



# 2006 ANNUAL REPORT



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## ANNUAL REPORT

Tennessee Department of Financial Institutions  
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## Dear Governor Phil Bredesen and the People of the State of Tennessee:

I am pleased to present to you and our fellow Tennesseans this 32nd Annual Report of the Department of Financial Institutions for Fiscal Year 2006.

The Department regulates banks, credit unions, trust companies, business and industrial development corporations, industrial loan and thrift companies, insurance premium finance companies, mortgage lenders, brokers, servicers and originators; title pledge lenders, check cashers, deferred presentment services companies and money transmitters. We play a vital role in regulating and supporting the financial services industry and ensuring that Tennessee financial institutions remain fiscally strong and comply with governing authority.

The Department's mission is to ensure a safe and sound system of state-chartered institutions for Tennessee citizens. The state of our depository financial institutions is good. Depository institutions remain well-capitalized, profitable and innovative in their diverse offerings of products and services. Although we continue to see some consolidation, total net assets continue to increase and the complexity and breadth of operations continue to grow. The formation of de novo state banks remains strong, but has slowed slightly.

In addition, we recognize that the economic development of our state is fueled by financial institutions. As such, we continue to remain responsive to those entities to create an environment that promotes economic vitality and fairly meets the diverse financial needs of our citizens.

This objective, united with a proactive approach in the area of compliance, continues to be a main focus for the Department. In 2006, the Tennessee Home Loan Protection Act was signed into law to help reduce consumer abuse and predatory lending by defining and restricting high cost home loans. The Department has prepared well to enforce this law and we will report our findings. I would also note that we have just issued a supplemental report on the Title Pledge industry and have completed our first year of regulation of that industry. We have made two legislative recommendations to you. One is a clarification of three provisions in the Banking Act. The other closes the exception from licensing under the Check Cashing Act for money transmitters and finance companies.

Throughout this report you will find additional information related to the work of this agency, as well as the condition of the entities the Department regulates. As you peruse this report you will notice that Tennessee remains a premier state for banking and financial services companies. On behalf of the employees of the Department, this report is respectfully submitted.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Gonzales". The signature is fluid and cursive, with a long horizontal stroke at the end.

Greg Gonzales, Commissioner



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## DEPARTMENT OVERVIEW

### OUR MISSION

The primary statutory mission of the Department of Financial Institutions is to provide the citizens of Tennessee with a sound system of state-chartered and licensed financial institutions by providing for and encouraging the development of depository financial institutions while restricting their activities to the extent necessary to safeguard the interests of depositors; and seeking to ensure compliance by both depository and non-depository financial institutions with governing law and regulations.

### OUR VISION

Our vision is the establishment of a regulatory program that provides for a sound state financial services system within which well meaning institutions have the opportunity to succeed and serve their communities by encouraging commerce while there is strong enforcement of laws and regulations to protect citizens.

### WHO ARE WE? A Little About Our History

Created in 1913, the Banking Department was headed by the Superintendent of Banks. Ten years later, supervision of state-chartered credit unions was added to its responsibilities. Over the next 70 years, the Department witnessed more changes, one of which was a final name change to the Tennessee Department of Financial Institutions.





## DEPARTMENT OVERVIEW

## TOTAL NUMBER OF STATE-CHARTERED INSTITUTIONS AND LICENSEES/REGISTRANTS

CHARTERS	June 30, 2006	June 30, 2005
Commercial Banks/Savings Banks	161	157
Trust Companies	8	8
BIDCOs	3	3
Credit Unions	118	122
TOTAL NUMBER OF CHARTERS	290	290
LICENSEES/REGISTRANTS	June 30, 2006	June 30, 2005
Industrial Loan and Thrift Companies	733	713
Insurance Premium Finance Companies	67	65
Mortgage Companies	1,460	1,349
Mortgage Loan Originators	16,211	11,603
Money Transmitters	53	48
Deferred Presentment	1,371	1,219
Check Cashers	488	404
Title Pledge Lenders	630	0*
TOTAL NUMBER OF LICENSEES/REGISTRANTS	21,038	15,401

\*The Tennessee Department of Financial Institutions began regulating title pledge lenders on November 1, 2005.

## ADMINISTRATIVE AND LEGAL DIVISION

## HEADQUARTERS PERSONNEL - NASHVILLE

## COMMISSIONER'S OFFICE

Greg Gonzales, Acting Commissioner  
 David Braam, Legislative Liaison  
 Laurie Daaboul, Commissioner's Assistant

## ADMINISTRATIVE AND LEGAL DIVISION

Tina Miller, Acting General Counsel  
 Marsha Anderson, Attorney  
 David Axford, Attorney  
 Kevin Bartels, Attorney  
 Tracey Boyers, Attorney  
 Paula Cagle, Legal Assistant  
 Kelley Cole, Secretary  
 Tommie Pendergrass, CPA, Fiscal Director  
 Debbie Curry, Human Resources  
 Patricia Crawford, Human Resources Technician  
 Diane Speyerer, CPS, Administrative Secretary  
 Grant Casselberry, Accountant 2  
 Mary Jane Friedmann, Accountant/Auditor 1  
 Barbara Jones, Administrative Services Assistant  
 Paul Battenfield, Information Systems Director  
 Tim Jones, Information Systems Consultant  
 Charles Ingram, Information Systems Coordinator



**The Administrative Division** administers the Department's budget and oversees fiscal services, human resources, training and development, and information systems.

The Department continues to work with both the Department of Personnel and the Department of Finance and Administration to develop and improve career path with salary progression for our examiners.

Training is another integral part of developing and maintaining a qualified examiner staff. To ensure value, the Department's training needs are annually assessed and budgeted. The majority of the structured training curriculum is acquired through external training sources such as the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Board of Governors of the Federal Reserve System, the Educational Foundation of the Conference of State Bank Supervisors, the National Association of the State Credit Union Supervisors, the Federal Financial Institutions Examination Council, the National Association of Consumer Credit Administrators, the Money Transmitter Regulators Association, as well as other sources.

## ADMINISTRATIVE AND LEGAL DIVISION

The Legal Division provides legal advice and representation for the Department. The Department's lawyers advise the Commissioner and departmental personnel in all legal matters affecting the Department. They work with regulated entities and the general public in addressing legal issues. The Department's lawyers also work closely with the Governor's Office and the Tennessee General Assembly on legislative issues affecting financial institutions. The Legal Division assists in the coordination of enforcement initiatives with other federal and state regulators as well as with various law enforcement agencies.

In 2006, the Legal Division was heavily involved in the 2006 Legislative session by tracking bills, working closely with the Governor's Office, the General Assembly, and other groups sponsoring legislation that impacted the Department. This division also provided assistance to operating divisions within the Department on issues involving implementation of the new Tennessee Home Loan Protection Act, as well as continuing support and assistance in consumer complaints, enforcement actions, and statutory interpretations involving all regulated entities.

## 2006 LEGISLATIVE HIGHLIGHTS

### 2006 LEGISLATION

#### Public Chapter 596

Amends T.C.A. § 45-2-1603 and T.C.A. § 45-18-113  
Effective Date 5/4/06

Public Chapter 596 amends TCA § 45-2-1603 by adding a new subsection (a)(13) and TCA § 45-18-113 by adding a new subsection (d) with regard to examinations of regulated institutions. Public Chapter 596 grants the Department the authority to share certain examination information with Federal and state regulatory and investigatory agencies in order to report suspected violations of the Bank Secrecy Act (BSA), as well as to promote compliance with the same. The amendment also provides the Department with the authority to execute agreements with federal regulatory agencies to be able to share BSA information.

#### Public Chapter 563

Amends T.C.A. § 45-5-403  
Effective Date 7/1/06

Public Chapter 563 amends TCA § 45-5-403(a)(4) of the Tennessee Industrial Loan and Thrift Companies Act regarding delinquency charges an industrial loan and thrift company may assess for late payments by raising the fee from \$10.00 to \$15.00.

#### Public Chapter 632

Amends T.C.A. Title 47, Chapter 32, Part 1  
Effective Date 7/1/06

Public Chapter 632 revises and clarifies the Good Funds Act of 2005. Pursuant to the new clarifications, a teller's check or an official check is now permissible so long as 1) it is issued by a financial institution and 2) it is drawn on or payable through a financial institution. This amendment clarifies the ability of a bank to make a direct deposit into an account of the settlement agent at the bank. Finally, this bill provides that loans to builders and developers on unimproved real property shall be treated as commercial loans. Therefore, they are exempt from the good funds restrictions.

