

Comptroller of the Currency
Administrator of National Banks

Rural Economic Development Lending
Opportunities for Community Banks

Thursday, September 25, 2003
3:00 pm – 4:30 pm EST

Presented by:

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Jack: The Office of the Comptroller of the Currency (OCC) presents, “Rural Economic Development Lending Opportunities for Community Banks.” Our speakers today are Anna Alvarez Boyd, deputy comptroller for Community Affairs from OCC in Washington, D.C.; Julie Cripe, president and COO of OMNIBANK, N.A. in Houston, Texas; Bill Glover, assistant deputy comptroller from the Western District Office of OCC in Omaha, Nebraska; and Karen Tucker, national bank examiner and senior compliance specialist with OCC in Washington, D.C. Before we start though, a message from Comptroller John D. Hawke, Jr. Mr. Hawke?

Mr. Hawke: I’d like to welcome participants from around the country to the latest in our series of Web and telephone seminars. These seminars have been very popular with the banking industry, and we are delighted you are participating in today’s session. Our subject today, Rural Economic Development is a timely one. I cannot think of any place where need and opportunity are better matched than in rural America. Rural America is vast and diverse. It defies generalization. According to the Department of Agriculture, 2,300 of the nation’s more than 3,000 counties qualify as rural. So it is hard to identify a single factor that explains: why some of our rural counties continue to lose jobs and population, while others have been able to retain them; why some counties are able to attract new economic activity to replace declines in agriculture; and why some face the future with optimism, while others see only more hard times ahead.

Yet the one single factor that explains why some rural communities have been particularly successful in overcoming these challenges is access to capital. And this has obvious importance for our banks. Banks rise or fall with the communities they serve. The bank that reaches out in creative ways to encourage economic development entrepreneurship, broad-based community partnerships, and individual initiative is not only a responsible member of the community, but is also acting in its own self-interest. Today's seminar is about identifying opportunities for action and discussing ways to take advantage of those opportunities. As you know, the federal government actively supports economic development lending through a variety of guarantee programs and through the Community Reinvestment Act. And we have with us today some of our leading experts on these programs, industry experts, as well as those from the OCC staff. It is my hope that you will find today's program stimulating and informative. Even more I hope it will be a catalyst for lending and investment in our neediest and worthiest rural communities. It is the new frontier for American enterprise and for American financial institutions. Thank you for being with us today.

Jack: Thank you, Mr. Hawke. And at this time, to determine how many people are actually attending today's event, we would like you to tell us how many people are at your location. So if you are attending alone, we would like you to press the '1' on the touchtone keypad of your telephone. If there are two at your site, press '2'. If there are three, press '3' and so on all the way up to nine. If there are more than nine at your site, we would like you to still press '9'. You can go ahead and do that right now.

Remember, '1' if you are alone, '2' for two of you, and so on up through nine. For more than nine, still press '9'.

Now I'd like to turn the program over to Anna Alvarez-Boyd. Anna, welcome to the program. The audience is all yours.

Ms. Alvarez-Boyd: Thank you, Jack. Hello, I would like to thank you for joining us on today's teleconference. This seminar is part of a yearlong effort at the OCC to highlight the tools and resources you can use to help address the economic development financing needs of small rural communities. As the Comptroller noted, agriculture is no longer the employer it once was in many parts of rural America. In fact, manufacturing now employs about 17 percent of the workforce in rural America and that number is growing. And while you have probably experienced these economic changes first hand, we want to help you accomplish your rural economic development mission by providing you with some additional tools we thought might be useful. Today's program is designed to inform you about the partnership opportunities that are available to you, and how they can help you improve your bank's bottom line.

Our goal is to bring you information about four distinct strategies: (1) innovative ways of using established lending programs that can help mitigate some of the risks associated with commercial lending to businesses in rural communities; (2) how partnerships can convert opportunities into realities; (3) how to leverage government programs to bring you success in rural commercial lending; and, (4) how to strengthen your local economy and your bank's CRA rating.

By following some of the strategies we will be covering during the next 90 minutes, you will be able to enhance income, control liquidity, improve asset quality, and retain customers – all of which lead to opportunities for improved bank performance and more economic development activity. We have assembled a highly talented team of experts for you to listen to today. They will provide you with information that you can use daily to accomplish your bank's economic development goals. I look forward to hearing from them, and I hope that you will have lots of questions for them later on in the program.

