayre-peterson@dfi.ca.gov).

## **Local Agency Assessment**

In accordance with Government Code Section 53667, the Administrator of Local Agency Security has assessed all depositories in California in which the monies of local agency securities are deposited in order to fund the operations of the Department of Financial Institutions in administering the laws relating to local agency security. Invoices for the assessment have been mailed.

For purposes of this assessment, the base rate is set at .002 percent (%) of the average local agency deposits held by your institution for the fiscal year July 1, 2010 through June 30, 2011. The assessment is necessary to fund the budget of the Department of Financial Institutions to meet the expenses of the Administrator in administering the laws regarding local agency security and to provide a reasonable reserve for contingencies.

Your institution must pay the enclosed assessment no later than September 23, 2011. If you have any questions about the assessment on your institution, please contact Patrick Lum, Local Agency Security Program; telephone: (916) 323-7013; email [plum@dfi.ca.gov](mailto:plum@dfi.ca.gov).

## Application Process Reminder

Bank and money transmitter applicants are reminded that applications should be sent to DFI's Strategic Support Unit in the San Francisco office, regardless of the financial institution's location. This will ensure that they are processed in an efficient and timely manner. Applications that are to be filed in this manner include:

- New institution
- Merger
- Conversion to state charter
- Acquisition or sale of business unit
- Acquisition of control
- Sale of securities

The Strategic Support Unit also receives notices regarding the establishment, relocation and discontinuance of bank branch and facility offices. Send applications and notices to:

Department of Financial Institutions  
Strategic Support Unit  
45 Fremont Street, Suite 1700  
San Francisco, CA 94105-2219

For questions about the application process, contact the following Strategic Support team members:

Patrick C. Carroll  
Strategic Support Manager  
Phone: (415) 263-8559  
Fax: (415) 288-8830  
Email: [pcarroll@dfi.ca.gov](mailto:pcarroll@dfi.ca.gov)

Annie Constantino  
Strategic Support Analyst  
Phone: (415) 263-8552  
Fax: (415) 288-8830  
Email: [rconstantino@dfi.ca.gov](mailto:rconstantino@dfi.ca.gov)

Please note that this application process does not apply to credit union applicants, who should continue to send applications to their portfolio managers. Questions about the DFI application process may also be directed to the Strategic Support Unit's general delivery mailbox at [Licensing@dfi.ca.gov](mailto:Licensing@dfi.ca.gov).

## Efficiency Ratio for Credit Unions

As credit union margins shrink and the industry becomes more competitive, credit unions are faced with a growing challenge to assess the quantity and quality of earnings. Despite the current fact that the efficiency ratio is not considered a “key ratio” by the NCUA in the review of a credit union’s earnings, the efficiency ratio has been a commonly used measure of efficiency in the financial industry for quite some time. Additionally, more credit unions have begun to incorporate efficiency ratio targets or limits in formal policy as a means to better evaluate their own performance and to provide for better planning.

The Credit Union Program of the Department of Financial Institutions is implementing the Efficiency Ratio as a way to quantify the “efficiency” of the credit union’s operations. Examiners often comment on the “efficiency” of a credit union’s operations in the Examination Overview and in other sections of the report of examination, yet find it difficult to effectively quantify and communicate the assessed level of those efficiencies to the credit union. Using the efficiency ratio will give examiners another tool to better identify and communicate the earnings performance of credit unions.

The efficiency ratio is basically overhead costs (does not include the provision for loan loss expense) divided by operating income, and essentially provides (in cents) how much it costs to produce each dollar of revenue. It is usually calculated as shown below:

$$\frac{\text{Total Non-Interest Expense}}{\text{Net Interest Income} + \text{Fee Inc.} + \text{Other Operating Inc.} + \text{Other Non-Operating Inc.}}$$

*5300 Call Report Account Codes:*

$$\frac{671}{(115 - 350) + (131 + 659 + 440)}$$

Using the equation above, a credit union with an efficiency ratio of 60%, for example, tells you that it costs the credit union 60 cents to earn each 1 dollar of revenue. As a general rule, the lower a credit union’s efficiency ratio, the better its performance. (Other non-operating income is included to capture the possibility of regular donation income.)

It is not required that credit unions use this ratio, nor that examiners always include the efficiency ratio in our reports of examination.

We recognize that, although the efficiency ratio is an important measure of a credit union’s performance, examiners understand that the efficiency ratio is only a part of the picture. Too much reliance on this single ratio can lead to only a short-term assessment of a credit union’s overall operating strategies. An investment in new delivery capabilities, for instance, may improve a credit union’s long-term performance at the expense of its short-term performance. An examiner or a credit union focusing only on the efficiency ratio might discount or forego that investment to the long-term detriment of the credit union. It should also be noted that the efficiency ratio ignores non-financial considerations, such as member service quality and employee training, which will often enhance long-term performance.

In spite of these considerations, however, the efficiency ratio is a valuable tool and the Credit Union Program encourages its use in the examination of its credit union licensees.