#### Public Chapter 660

Amends T.C.A. Title 45, Chapter 2  
Effective Date 5/12/06

Public Chapter 660 revises and streamlines the chartering process for Tennessee de novo banks as described in Tennessee Code Annotated, Title 45, Chapter 2. Organizers will be able to apply for a charter as soon as the notice of intent to form a bank is given to the Department. In addition, organizers can begin to collect subscriptions in escrow as soon as the Notice of Intention has been accepted. Once the charter has been granted, organizers may act in the name of the corporation and engage in certain business activities while the application for the certificate of authority is being reviewed by the Department. The revisions further provide that if the certificate of authority is not issued by the Department the organizers have the option of renaming the corporation and using the charter for a non-bank purpose.

Under the new provisions, the Commissioner of the Department is given discretion to set minimum capital requirements for organizers, as well as limited discretion, consistent with Federal guidelines, to permit an individual previously

## ADMINISTRATIVE AND LEGAL DIVISION

convicted of a crime to serve as an officer or director as long as the crime committed was not financial in nature and the Commissioner finds the person has been rehabilitated.

The new provisions further allow for a bank or trust company to organize as a limited liability company.

### Public Chapter 801

Amends Title 47

Effective Date 1/1/07

Public Chapter 801 amends Title 47 by enacting the Tennessee Home Loan Protection Act (THLPA). The THLPA defines high-cost home loans, places certain prohibitions and limitations on these loans, offers borrowers a right to cure a default and creates a private right of action against lenders for violations of the Act. The THLPA also places enforcement and regulatory authority with the Department.

**High-Cost Home Loan Defined:** Excludes residential mortgage transactions as defined in 12 C.F.R. Section 226.2(a)(24), reverse mortgage transactions as defined in Title 47, Chapter 30 of the Tennessee Code Annotated, loans insured by/sold to a government agency, and construction loans as defined in the THLPA, as well as open-end loans as defined in 12 C.F.R. Section 226.2(a)(20) unless used to evade the THLPA. Otherwise, applies to closed-end consumer home loans (See THLPA Section 1(10)(A)) that meet or exceed one of the following thresholds: *Rate:* Same as the Federal Home Ownership and Equity Protection Act ("HOEPA") and 12 C.F.R. 226.32 (a)(1)(i), or; *Points and Fees:* for loans more than \$30,000 - exceed the greater of 5% of total loan amount or \$2,400; for loans \$30,000 or less - exceed 8%. (Points and Fees defined: Generally, similar to Federal HOEPA, see 12 C.F.R. 226.32 (b); but, excludes: 2 bona fide loan discount points as defined in the THLPA and real-estate related fees as defined in 12 C.F.R. 226.4 (c)(7) paid to a 3rd party or an affiliate if reasonable.)

The Act places the following prohibitions and limitations in the making of high-cost home loans: The lender (See THLPA Section 2(8)) shall not encourage default or payment skipping; the borrower is entitled to receive two pay-off statements free of charge within a 12 month period. A lender may charge a reasonable fee for additional requests; the lender may charge actual cost for recording release; the lender shall not knowingly or intentionally make a high-cost home loan within 30 months of existing home loan where new loan has no reasonable benefit to the borrower considering all the circumstances; the Act permits financing of single premium credit insurance where total benefits payable from all policies combined do not exceed \$50,000, the principal amount of financed premiums is repayable during the policy term and the amounts payable under a credit life insurance policy shall not be more than 103 percent on the unamortized principal balance; the lender must reasonably believe that borrower will be able to repay the loan considering borrower's obligations other than borrower's equity in home. A borrower shall be deemed to be able to repay the loan if the borrower's total monthly debt at closing, including amounts owed under the loan, do not exceed 50 percent of borrower's monthly gross income; the lender shall not directly or indirectly finance points and fees in excess of the greater of three percent or \$1,500 if total loan amount is more than \$30,000 or five percent if total loan amount is \$30,000 or less. Registrants under Tennessee's Industrial Loan and Thrift Companies, Title 45, Chapter 5, may finance as points and fees an amount not to exceed the charges allowed pursuant to § 45-5-403(a)(1)(A) on loans made under the provisions of Title 45, Chapter 5; the Act prohibits charging of points and fees in connection with refinancing an existing high-cost home loan with a high-cost home loan where loan is with the same lender or affiliate of the lender. This prohibition does not apply to additional proceeds, as defined in the THLPA; limits prepayment penalties in excess of two percent in the first 24 months; no prepayment penalties can be charged where refinancing is with the same lender or affiliate. This provision sets forth the permissible refund method; prohibits balloon payments; prohibits negative amortization. Payment schedule cannot cause the principal to increase; the lender cannot accelerate the debt in its sole discretion; the lender cannot require more than two payments to be consolidated and paid in advance from loan proceeds; the interest rate cannot be increased after the borrower defaults; late payment fees may not exceed the greater of five



## ADMINISTRATIVE AND LEGAL DIVISION

percent or \$15. They may be only assessed for a payment past due 10 days or more; contains a notice which must be given to the borrower, at least three business days before closing, which tells borrower to shop around, that the lender will have lien on home and that borrower can obtain list of credit counselors from Housing and Urban Development or the Tennessee Department of Financial Institutions; requires a redisclosure, at least one business day before closing, when material changes in interest rate, term, type of loan, or settlement charges are made. The Act defines "materially different settlement charges" as 15 percent or greater. It also establishes specified locations for high cost home loan closings; requires quarterly reporting of favorable and unfavorable payment history information to a nationally recognized consumer credit reporting agency; requires notation on mortgage or deed of trust and note that this instrument is a high-cost home loan; cannot leave material terms blank on any loan related document. Cannot modify a loan document after closing without consent in writing of persons affected, or by valid power of attorney, and; must provide borrower with a separate document listing third party non-profit credit counselors not later than the time that the good faith estimate is provided.

The Act affords borrowers the right to cure a default on a high-cost home loan up to three days before foreclosure; borrower may exercise once in a 12-month period. It also requires that actual notice of right to cure be sent to borrower. In addition, a purchaser or an assignee of a high-cost home loan is liable for any claims or defenses that could be raised against the original lender unless the purchaser or assignee can show the exercise of due diligence.

The Act grants the Tennessee Department of Financial Institutions regulatory authority, interpretive and rulemaking authority; examination authority with respect to persons subject to the Department's regulatory jurisdiction as well as persons reasonably suspected of being subject to the Department's regulatory jurisdiction; authority to issue subpoenas and require the production of documents; authority to issue cease and desist orders, assess civil money penalties up to \$10,000 per violation, require restitution to borrowers and suspend, revoke or refuse to renew a license; authority to bar individuals from the industry; and bring actions in chancery court. State Attorney General's Office may also bring an action for violations of the THLPA.

Also, the Act creates a private right of action for violations of the THLPA; contains a three year statute of limitations; allows for actual damages, statutory damages for willful or intentional violations, punitive damages for malicious or reckless violations as well as costs and reasonable attorney's fees; and, requires notice of any civil action under the THLPA be given to the Department of Financial Institutions.

Finally, the Act provides that it is preempted to the extent it is in conflict with or inconsistent with the National Bank Act, the Homeowner's Loan Act, the Federal Credit Union Act or regulations issued by the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation or the National Credit Union Administration, and as interpreted by the federal courts, with respect to national and state banks, trust companies, federal and state savings institutions, and federal and state credit unions and their operating subsidiaries.

#### **Public Chapter 854**

Amends T.C.A. § 49-6-1205

Effective Date 6/2/06

Public Chapter 854 amends T.C.A. § 49-6-1205 to allow local education authorities to include courses in personal finance to the list of subjects that satisfy the required curriculum a student must complete to graduate from high school in Tennessee. Under the provisions of this chapter, a student completing a ½ unit credit in a personal finance course, developed by the Department of Education and approved by the State Board of Education, may now satisfy the course requirement in the essentials of the free enterprise system (i.e. economics) as required by T.C.A. Section 49-6-1205 to graduate from high school.

## ADMINISTRATIVE AND LEGAL DIVISION

**Public Chapter 622**

Amends T.C.A. Title 48, Chapter 18, Part 1

Effective Date 7/1/06

Public Chapter 622 amends the Tennessee Consumer Protection Act by adding a new section that prohibits retailer-issued gift cards from expiring in less than two years. In addition, within the two year period, retailers are prohibited from imposing acquisition and maintenance fees that have the effect of reducing the total amount for which the holder of the gift certificate or gift card may redeem the gift card. The provisions of this chapter do not apply to cards distributed for customer loyalty, sold below face value and at a volume discount; cards sold by a non-profit for fundraising purposes; cards issued to an employee in recognition of service; cards usable with multiple, unaffiliated sellers of goods or services, or; prepaid calling cards.

**Public Chapter 683**

Amends T.C.A. Title 48, Chapter 18

Effective Date 7/1/06

Public Chapter 683 amends the Tennessee Consumer Protection Act to add a new section dealing with the disclosure of debit holds. The new provision requires any business that provides goods and services and that initiates a preauthorized debit card transaction that is more than 25% of the actual transaction, or \$50.00, whichever is greater, to disclose at the time and point of the sale that a hold will be placed on the customer's debit card account. If the hold is placed on an account due to a transaction occurring at an unmanned remote terminal, then the disclosure must be conspicuous at the place where the transaction occurs. In cases where the hold is part of a contractual agreement the notice must be conspicuous on the written document. A violation of the chapter constitutes an unfair and deceptive act or practice.