Our first presenter will be Julie Cripe, president and chief operating officer of OMNIBANK, N.A. in Houston, Texas. Julie will discuss the variety of government credit enhanced small business lending programs she has used successfully in rural communities within her bank's footprint.

Next we will hear from Bill Glover, assistant deputy comptroller in our Omaha South Field Office. Bill will address the risk mitigating aspects of using government credit enhanced lending programs.

Our third presenter is Karen Tucker, a senior compliance specialist in our Compliance Division, who will discuss the CRA considerations of rural economic development lending and investing.

All of our speakers have impressive backgrounds, and I encourage you to read their bios, which are included in your materials. Now let's get started. Julie?

Ms. Cripe: Thank you, Anna. I think any good discussion begins by asking why. We will begin our discussion on slide number 9, "Why Rural Development

Lending?” For one primary reason, rural development lending is profitable. It is good business to promote the economic well being of rural America. Almost all rural areas have the same concerns. They need to create employment, provide affordable housing, and improve services.

What do bankers think? Most of us have loan demand that is slim to none in rural areas. And we don't believe we have the opportunities to generate loans. Community bankers often lack expertise in various programs, and we believe that that is something better left to someone else. We need expertise not only in community development lending, but in CRA lending and its definitions. We also think the government guaranteed loans take too much time. I hope as I go through my examples, this will help change your thinking.

A little bit of background about OMNIBANK: we began in 1954 in Houston, Texas, and we now have \$300 million in assets and seven branches. I personally have been with OMNIBANK since 1978. In the late 80s and early 90s, we purchased several failed banks, including a bank in a rural community right outside of Houston and Austin. The areas immediately surrounding Houston also have an agricultural aspect to them as do many of your large cities. When we purchased those banks, we had to look at several things, but we knew our expertise was in lending to new and growing businesses. But what about risk? At that time we began investigating guaranteed loans. While we had done SBA loans in the past, we knew there were other programs available. And what about profitability? Government guaranteed loans tend to be very

profitable: a floating rate, prime plus two points, fee income, and the ability to sell in the secondary market.

But before you can begin you must educate your own lenders, your own bankers, and the customers. How do you go about doing that? Work with the local field offices for in-house training. All areas have a local SBA office, a local USDA office in the state, and many other states have entire areas that will help with programs specifically for your state. There is an organization called the National Association of Government Guaranteed Lenders that is specifically designed to provide training, both outside the bank and inside the bank, and plenty of print material to help you get started. You can also do this by sponsoring a local workshop or seminar for customers about the various lending programs available. And while they are learning, your own officers will be learning as well. Okay, so now you know how to do everything there is to do with government guaranteed lending.

How do you find the loans? As in any case it's all about relationships. It's important to have relationships with the local field offices of SBA and USDA and with your state and county governments. Many times you will receive referrals, and in all cases your name will at least be on the list of banks willing to participate in the programs, which will help customers find a bank in their area. A relationship with your Chamber of Commerce. All chambers of commerce are worried about bringing businesses to small communities and yours will be no different. You may have a local economic development group, and it is important to be involved at that level. Referrals, I think once you find that you have agreed to try

some of these programs you will get referrals from many people in your community. And you can advertise in your bank lobby and in local papers that your bank participates in these programs. It is important that you try to write some articles for a local paper or a local newsletter or give a speech at your Chamber of Commerce about the different types of loan programs to make it known that your bank is willing to look at different loan types.

Let's talk about how I did it. I learned all I could about the programs. I knew that I could get a competitive advantage if I knew more than some other banks about specific programs. And while most banks know about SBA 7A, few have tried some of the other peripheral programs. I began writing articles for local papers and newsletters that explained the programs, and as I did that, I became more familiar with the ins and outs. I joined an area certified development corporation, which administers the SBA 504 loans. And by doing so, I had hands on experience with the SBA side of the equation. I gave talks at Rotary and Lions clubs and to anybody that would have me, talking to small business people about the various loan programs. Soon customers began calling me, which in turn created more requests for talks and articles and so on.

