



25th Anniversary

APPEALS PROCESS

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Appeal of Community Reinvestment Act (CRA) Performance Evaluation Rating

Background

The board appealed the OCC supervisory office's decision to assign a CRA performance rating of "needs to improve." The board disagreed with this rating because they believed they were penalized for their strategy to seek lending activities outside of their assessment area (AA). Management believed that this endeavor improved their ability to lend within their market by offering fixed-rate loans. However, this practice resulted in a majority of the current lending activities taking place outside of their delineated AA, an area more narrowly focused than their generally targeted market. The OCC supervisory office stated that the "needs to improve" rating was based on poor lending levels within the bank's delineated AA. They also stated that, while the bank had the capacity and opportunity to help meet the residential and business credit needs in their AA, management directed lending activities to a market 60 miles away.

Discussion

The ombudsman conducted a review of the information submitted by the bank and support documentation from the supervisory office. The review included meetings with the bank's senior management team as well as with members of the supervisory office.

The OCC concluded that the CRA rating was based on poor lending levels within the bank's AA. Although there were opportunities to help meet credit needs in the bank's AA, management's decision to pursue a lending strategy to purchase brokered, fixed-rate loans resulted in a very low level of lending within the AA. The number and dollar amounts of reportable Home Mortgage Disclosure Act loans and commercial loans originated in the AA were 29 percent and 36 percent, respectively, for the evaluation period. Management entered into the mortgage broker relationship to improve profitability by expanding its servicing portfolio (servicing loans sold in the secondary market) and also to retain some of the mortgages to replace existing mortgages refinanced elsewhere.

Conclusion

The ombudsman gave consideration to the cumulative factors listed in the CRA performance evaluation, the performance context, and management's supporting documentation, including their acknowledgement of additional lending opportunities existing within the AA. As a result of his review, the ombudsman opined that the rating assigned by the supervisory office at the time of the examination was appropriate.