**Public Chapter 677**

Amends T.C.A. Title 25, Title 26, Title 45, Title 47 and Title 58

Effective Date 7/1/06

Public Chapter 677 amends TCA § 26-1-111 by suspending certain foreclosure proceedings with regard to property, both real and personal, owned by a member of the Tennessee National Guard called to active service. Pursuant to amendments, foreclosure on real property or the repossession of a motor vehicle under terms of a purchase agreement made by a member of the state National Guard called to active military service and serving in foreign hostile conflict is stayed for 90 days after the guardsman has returned to the state. In order to exercise this benefit, the guard member must provide a written statement to the holder of the debt with deployment orders attached giving an expected date of return to the state. The holder of the debt is further entitled to rely on the anticipated date of return when seeking foreclosure or repossession.



## ADMINISTRATIVE AND LEGAL DIVISION

### 2006 FISCAL NUMBERS AT A GLANCE

The Department of Financial Institutions receives no federal or state taxpayer funds and is fully funded by the fees assessed to the financial institutions regulated and supervised by the Department.

At the end of Fiscal Year 2006, a rebate of \$1,242,190.40 was distributed to state banks in accordance with Tennessee Code Annotated (T.C.A.) Section 45-1-118(d)(2) while \$2,828,556.17 was reverted to the state's general fund from surplus funds not associated with the bank assessment fees. Most of this reversion is the result of the Department being given the responsibility for regulating two new industries over the past two fiscal years.

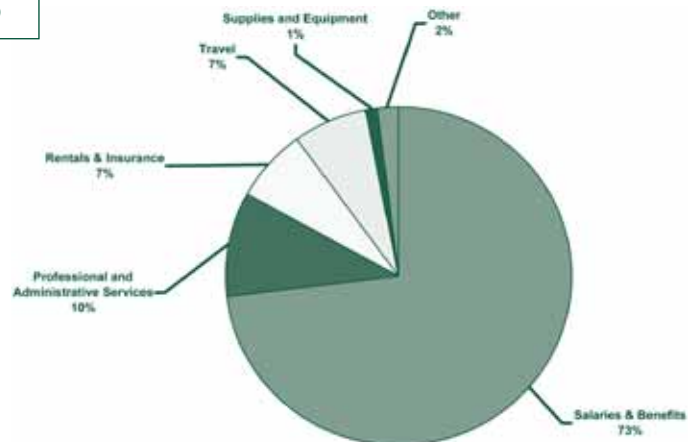
In fiscal year 2005, the Department was given the responsibility of regulating mortgage loan originators. In fiscal year 2006, the Department was given the responsibility of regulating title pledge lenders. It can take several months to put a new regulatory infrastructure into place. As a result, the Department collected new revenue on an annualized basis, but only experienced increases in the associated expenditures for a portion of each respective fiscal year. The costs associated with these new programs (examiners, equipment, and office space) were realized gradually over time and are now aligned with the associated revenues.

#### EXPENDITURE AND FUNDING SOURCES

FY 2005 - 2006

REVENUES	
Appropriations-Bank Assessment Fee	\$7,461,700.10
Other Banking Fees	\$290,486.08
BIDCO's & Trust Company Fees	\$26,772.47
Credit Union Fees	\$1,738,257.61
Money Order Fees	\$139,296.00
Loan Company Fees	\$568,050.00
Insurance Premium Finance Company Fees	\$35,950.00
Mortgage Company Fees	\$3,707,750.00
Check Cashers Fees	\$370,600.00
Deferred Presentment Fees	\$1,033,400.00
Title Pledge Lender Fees	\$629,325.00
Miscellaneous	\$1,200.00
<b>TOTAL REVENUES</b>	<b>\$16,002,787.26</b>

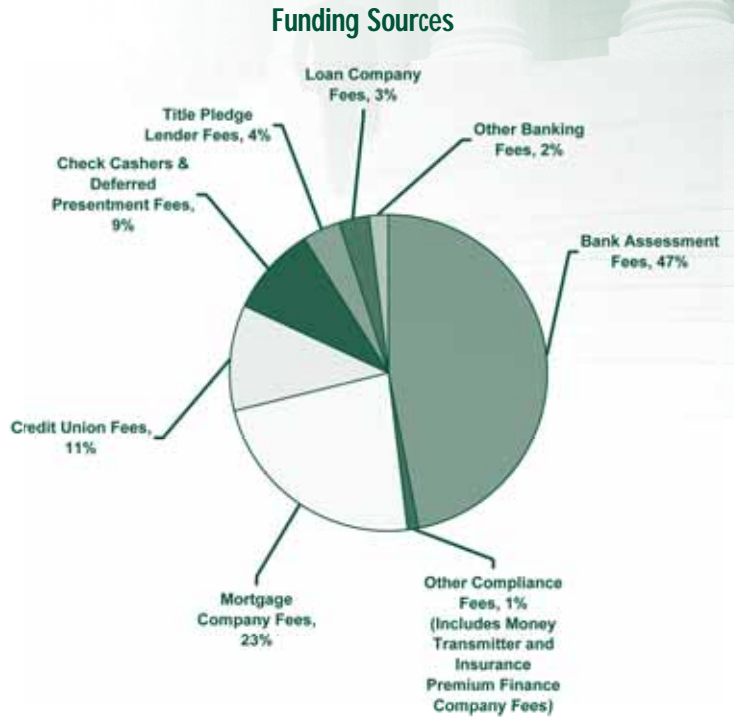
#### Expenditure Sources



**ADMINISTRATIVE AND LEGAL DIVISION**

EXPENDITURES	
Personal Services	\$6,546,551.22
Employee Benefits	\$2,164,695.31
TOTAL PAYROLL	\$8,711,246.53
Travel	\$834,932.90
Printing Duplicating and Film Processing	\$46,988.29
Communication & Shipping Costs	\$44,940.13
Maintenance, Repair & Services	\$4,256.60
Professional and Administrative Services	\$1,215,320.59
Supplies	\$170,410.10
Rentals & Insurance	\$817,092.35
Awards & Indemnities	\$2,982.04
Grants & Subsidies	\$68,133.52
Unclassified	\$3,200.00
Equipment	\$12,537.64
TOTAL OPERATIONAL	\$3,220,794.16
TOTAL EXPENDITURES	\$11,932,040.69

EXCESS OF REVENUE OVER EXPENDITURES	
	\$4,070,746.57
Rebated to Banks	\$1,242,190.40
Reverted to the State's General Fund	\$2,828,556.17



**2006 TECHNOLOGICAL ADVANCEMENTS**

**GROUPWISE 7.0**

Novell GroupWise has been used in the Tennessee Department of Financial Institutions for several years. The Department has been in the process of migrating to the latest version to take advantage of its newest functionality and stay compliant with the latest supported version of Novell GroupWise e-mail. The Department relies on GroupWise for secure business communications and staying current in this telecommunications package is paramount for efficiency and effectiveness in business operations.

**REMOTE MANAGEMENT**

The Department now has the capability to remotely manage computers that are integrated into the Novell management system. Since the Department has locations in Chattanooga, Knoxville, Jackson, Nashville, Murfreesboro and in Memphis which make Information Technology (IT) service and support a challenge, this remote management capability will enable the IT staff to better serve employees and assist in reducing travel costs to remote assistance sites.



## BANK DIVISION

As a whole, our state-chartered banks are capably positioned both strategically and financially, to meet new opportunities in the changing economic and regulatory environments and continuing technological and financial innovation.

The Bank Division has legal responsibility for ensuring the Tennessee state-chartered banking system runs on a safe and sound basis. In its supervisory role, the Bank Division periodically examines the financial soundness of all state-chartered banks, savings banks, and independent non-depository trust companies. The Department met the statutory obligation of examining all institutions on either a 12-month or an 18-month basis. This was accomplished through coordination with federal banking regulators. Bank examiners perform evaluations of each institution's assets, liabilities, income and expenses; monitor compliance with governing laws and regulations; and rate the effectiveness of the institution's management. The adequacy of capital is assessed to ensure the protection of deposits. In addition, examiners review the Information Technology (IT) functions of state-chartered financial institutions for compliance with generally accepted IT practices and for adherence to Departmental regulations. Since 2005, the Bank Division began incorporating Bank Secrecy Act (BSA) reviews into its independent examinations to determine compliance with federal BSA/Anti-Money Laundering regulations. The Bank Division staff also examines Business and Industrial Development Corporations (BIDCOs) for compliance with governing statutes and evaluates applications for new institutions, branches, expanded financial activities, and corporate reorganizations.