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## Credit Union Program Announces New Financial Institutions Manager

The Credit Union Program is pleased to announce the appointment of Janet Nozaki to the position of Financial Institutions Manager in the Los Angeles office. Janet began her career in State service at the Department of Corporations in 1981, rising to the position of Chief Examiner of the Financial Services Division. In 1997 she transferred to the Department of Managed Health Care where she served as Supervising Examiner for the Division of Financial Oversight.

Janet is a Certified Public Accountant and has served as the Department's Chairperson of the Internal Review Committee for CPA certification. In the past, she was selected by NASCUS to serve on the National Examination Committee and was a Department representative on the California CPA Society's Credit Union Committee. She is a graduate of University of California, Berkeley with a BS in Business Administration/Accounting and enjoys traveling with her family.

## Call to Action 2011 Southern California

### Elder Financial Protection Event

The Department of Financial Institutions joins with its community partner Elder Financial Protection Network (EFPN) to announce "Confronting Elder Financial Exploitation - Senior & Professional Symposium 11th Annual National Summit. Join us for this important event at:

- The Center at Cathedral Plaza, 555 West Temple Street, Los Angeles, California 90012-2707
- Wednesday November 2, 2011 - 7:30 am Registration; 8:30 am – 3:00 pm Conference, Luncheon and Awards Ceremony

Call to Action is EFPN's signature annual event and offers a cutting edge conference program and an awards ceremony honoring leaders in the fight against elder financial abuse. Call to Action, Southern California will bring together hundreds of seniors and professionals representing financial institutions, law enforcement, social services, elder justice advocates and the legal community to share best practices to stop the financial exploitation of elders.

The Honorary Chair for Call to Action 2011 is iconic actor and elder abuse survivor, Mickey Rooney, who will provide the luncheon keynote address. The honorary Co-Chair is The Honorable Kim R. Hubbard, Judge of the Superior Court, Orange County.

Los Angeles District Attorney, Steve Cooley is invited to provide the morning welcome address and California Attorney General, Kamala Harris is invited to provide a luncheon address. Speakers for the conference include: Pat Huddleston, CEO, Investor Watchdog; Michael R. Augustine, Esq., Vivian L. Thoreen, Esq., Bruce Pearson, Esq., Ingrid Evans, Esq. EvansLaw, Debbie Deem, FBI, Jackie Wiley, California Department of Corporations and others TBA.

For more information about the event: <http://www.bewiseonline.org/call-to-action-2011-los-angeles/>

To register for the event: <http://www.bewiseonline.org/call-to-action/>

## Commercial Bank Activity

### Merger

Global Trust Bank, Mountain View, to merge with and into Bay Commercial Bank, Walnut Creek  
Approved: 8/22/11

Golden Security Bank, Rosemead, to merge with and into First General Bank, Rowland Heights  
Effected: 8/23/11

Orange Community Bank, Orange, to merge with and into Grandpoint Bank, Los Angeles  
Effected: 8/30/11

Santa Lucia Bank, Atascadero, to merge with and into Mission Community Bank, San Luis Obispo  
Filed: 8/1/11

## Credit Union Activity

### Field of Membership

One credit union received approval to add one new field of membership during July 2011.

### Merger

1<sup>st</sup> Choice Federal Credit Union, Castro Valley, to merge with and into S.F. Police Credit Union, San Francisco  
Effected: 7/30/11

## Premium Finance Company Activity

### New Premium Finance Company

Chelsea Financial Group, Inc.  
500 N. State College Boulevard, Orange, Orange County  
Approved: 8/3/11

First Provident Bancorp, Inc.  
500 N. State College Boulevard, Orange, Orange County  
Approved: 8/3/11

Insurance Finance Corporation of CA  
515 S. Flower Street, Los Angeles, Los Angeles County  
Approved: 8/10/11

**New Premium Finance Company (Continued)**

Macro Premium Finance, Inc.  
500 N. State College Boulevard, Orange, Orange County  
Approved: 8/10/11

Seaway Premium Finance Company  
500 N. State College Boulevard, Orange, Orange County  
Abandoned: 8/22/11

**Trust Company Activity****New Trust Company**

Northern Trust Company of California  
10877 Wilshire Boulevard, Los Angeles, Los Angeles County  
Filed: 8/5/11

**Foreign (Other Nation) Bank Activity****New Office**

Banco Bilbao Vizcaya Argentaria, S.A.  
1 South Park Street, City and County of San Francisco (Representative Office)  
Opened: 8/17/11

**Foreign (Other State) Bank Activity****New Facility**

Dubuque Bank and Trust Company

- 9171 Towne Center Drive, San Diego, San Diego County
- City of Temecula, County of Riverside
- City of Redlands, County of San Bernardino
- City of Corona, County of Riverside

Notified: 8/9/11

**Money Transmitter Activity****New Money Transmitter**

Official Payments Corporation  
Filed: 6/16/11

**Acquisition of Control**

Catalina Acquisitions, LLC, to acquire control of Unidos Financial Services, Inc.  
Approved: 8/2/11

The Western Union Company, to acquire control of Travelex Global Business Payments, Inc.  
Filed: 8/4/11

**Voluntary Surrender of License**

Banmetropolitano Corp.  
Effected: 5/23/11

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WILLIAM S. HARAF  
Commissioner of Financial Institutions

Bulletin for Month ended  
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to Financial Code section 258



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