### HEADQUARTERS PERSONNEL – NASHVILLE

Tod Trulove, CEM, Assistant Commissioner  
Hope Givens, Administrative Services Assistant

### BANK EXAMINATION AND FINANCIAL ANALYSIS

Tony Matthews, Chief Administrator  
Justin Cary, Financial Analyst  
Justin McClinton, Financial Analyst  
Philip Ruffin, Financial Analyst

### APPLICATIONS

Joyce Simmons, CPA, Program Administrator  
Debra Grissom, Applications Specialist

### TRUST

Vivian Lamb, CEM, Program Administrator

### EXAMINATION PERSONNEL

#### EAST TENNESSEE DISTRICT

Kenneth Kelley, CEM, District Manager  
Louella McElroy, CEM, Off-Site Monitoring Supervisor  
Claude Huff, Jr., CEM, Supervisor  
Wade McCullough, CEIC, CFE, Supervisor  
Robert Broshears, IT Specialist

#### MIDDLE TENNESSEE DISTRICT

Todd Rice, CEM, District Manager  
Storm Miller, Off-Site Monitoring Supervisor  
John Hudson, CEIC, Supervisor  
Mike Sisk, CEIC, Supervisor  
Sherri Cassetty, CEIC, Trust Examination Specialist  
Clyde McClaran, IT Specialist

#### WEST TENNESSEE DISTRICT

Shirley Sanderson, CEM, District Manager  
Phil Stafford, CEIC, Off-Site Monitoring Supervisor  
Danny Nolen, CEM, Supervisor  
Terry Warren, CEIC, Supervisor  
Bruce Allen, CEIC, Trust Examination Specialist  
Jerry Davis, CEIC, IT Specialist  
Vicki Ivey, CEIC, IV



Jonathan Piper, CEIC, IV  
Brooke Roberson, II  
C. Bradley Williams, II  
Chad Holbert, I  
Robert Stanton, I

David Tate, IV  
Trina Buffum, I  
Alan Kirkwood, I  
JoAnn Schumann, I  
Ekaette Udouman, I

Robert Prather, CEIC, IV  
Timothy Runions, CEIC, IV  
Roxanne Taylor, CEIC, IV  
Toniece Johnson, II  
Judy Morgan, II  
Tara Smith, II

## BANK DIVISION

**BANK DIVISION INFORMATION AT A GLANCE  
(AS OF JUNE 30, 2006)****BANK DIVISION REGULATED INSTITUTIONS:**

161 Banks  
3 BDCOS (Business and Industrial Development Corporations)  
8 independent non-depository trust companies

**BANK DATA****CONSOLIDATED TOTAL ASSETS:**

- \$33.4 billion, representing a \$3.9 billion increase since June 30, 2005

**CONSOLIDATED CAPITAL:**

- \$3.45 billion, representing 10.33 percent of Total Assets

**RETURN ON AVERAGE ASSETS (ROAA):**

- Median ROAA of 0.92 percent with a median net interest margin of 4.26 percent (includes all banks)

**ALLOWANCE FOR LOAN AND LEASE LOSSES (ALL):**

- Median ALLL to Total Loans and Lease ratio of 1.25 percent

**PAST DUE RATIO:**

- Median past-due ratio of 1.48 percent

**TRUST COMPANY DATA****TOTAL CONSOLIDATED CORPORATE ASSETS:**

- \$29 million, representing a 4.38 percent increase over the past year

**AGGREGATED NET INCOME FOR TRUST COMPANIES:**

- \$1.7 million, representing a 6.56 percent increase compared to the same period in 2005

**TRUST ASSETS UNDER MANAGEMENT AND/OR CUSTODY:**

- Grew 10 percent from \$8.9 billion to \$9.8 billion, inclusive of assets invested in common/collective trust funds

**UPDATE ON SENTINEL TRUST COMPANY (CURRENTLY IN LIQUIDATION)**

As of December 31, 2006, the Department continues to oversee the liquidation of Sentinel Trust Company, Hohenwald, TN subject to a Notice of Liquidation issued on June 18, 2004. During the course of its annual regulatory examination, the Department determined that the Company was engaging in unsafe and unsound fiduciary practices. These practices had caused a shortage in the fiduciary cash position for which Sentinel's capital was insufficient to cover.

As a result, pursuant to Tennessee Code Annotated Section 45-2-1501 et seq., former Commissioner Kevin P. Lavender took possession of Sentinel on May 18, 2004. Immediately thereafter, pursuant to Tennessee Code Annotated Section 45-2-1502(b) (2), the Commissioner issued an Order appointing a Receiver.

Since December 31, 2005, the remaining two defaulted bond issues being managed by the Receiver have been resolved. One was resolved by the liquidation of collateral and the payment of proceeds to the bondholders. The second was authorized for a successor trustee after approval of its bankruptcy plan.

The proof of claim process for the cash that was purportedly held in the Fiduciary Cash Account has been completed. The Receiver has been ordered to make an initial distribution of approximately \$3.9 million from the pre May 18, 2004 trust account. This represents a 38% distribution on the approved claims. This payment is expected to take place at the end of February 2007, assuming no appeal is taken from the Order.

**BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATIONS (BDCOS)**

Tennessee Code Annotated, Section 45-8-225, requires a report to be published annually that summarizes the accomplishments of the various BDCOs operating in Tennessee. As of June 30, 2006, the Department supervised the operation of three BDCOs. As of December 31, 2005, the three BDCOs provided financing totaling \$8,036,861 to 17 small businesses, which is a 77.59 percent increase from the previous year. As a result of the loans to these businesses, 172 jobs were preserved and/or created. The summary analysis of the number and dollar amount of loans extended to certain broad categories is detailed as follows:

Category	Number	Amount
Services	3	\$ 2,561,361.00
Retail Trade	9	\$ 1,478,500.00
Finance, Insurance, Real Estate	2	\$ 747,000.00
Manufacturing	2	\$ 2,250,000.00
Construction	1	\$ 1,000,000.00
Total	17	\$ 8,036,861.00

## BANK DIVISION

### BANK DIVISION APPLICATION ACTIVITIES FY 2005-2006

#### NEW BANKS AND TRUST COMPANIES

- Civic Bank & Trust, Nashville, TN (July 2005)
- Putnam 1st Mercantile Bank, Cookeville, TN (November 2005)
- First Vision Bank of Tennessee, Tullahoma, TN (November 2005)
- The Bank of Tullahoma, Tullahoma, TN (November 2005)
- Reliant Bank, Brentwood, TN (January 2006)
- Heritage Bank & Trust, Columbia, TN (March 2006)
- First Freedom Bank, Lebanon, TN (April 2006)
- Triumph Bank, Germantown, TN (June 2006)

#### BANK MERGERS

- Jackson Bank & Trust, Gainesboro, TN, merged with and into FSG Bank, National Association, Chattanooga, TN, under the title of FSB Bank, National Association, Chattanooga, TN (August 2005)
- Cavalry Banking, Murfreesboro, TN, merged with and into Pinnacle National Bank, Nashville, TN, under the title of Pinnacle National Bank, Nashville, TN (March 2006)
- United Community Bank Tennessee, Lenoir City, TN, merged with and into United Community Bank, Blairsville, GA, under the title of United Community Bank, Blairsville, GA (April 2006)
- Farmers Bank, Cornersville, TN, merged with and into Citizens Bank & Savings Company, Russellville, AL under the title of Citizens Bank & Savings Company, Russellville, AL (May 2006)
- Bells Banking Company, Bells, TN, merged with and into Merchants & Farmers Bank, Kosciusko, MS under the title of Merchants & Farmers Bank, Kosciusko, MS (May 2006)

#### CONVERSIONS

- First Farmers and Merchants Bank, Columbia, TN converted from a national bank to a state chartered commercial bank (July 2005)

#### BIDCO TRANSACTIONS

- Bridge Funding Corporation, Brentwood, TN – new BIDCO (July 2005)

\* There were no new trust companies or trust company voluntary corporate transactions for fiscal year 2005-2006.



## COMPLIANCE DIVISION

## HEADQUARTERS PERSONNEL – NASHVILLE

Mike Igney, Assistant Commissioner  
 Chris Adams, CFSA, CFE, Chief Administrator  
 Christina Coleman, Program Administrator  
 Alan Smith, Financial Analyst

## APPLICATIONS

**Mortgage, Industrial Loan & Thrift and Insurance Premium Finance**

Carl Scott, CFSA, Director  
 David Gaines, Financial Analyst  
 Melody Johnson, Financial Analyst

**Check Cashing, Deferred Presentment, Money Transmitter, and Title Pledge**

Stephen Henley, CPA, Director  
 Christy Beadle, Financial Analyst  
 Jenohn Moore, Financial Analyst

## EXAMINATION PERSONNEL

## WEST TENNESSEE DISTRICT

Georgia Cannon, Regional Manager  
 Jay Larson, Supervisor  
 Patrick Somers, Supervisor  
 Robert Hornbreak  
 Marilyn Schroepfel, CFSA  
 Calvin Stout

Kamela Settles  
 Alisa Logan  
 Kevin Hicks  
 Kerry Rial  
 Rich Regan  
 Joshua Evans

## MIDDLE TENNESSEE DISTRICT

Cathy Wilkerson, Supervisor  
 Robert Campbell  
 Michael Cranor  
 Bart Daughdrill  
 Chad Haney

Gene Smith, CFSA  
 Michael Wiggins  
 Marcia Jacks  
 Robert Doyle

## EAST TENNESSEE DISTRICT

Brian Williams, Regional Manager  
 Frank Barnes, CFSA, Supervisor  
 Will Justice  
 Keith Sharp  
 James Worley  
 Jack Lay, CFE  
 Elizabeth Harrell

James Waterman  
 James Simmons  
 John Stewart  
 Nicole Chamblee  
 David Kelly  
 Dennis Woodmore, CFSA

The Compliance Division is responsible for the licensing and regulatory supervision of the following types of financial institutions operating in Tennessee:

- Industrial Loan & Thrift Companies
- Insurance Premium Finance Companies
- Residential Mortgage Lenders, Brokers and Servicers
- Check Cashing Companies
- Deferred Presentment Service Companies
- Money Transmitters
- Title Pledge Lenders

In addition, the Division is responsible for the registration of all Mortgage Loan Originators conducting business in Tennessee and for the regulatory oversight of the institutions with which they affiliate.

Through a comprehensive examination program, all of the above industries are subject to periodic examination by the Division's field examiners. The Compliance Division's examinations are designed to test and enforce compliance with Tennessee laws, as well as Federal regulations. These laws were written in order to protect the consumer by limiting the amount of interest, loan charges and insurance charges that can be assessed as well as providing for specific disclosures to the customer regarding loan provisions. The field examiners also investigate consumer complaints and allegations of consumer fraud and usury.

## COMPLIANCE DIVISION

## MILESTONES AND ACCOMPLISHMENTS

- **Consumers Benefit From Increased Regulatory Oversight**

In March 2004, the Compliance Division employed fourteen loan examiners responsible for the on-site examination of all non-depository financial institutions in Tennessee including mortgage lenders and brokers, industrial loan and thrift companies, insurance premium finance companies ("consumer finance" companies), deferred presentment companies ("payday lenders"), money transmitters, and check cashing companies. For the first time in 2005, title pledge lenders came under the Department's jurisdiction. Because of the Department's commitment to increase regulatory compliance through the examination of non-depository financial institutions, twenty-one additional loan examiner positions were added to the Division. The result is that exam penetration has been increased across industry types but particularly in the mortgage arena.

As a result of increased on-site examination, and other regulatory oversight of non-depository financial institutions, the Department has successfully returned to consumers more than \$1.5 million in refunds for the fiscal year ending June 30, 2006. Additionally, the Department was an active participant in a multi-state settlement reached with Ameriquest in 2006 that will return an additional estimated \$2.5 million to Tennessee consumers starting in 2007. This was the second major consumer settlement for the Department. In 2003, the Department also participated in a multi-state settlement with Household International that returned \$6.5 million to Tennessee consumers.

Through increased regulatory oversight, the Department is sending a clear and consistent message that, while credit availability is vital to Tennessee's economy and all of its citizens should have access, the extension of credit must be fair and equitable.

- **Amendments to the Tennessee Title Pledge Act ("Act")**

For the first time beginning November 1, 2005, title pledge lenders in Tennessee became subject to regulatory oversight by the Department. The Department successfully implemented a new program to license and regulate title pledge lenders.

The successful implementation of the amendments to the Act has resulted in the licensing of 703 title pledge lender locations throughout Tennessee as of December 31, 2006. Regulatory oversight by the Department is bringing the industry into compliance by enforcing statutory limits on the amount of interest and fees that can be charged a borrower. Tennessee consumers have also benefited through regulatory oversight that has prohibited the industry from charging various miscellaneous fees not authorized under the Act. Consumers have received refunds of unauthorized interest and fees.

In February of 2006, the Department provided a written report to the General Assembly. The report reviewed practices and certain financial information about the industry as it was prior to the amendments to the Act.

- **Tennessee Home Loan Protection Act of 2006 ("Act")**

The Department is in the process of implementing the provisions of, and examining for compliance with, the Tennessee Home Loan Protection Act which became effective January 1, 2007. The Act places limitations and restrictions on the making of high-cost home loans including defining high cost home loans; placing a cap on the points and fees that can be financed by the borrower; prohibiting the practice (known as "flipping") of making a high-cost home loan within 30 months of the making of an existing home loan when no reasonable benefit exists for the borrower; barring lending without regard for repayment ability; excluding prepayment penalties in certain instances; requiring disclosures to borrowers on available credit counseling; and granting the Department of Financial Institutions regulatory authority (including rulemaking and examination authority) and the power to issue cease and desist orders, assess civil money penalties up to \$10,000 per violation and require restitution to borrowers.

## COMPLIANCE DIVISION

**INDUSTRIAL LOAN AND THRIFT COMPANIES**

Consumer loan companies operate under the “Industrial Loan and Thrift Companies Act”, codified as T.C.A. Title 45, Chapter 5. The stated purpose of the Act is to allow citizens to have the services of regulated lending institutions at rates and charges reasonably commensurate with economic realities. This Act authorizes those companies that obtain a certificate of registration to charge rates and fees higher than what may be charged under the State’s General Usury statutes. While the Act allows higher interest rates, it also contains many consumer protection provisions particularly with respect to loan charges. In 2001, legislation was enacted that requires companies licensed under this Act to secure bonding. The bonding requirements are as follows: If the applicant proposes to make loans secured by a mortgage, the surety bond or letter of credit shall be in the amount of \$200,000. For all other applicants, the bond or letter of credit shall be in the amount of \$50,000. Only one bond or letter of credit is required for any registrant, irrespective of the number of employees or offices of such registrant.

**Registration**

To obtain a certificate of registration, an applicant must maintain a net worth of at least \$25,000 and demonstrate sufficient character to command the confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2006, there were 733 locations licensed under the Act.

**Examinations**

For fiscal year ending June 30, 2006, the Department conducted 812 examinations that resulted in refunds of \$1,030,024 to 48,353 consumers of the state. Special examinations are conducted as needed as a result of complaints filed with the Department’s Consumer Resources Division.

**INSURANCE PREMIUM FINANCE COMPANIES**

The activities of Premium Finance Companies are governed by the “Premium Finance Company Act of 1980”, codified as T.C.A. Title 56, Chapter 37. “Premium Finance Company” means a person engaged in the business of entering into premium finance agreements or acquiring premium finance agreements from other premium finance companies. “Premium finance agreement” means an agreement by which an insured, or prospective insured, promises to pay to a premium finance company the amount advanced, or to be advanced under the agreement to an insurer or to an insurance agent or producing agent in payment of premiums of an insurance contract, together with interest and a service charge as authorized and limited by this Chapter.

**Registration**

To obtain a license, an applicant must, pursuant to T.C.A. § 56-37-104(b), be competent and trustworthy, act in good faith, have a good business reputation, experience, training or education in this business. Furthermore, if the applicant is a foreign or domestic corporation, LLC, or limited partnership, it must be authorized to conduct business in this state. As of June 30, 2006, there were 67 companies licensed under the Act.

**Examinations**

The Department conducted 8 examinations for the period ending June 30, 2006 representing 11.94 percent of the licensed offices located in Tennessee.

**RESIDENTIAL MORTGAGE LENDERS, BROKERS AND SERVICERS**

The activities of Residential Mortgage Lending, Brokering, and Servicing companies are governed by the “Tennessee Residential Lending, Brokerage and Servicing Act of 1988”, codified as T.C.A. Title 45, Chapter 13. T.C.A. § 45-13-



## COMPLIANCE DIVISION

103(a) expands this further by stating “no person shall act as a mortgage lender, mortgage loan broker, mortgage loan servicer, or mortgage loan originator in this state without first complying with the applicable licensing or registration requirements under this chapter.” Certain companies may be exempt under criteria explained in T.C.A. § 45-13-103. If the applicant proposes to make or service mortgage loans, the surety bond or irrevocable letter of credit shall be in the amount of \$200,000. For all applicants whose activities are limited to the brokering of mortgage loans, the surety bond or irrevocable letter of credit shall be in the amount of \$90,000. Only one bond or letter of credit is required for any licensee, irrespective of the number of employees or offices of such licensee.

### License/Registration

To obtain a license or certificate of registration, an applicant must maintain a net worth of at least \$25,000 and demonstrate sufficient character to command the confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2006, there were 1,460 companies licensed under the Act. Additionally, with passage of amendments to the Residential Mortgage Lending, Brokerage and Servicing Act during the 2004 session of the General Assembly, the Department began registering individual mortgage loan originators effective January 1, 2005. As of June 30, 2006, there were 16,211 mortgage loan originators actively registered.

### Examinations

For fiscal year ending June 30, 2006, the Compliance Division conducted 308 examinations of mortgage licensees that resulted in refunds of \$353,008 to 1428 consumers. Special examinations are also conducted as a result of consumer complaints.

## CHECK CASHING COMPANIES

The activities of Check Cashing Companies are governed by the “Check Cashing Act of 1997” codified as Tennessee Code Annotated (T.C.A.) Title 45, Chapter 18. Retailers who cash checks incidental to their retail operations are exempt from the Act if their compensation for cashing checks does not exceed five percent of their gross receipts. See T.C.A. § 45-18-103(5).

### Licensing

To obtain a check cashing license, an applicant must maintain a minimum net worth of \$25,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2006, there were 488 licensed check casher locations in Tennessee.

### Examinations

Examinations of licensed check cashers are conducted pursuant to T.C.A. § 45-18-113. For the fiscal year ending June 30, 2006, the Compliance Division of the Department performed 391 check cashing examinations resulting in refunds of \$411 to 30 customers.

## DEFERRED PRESENTMENT SERVICE COMPANIES

The activities of the Deferred Presentment Services Companies are governed by the “Deferred Presentment Services Act” codified as Tennessee Code Annotated (T.C.A.) Title 45, Chapter 17.

### Licensing

To obtain a deferred presentment services license, an applicant must maintain a minimum net worth of \$25,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. Last year the Department approved 310 deferred presentment services license applications, and because companies must obtain a license for each location from which such business is conducted, there were 1,371 licenses as of June 30, 2006.

### Examinations

For fiscal year ending June 30, 2006, the Department’s Compliance Division conducted 1,599 examinations of deferred presentment offices. Typically, the Department’s compliance examiners review a random sample of the licensee’s transactions by looking at the fees charged and the disclosures given to the customers. As a result, licensees made total refunds of \$49,304 to 1659 customers for charging excessive or unauthorized fees pursuant to T.C.A. § 45-17-115.

### Annual Report Information

By September 1st of each year, licensees are required by T.C.A. § 45-17-119 to file with the Commissioner of Financial Institutions an Annual Report covering the licensee’s business activities as of the close of business on June 30. These reports include a balance sheet, statement of income and expense, as well as other statistical data consistent with generally accepted accounting principles. Below is a recapitulation of the 2006 annual reports for the purpose of reflecting the general results of the operations for the year ending June 30, 2006.

#### *Annual Report Information for Fiscal Year Ending June 30, 2006*

The following tabulation represents aggregate information from reports filed by 445 licensed companies. The Department did not require an annual report from companies that opened after June, 2006.

Total Assets	\$219,969,930
Total Liabilities	\$60,144,166
Net Worth	\$159,825,764

Total assets of the average sized company operating in Tennessee for 2006 was \$494,314. Seventy-two companies reported assets greater than \$500,000; 204 companies had assets of between \$100,000 and \$500,000; and the remaining 169 showed total assets of less than \$100,000. As with many of the small companies, funding for the business is supplied principally by the owners with total assets being comprised of 28 percent liabilities and 72 percent owner equity.

**COMPLIANCE DIVISION**

**Statement of Income and Expenses**

The following information was compiled from the statements of income and expenses for the period of July 1, 2005 to June 30, 2006.

Total Operating Income	\$183,925,724
Salary Expense	\$55,529,246
Bad Debt Expense	\$17,036,140
Net Income (After Tax)	\$15,382,038

Of the 445 reporting companies, 123 reported operating losses and 50 reported net income of over \$100,000 for the period ending June 30, 2006. The average company made a profit of \$34,566.

Salaries are a major company expense, amounting to about 30 percent of total operating income. The average salary expense for each company was \$124,785.

Losses on receivables constitute another major industry expense. Bad debt expense represented approximately 9.25 percent of total operating income.

Effective June 7, 2005, T.C.A. § 45-17-112(i) of the Deferred Presentment Services Act allows licensees to assess a handling charge not to exceed \$30 if a check is returned from a payer financial institution due to insufficient funds, stop payment order or closed account. From the 2006 annual reports, 79 percent or 348 companies collected total handling charges of \$1,011,086 for fiscal year ending June 30, 2006.

As of June 30, 2006, the industry made a return on assets of 7 percent based on total assets and a return on equity of approximately 10 percent.

**Transactional Data**

The following transactional data was reported for the reporting period ending June 30, 2006:

Number of receivable transactions	5,063,705
Dollar amount of transactions during the year	\$1,196,866,871
Average size of receivable transactions	\$236

Number of transactions by size of check:

\$1 - \$150:	558,366
\$151 - \$250:	3,407,990
\$251 - \$500:	1,097,349

**MONEY TRANSMITTERS**

The activities of Money Transmitter companies are governed by the "Tennessee Money Transmitter Act of 1994", codified as T.C.A. Title 45, Chapter 7. There are exemptions that apply to certain government agencies, as well as business organizations. See T.C.A. § 45-7-204.

**Licensing**

Each applicant for a license must demonstrate, and each licensee must maintain, a net worth of not less than \$100,000 computed according to generally accepted accounting principles. Persons transmitting, or proposing to transmit, money shall have an additional net worth of \$25,000 per additional location or agent located in Tennessee, as applicable, to a maximum of \$500,000. The applicant must demonstrate such experience, character, and general fitness as to command the confidence of the public and warrant the belief that the business will be operated lawfully and fairly. As of June 30, 2006, there were 53 licensed money transmitters.

**Examinations**

Examinations of money transmitters are conducted pursuant to T.C.A. § 45-7-214. The Commissioner may accept, in lieu of an on-site examination, the examination report of an agency of another state, or a report prepared by an independent accounting firm, and reports so accepted are considered, for all purposes, as an official report of the Commissioner.

**TITLE PLEDGE LENDERS**

The activities of Title Pledge Lenders are governed by the "Tennessee Title Pledge Act", codified as T.C.A. Title 45, Chapter 15.

**Licensing**

To obtain a title pledge lender license, an applicant must maintain a minimum net worth of \$75,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2006, there were 630 licensed title pledge lenders.

**Examinations**

For fiscal year ending June 30, 2006, the Department's Compliance Division conducted 424 examinations of title pledge lender offices. Typically, the Department's compliance examiners review a random sample of the licensee's transactions by looking at the fees charged and the disclosures given to the customers. As a result, licensees made total refunds of \$123,677 to 356 customers for charging excessive or unauthorized fees pursuant to T.C.A. § 45-15-108.



## COMPLIANCE DIVISION

**INDUSTRIAL LOAN AND THRIFT COMPANIES****Composite Annual Report  
(Year Ending December 31, 2005)**

Number of Offices Included in this Report	663
Number of Employees in State at Year-End	2,964

**REGULATED ENTITIES PROFIT PERCENTAGE****RATE OF RETURN**

Average Net Receivable	\$3,453,089,650
Net Income	\$61,653,212
Rate of Return	1.79%

**ANALYSIS OF CHARGES ON LOANS**

Charges Collected and/or Earned	\$579,388,227
Average Monthly Rate Collected	1.40%

**ANALYSIS OF EXPENSE PER ACCOUNT**

Average Number of Accounts Outstanding	1,251,704
Total Expenses	\$519,944,216
Average Monthly Expense per Account	\$34.62

**STATEMENT OF INCOME AND EXPENSES**

Total Operating Income	\$611,092,651
Total Expenses before Income Taxes	\$519,944,216
Income before Taxes	\$91,148,435

**OTHER INFORMATION**

Number of Loans Made During the Year	923,136
Dollar Volume of Loans Made During the Year	\$2,080,188,420
Bad Debts- Dollar Amount	\$155,918,797
Bad Debts- Number of Accounts	73,895

**INDUSTRIAL LOAN AND THRIFT COMPANIES****Loans More Than \$300  
(Year Ending December 31, 2005)**

Number of Offices Included in this Report	120
Number of Employees in State at Year-End	1,119

**REGULATED ENTITIES PROFIT PERCENTAGE****RATE OF RETURN**

Average Net Receivable	\$380,252,146
Net Income	\$3,504,306
Rate of Return	0.92%

**ANALYSIS OF CHARGES ON LOANS**

Charges Collected and/or Earned	\$62,636,975
Average Monthly Rate Collected	1.37%

**ANALYSIS OF EXPENSE PER ACCOUNT**

Average Number of Accounts Outstanding	824,163
Total Expenses	\$66,638,840
Average Monthly Expense per Account	\$6.74

**STATEMENT OF INCOME AND EXPENSES**

Total Operating Income	\$72,296,337
Total Expenses before Income Taxes	\$66,638,840
Income before Taxes	\$5,657,497

**OTHER INFORMATION**

Number of Loans Made During the Year	766,632
Dollar Volume of Loans Made During the Year	\$2,038,207,683
Bad Debts- Dollar Amount	\$23,889,155
Bad Debts- Number of Accounts	7,769

**INDUSTRIAL LOAN AND THRIFT COMPANIES****Loans Less Than \$300  
(Year Ending December 31, 2005)**

Number of Offices Included in this Report	543
Number of Employees in State at Year-End	1,845

**REGULATED ENTITIES PROFIT PERCENTAGE****RATE OF RETURN**

Average Net Receivable	\$3,072,837,504
Net Income	\$58,148,907
Rate of Return	1.89%

**ANALYSIS OF CHARGES ON LOANS**

Charges Collected and/or Earned	\$516,751,252
Average Monthly Rate Collected	1.40%

**ANALYSIS OF EXPENSE PER ACCOUNT**

Average Number of Accounts Outstanding	427,541
Total Expenses	\$453,305,376
Average Monthly Expense per Account	\$88.36

**STATEMENT OF INCOME AND EXPENSES**

Total Operating Income	\$538,796,314
Total Expenses before Income Taxes	\$453,305,376
Income before Taxes	\$85,490,938

**OTHER INFORMATION**

Number of Loans Made During the Year	156,504
Dollar Volume of Loans Made During the Year	\$41,980,737
Bad Debts - Dollar Amount	\$132,029,642
Bad Debts - Number of Accounts	66,126

## CONSUMER RESOURCES DIVISION

### HEADQUARTERS PERSONNEL – NASHVILLE

Nicole Lacey, Assistant Commissioner

Kayce Cawthon Stoker, Consumer Resources Specialist

Esther Eddy, Consumer Resources Specialist

Alicia Gay, Consumer Resources Specialist

Crystal Oldham, Consumer Education Coordinator

Tiara Smith, Administrative Services Assistant

### CONSUMER PROTECTION

A key responsibility of the Division is the handling and tracking of consumer complaints. The Department of Financial Institutions is the only state agency that has the statutory jurisdiction to handle consumer concerns and complaints involving financial institutions operating under the various laws the Department administers in the State of Tennessee. The Division processes all complaints related to financial institutions chartered and licensed by the Department. If the Department receives information that does not fall within the Department's jurisdiction, those inquiries or complaints are forwarded to the appropriate agency or entity and the consumer is accordingly advised. In all cases, the Division follows its routine practice of submitting the consumer's written complaint to the financial institution for response and communicates this in writing to the complainant or forwards the complaint to the appropriate entity if the Department does not have jurisdiction. If a complaint indicates that further review is necessary, the complaint is referred to the appropriate regulatory Division in the Department for investigation as warranted.

### CONSUMER EDUCATION

A key strategy in helping protect consumers is to develop and coordinate educational resources that can assist consumers in making informed financial decisions. Education is a powerful tool in financial literacy. Consumers who understand their rights and responsibilities are less likely to become involved in situations that are not in their best interests.

Serving as a conduit, the goal of the Division is to ensure that all Tennesseans have access to financial literacy programs that will help them make sound money management decisions. In fiscal year 2006, the Division stepped up its efforts and took a more proactive approach by becoming involved in a number of consumer events aimed at educating Tennesseans about basic savings, credit management and home ownership. Specifically, the Division worked with other state and federal agencies, and non-profit organizations to focus on educating the K-12 student population, college students, minorities and women.

The Consumer Resources Division coordinates the handling of consumer complaints, fosters community outreach and encourages financial literacy in Tennessee. Since Governor Phil Bredesen formally approved the Division in March 2004, the Division has embraced its charge to provide meaningful consumer protection and consumer education services statewide.



## CONSUMER RESOURCES DIVISION



2006 TOP TEN CONSUMER COMPLAINTS BY ALLEGATION	
Customer Service Issues <sup>1</sup> :	138
Misrepresentation <sup>2</sup> :	49
Payment Processing; Payment History Dispute <sup>3</sup> :	45
Fraud <sup>4</sup> :	33
Unapproved Account Withdrawal <sup>5</sup> :	33
Excessive Fees <sup>6</sup> :	25
Credit Bureau Reporting Information <sup>7</sup> :	22
NSF Fees <sup>8</sup> :	16
Privacy Issues <sup>9</sup> :	15
Account Fee Issues <sup>10</sup> :	11

- 1) Issues included phone calls not returned by staff at financial institutions, incorrect information given, a requested transaction or service was not performed or did not occur in a timely manner
- 2) Interest rate quotes (loan rate higher than original quote, closing date set and changed or missed, fixed rate ends up as adjustable rate, etc.)
- 3) Payments not made or processed in a timely manner
- 4) Covers fraudulent activities not under scams, forgeries, insider information, identity theft, etc.
- 5) Includes debiting accounts for fees, service charges, processing, errors, etc.
- 6) Covers closing fees, loan processing fees, loan administration costs, late charges, etc.
- 7) Tradeline information being reported incorrectly, includes balance, delinquency, etc.
- 8) Covers insufficient funds fee being charged, the amount of the fee, etc.
- 9) Issues include possible improper disposition of records, sharing of information, etc.
- 10) Covers fees for service charges, check cashing fees, etc.

### 2006 TOP TEN CONSUMER COMPLAINTS BY INDUSTRY

INDUSTRY	TOTAL	PERCENT OF TOTAL COMPLAINTS
Mortgage Companies	161	29%
Banks	156	28%
Default*	134	24%
TILT**	35	6%
Title Pledge	21	4%
Deferred Presentment	20	4%
Credit Unions	15	3%
Money Transmitters	8	1%
Mortgage Loan Originators	4	<1%
Check Cashers	1	<1%
TOTAL	555	100%

\*Default category contains phone calls, e-mail, correspondence received, complaint form mailed but completed form not returned; complaint or financial institution was not under the Department's jurisdiction and the complaint was referred to the correct regulatory authority.

\*\*Tennessee Industrial Loan and Thrift Companies

CONSUMER RESOURCES DIVISION

2006 INDUSTRY COMPLAINTS BY COUNTY

County Names	DEFAULT	TILT	MTG	MLO	DP	CC	TP	MT	CU	BANK	TOTAL	PERCENT
Out of State	23	1	23	1			3	6	1	25	83	15.0%
ANDERSON			1							1	2	0.4%
BEDFORD					1					1	2	0.4%
BENTON											0	0.0%
BLED SOE											0	0.0%
BLOUNT	2		1							2	5	0.9%
BRADLEY	1										1	0.2%
CAMPBELL			1				1			2	4	0.7%
CANNON											0	0.0%
CARROLL											0	0.0%
CARTER		1	1							2	4	0.7%
CHEATHAM	1	1	3		4					2	11	2.0%
CHESTER	1						1			1	3	0.5%
CLAIBORNE	1										1	0.2%
CLAY											0	0.0%
COCKE										1	1	0.2%
COFFEE			1								1	0.2%
CROCKETT	1										1	0.2%
CUMBERLAND											4	0.7%
DAVIDSON	19	3	24	1			3	1	1	12	64	11.5%
DECATUR											0	0.0%
DEKALB	1										1	0.2%
DICKSON	2	1			5		2				10	1.8%
DYER					1					1	2	0.4%
FAYETTE			2							1	3	0.5%
FENTRESS											0	0.0%
FRANKLIN			3							2	5	0.9%
GIBSON			1								1	0.2%
GILES										2	2	0.4%
GRAINGER		1									1	0.2%
GREENE	3		1						1	2	7	1.3%
GRUNDY											0	0.0%
HAMBLEN	1										1	0.2%
HAMILTON	4	4	9	1						6	24	4.3%
HANCOCK											0	0.0%
HARDEMAN	1	1								1	3	0.5%
HARDIN			1								1	0.2%
HAWKINS					1						1	0.2%

CONSUMER RESOURCES DIVISION

County Names	DEFAULT	TILT	MTG	MLO	DP	CC	TP	MT	CU	BANK	TOTAL	PERCENT
HAYWOOD	1										1	0.2%
HENDERSON			1				1				2	0.4%
HENRY	2										2	0.4%
HICKMAN	1		1								2	0.4%
HOUSTON											0	0.0%
HUMPHREYS	2										2	0.4%
JACKSON											0	0.0%
JEFFERSON	2										2	0.4%
JOHNSON											0	0.0%
KNOX	4	1	6				1		1	9	22	4.0%
LAKE											0	0.0%
LAUDERDALE										1	1	0.2%
LAWRENCE	1									2	3	0.5%
LEWIS											0	0.0%
LINCOLN	1										1	0.2%
LOUDON		1	1							3	5	0.9%
MCMINN							1			1	2	0.4%
MCNAIRY	1									2	3	0.5%
MACON		1		1							2	0.4%
MADISON	1	3	7	3						1	15	2.7%
MARION			2							2	4	0.7%
MARSHALL		1									1	0.2%
MAURY									1	3	4	0.7%
MEIGS	1										1	0.2%
MONROE	2										2	0.4%
MONTGOMERY	3		3	1						3	10	1.8%
MOORE											0	0.0%
MORGAN										1	1	0.2%
OBION		4								1	5	0.9%
OVERTON										1	1	0.2%
PERRY											0	0.0%
PICKETT											0	0.0%
POLK											0	0.0%
PUTNAM	2	2								3	7	1.3%
RHEA											0	0.0%
ROANE	1		2	1							4	0.7%
ROBERTSON			2							3	5	0.9%
RUTHERFORD	4	1	5							4	14	2.5%
SCOTT	1									1	2	0.4%
SEQUATCHIE											0	0.0%
SEVIER	1		5							5	11	2.0%
SHELBY	24	2	27	1	1	1	5		8	25	94	16.9%

CONSUMER RESOURCES DIVISION

County Names	DEFAULT	TILT	MTG	MLO	DP	CC	TP	MT	CU	BANK	TOTAL	PERCENT
SMITH	1		1								2	0.4%
STEWART											0	0.0%
SULLIVAN	2	1	5						1	1	10	1.8%
SUMNER	7	2	6		1		1		1	5	23	4.1%
TIPTON	1		2							2	5	0.9%
TROUSDALE											0	0.0%
UNICOI											0	0.0%
UNION											0	0.0%
VAN BUREN											0	0.0%
WARREN	1	1								1	3	0.5%
WASHINGTON	2	1	3		1					1	8	1.4%
WAYNE											0	0.0%
WEAKLEY	2		1								3	0.5%
WHITE	1									2	3	0.5%
WILLIAMSON	1		5				1			3	10	1.8%
WILSON	1		3				1			1	6	1.1%
UNKNOWN			1							1	2	0.4%
<b>TOTALS</b>	<b>134</b>	<b>35</b>	<b>161</b>	<b>4</b>	<b>20</b>	<b>1</b>	<b>21</b>	<b>8</b>	<b>15</b>	<b>156</b>	<b>555</b>	<b>100.0%</b>

\* Out of state: Complaints received from consumers living out of state who are either former residents of Tennessee or have an affiliation with an entity licensed or located in the state of Tennessee.

1 - Default/Unknown category contains: phone calls, e-mails, correspondence received, complaint form mailed but completed form not returned; complainant or financial institution was not under the Department's jurisdiction and the complaint was referred to the correct regulatory authority.

KEY TO ABBREVIATIONS:

- MRT - Mortgage
- TILT - Tennessee Industrial Loan and Thrift
- DP - Deferred Presentment
- CC - Check Casher
- PF - Premium Finance
- MT - Money Transmitter
- DEF - Default
- BK - Bank
- CU - Credit Union
- TP - Title Pledge
- OWN - Owners



**CREDIT UNION DIVISION****HEADQUARTERS PERSONNEL –  
NASHVILLE**

Doreen Abbott, Assistant Commissioner  
Trevor Williams, Safety and Soundness Manager  
Alica Owen, Financial Analyst

**EXAMINATION PERSONNEL****WEST TENNESSEE DISTRICT**

Randall Means, CSCUES, V, Supervisor  
Dana Owen, CFE, CEIC, ACISE, IV  
Rosalyn Miller, II

**MIDDLE TENNESSEE DISTRICT**

Steve Eddings, CFE, CSCUE, CEIC, V, Supervisor  
Thomas Harper, CSCUE, IV  
Pat Murphy, CFE, CSCUE, IV  
Vickie Young, Special Examiner of Large Credit Unions

**EAST TENNESSEE DISTRICT**

Ron Shires, CSCUES, V, Supervisor  
Bill Cave, CEIC, CSCUE, IV  
Lance Hogelin, CFE, CSCUE, IV  
Shane Hardin, CFE, CSCUE, IV  
Dwight Ward, IV

**The Credit Union Division** is responsible for the supervision and examination of 118 state-chartered credit unions and one corporate credit union. Examiners from this Division perform safety and soundness examinations on all credit unions regulated by this Department in order to determine compliance with governing laws and regulations as well as evaluating each credit union's assets, liabilities, income and expenses in order to assess the solvency of the credit union. When needed, they also perform investigations of complaints filed with the Department's Consumer Resources Division.

The financial health of Tennessee's credit union industry remains strong. Collectively, the 118 natural person credit unions regulated by this Division have assets of approximately \$5.9 billion; a growth of 5.2 percent from September 2005-September 2006. Capitalization remains excellent, with net worth totaling 13.57 percent of assets; an increase over the 13.31 percent in 2005.

Delinquency and charge-offs remain manageable and the return on average assets was 1.11 percent. Individually, the institutions present a vast array of asset sizes, fields of membership and services. From the \$1.7 billion Eastman Credit Union in Kingsport to the \$50,000 Langston Bag Company Employees Savings Association in Memphis, Tennessee consumers continue to receive valuable service from safe and sound member-owned cooperatives.

Volunteer Corporate Credit Union continues to meet the financial services needs of Tennessee's natural person credit unions - both State and Federal. This \$1.0 billion corporate credit union serves over 200 member credit unions in Tennessee. Primary offerings include traditional correspondent services such as investments, item processing, security safekeeping, consulting services and web design.

The National Association of State Credit Union Supervisors (NASCUS) accredits the Credit Union Division. In 2005, we successfully completed the recertification process thus ensuring our accreditation for another five-year period.

Additionally, eligible Division examiners and supervisors have met the comprehensive criteria for NASCUS examination certifications. This Certification Program provides recognition to superior State credit union examiners and encourages continued professional development through the certification's required continuing education hours. In summary, Tennessee state-chartered credit unions are healthy. They are solid and well operated financial institutions that are insured by the National Credit Union Share Insurance Fund (NCUSIF). Tennessee credit union performance for the coming year should remain satisfactory.

## CREDIT UNION DIVISION

## CREDIT UNION DIVISION CORPORATE REORGANIZATIONS (OCTOBER 1, 2005-SEPTEMBER 30, 2006)

### MERGERS

- Gate Gourmet Employees Credit Union in Memphis, TN merged into Southeast Financial Federal Credit Union in Nashville, TN (March 2006)
- Holliston Mills Credit Union in Kingsport, TN merged with Kingsport Press Credit Union in Kingsport, TN (June 2006)
- Imani Federal Credit Union in Memphis, TN merged into Postal Employees Credit Union in Memphis, TN (June 2006)
- Jackson City & County Credit Union in Jackson, TN merged with Resource Federal Credit Union in Jackson, TN (September 2006)

### NAME CHANGES

- American Uniform Credit Union in Cleveland, TN, changed its name to Members First Credit Union (December 2005)
- EPCO Credit Union in Shelbyville, TN changed its name to Heritage South Community Credit Union (February 2006)
- John Deere Employees Credit Union in Memphis, TN changed its name to Associated Employees Credit Union (February 2006)
- Parcel Employees Credit Union in Memphis, TN changed its name to UPS Employees Credit Union (March 2006)

### CHARTER CONVERSIONS

- Covenant Health Credit Union in Knoxville, TN converted from a multi-occupational/associational field of membership to a community-based field of membership covering Knox, Blount and Sevier counties (December 2005)
- EPCO Credit Union in Shelbyville, TN converted from a multi-occupational/associational field of membership to a community-based field of membership covering the three contiguous counties of Bedford, Marshall and Rutherford, TN (February 2006)
- Electric Service Credit Union in Nashville, TN converted from a multi-occupational/associational field of membership to a community-based field of membership covering Davidson County (May 2006)

### FIELD OF MEMBERSHIP EXPANSIONS

- Hardin County Hospital Employees Credit Union of Savannah, TN expanded their field of membership to include immediate family members of credit union members or of persons eligible for membership (February 2006)
- City of Memphis Credit Union of Memphis, TN added Memphis Light, Gas & Water employees to their field of membership (April 2006)
- Employees Credit Union of Nashville, TN added PaySystems of America as a Select Employee Group to their field of membership (April 2006)
- Memphis Publishing Company Employees Credit Union of Memphis, TN added specific tracts as an underserved area in Shelby County (May 2006)
- American Savings Credit Union of Memphis, TN added the employees of the City of Marion, AR to their field of membership (June 2006)
- Peoples Choice Credit Union of Union City, TN added Karl F. Ivey, Attorney-at-Law and employees of Fulton, KY to their field of membership (September 2006)
- Patriot Equity Credit Union of Jackson, TN expanded their field of membership by adding specific census tracts as an underserved area in Madison County, TN (September 2006)