When you are training your loan officers to look for opportunities, that includes all their volunteer services, which all of us encourage. When they are serving on the board of a nonprofit or even a for-profit corporation in town, they will be the first to know about the acquisition of new buildings or equipment. From the housing perspective, if you are involved with your local Chamber of Commerce, if you are doing interim construction loans, you

will be one of the first to hear about housing projects starting up. When it comes to new businesses, encourage loan officers to look at the tax roles, to communicate frequently with the local economic development corporation (EDC). If they have a good relationship with the local EDC or taxing authority, they can often find out early in the game what companies are looking to move their company to an area. Always look for expansions of businesses. Sometimes the most innocuous conversation will help you know that a business is thinking of expanding. If you go to your local chamber meeting or you are on the golf course and you constantly hear someone talking about running out of room in their manufacturing facility, it's a good chance that they may be thinking of expansion soon. It is an opportunity for your lenders to talk about programs available and to plant the seed, so that when that customer or individual comes looking for a loan, they will come to you. It is interesting, but some programs actually do work for investment properties. So in many rural communities in Texas, we are seeing small strip centers being built and believe it or not, they qualify under the B&I Loan Program, which we will define a little bit later. The program also is eligible for some nonprofits, a senior citizens home, and you have all your lenders serving on the board. So it is important for them to know where and how to look for opportunities. The different programs available are listed on slide 16 under "Educating Your Loan Officers and the Community." Not only do you have the traditional 7A loans under the small business administration, but you also have an SBA or Small Business Administration 504 Certified Development

Company Program, which is used for real estate and building acquisition. You have the USDA, Business and Industry Loan Guarantees. You have the USDA Community Facilities Loan. You have the Export/Import Bank of the United States that provides guarantees on certain types of loans, and various state and local programs common to your area.

On page 17, we will talk about a real live example. I think that's the best way we all learn. When we purchased a failed bank in 1991 in Lockhart, Texas, the loan demand there was very low, not a big surprise for most of us. Lockhart has a population of little less than 10,000. It was close to Austin, Texas, the capital, about 25 miles away. Most of the major businesses in Lockhart were banking in nearby Austin. Why? Because the banks located currently in Lockhart were focused on consumer lending and did not believe they had the expertise, as we talked about earlier, to do lines of credit and government guaranteed lending, and many did not have the lending limit to provide the loans that were needed. Livengood Feeds had a line of credit secured by real estate by a major bank in Austin. This created several problems for the borrower. The seasonality of its business and the fact that it had short-term loans secured by long-term assets really caused a problem on its balance sheet. We did not have the lending limit to do \$650,000 loan. But when we found the business and industry program under USDA, we were able to do the loan against the real estate, a true real estate amortizing loan, which significantly improved its cash flow and properly matched its assets to its liabilities. The B&I loans are designed for communities with a population of

less than 50,000, and the guarantees can go up to 90 percent. You can find all the parameters in the handouts and on the Web site.

We will talk next about enhancing income by using these government guaranteed loans on slide 18. Traditionally they command a higher rate. They have floating rates and can go as high as prime +2.5 to float with a point during the construction period or upon the closing of the loan. And there is a fee for packaging. The second way to enhance income is selling the guaranteed portion in the secondary market. Farmer Mac buys the loans, and traditional purchasers of SBA guaranteed loans now buy business and industry loans.

An example shown on slide 19 is that in 2001 one large B&I loan was sold for a 7 percent premium. Most of us can think back on some of the loans we might do anyway and consider how nice it would be to have that fee income. We used various sales in 2002 to enhance fee income. The good news is that fees from sales go immediately into income and have nothing to do with the amortization of the loan. So that's great. We have more income.

What about controlling liquidity as shown on slide 20? If you have excess liquidity, this is a great way to increase the loans in your portfolio and to make larger loans to hold in your portfolio at a very good rate. If you need funding, these are available to be sold in the secondary market as a source of liquidity. Most people think of selling only the guaranteed portion, but the unguaranteed portion in some cases is also available for sale.

Okay, those are a couple of problems we all worry about. What about an increase in our lending limit as I have referred to a couple times before. We talk about this on our next slide. The government guaranteed portion of a loan does not count toward your legal lending limit. So it allows you to make larger loans. But something even better than that. It helps you increase your loans to known customers. And how many of us have bank customers for 20 years only to lose their building loan, because it would exceed our lending limit. It also builds stronger community relationships. When you are in a rural area and you have the ability to do the large loans that will increase economic development, your community looks to you for the right answers.

Back to Livengood Feeds, as I said, in 1991 our legal lending limit was approximately \$300,000, while their credit need was between \$500,000 and \$600,000. Immediately I was able to do several things for a good customer: introduce them to the bank, form a relationship with the community, and do something that I otherwise could not do. Being new to the community, most of you know, is difficult in rural America, especially since our headquarters, where we were founded, in Houston, Texas, the big city. All the larger businesses had already established relationships in Austin. And that was a hard thing to win.

Another example of previous issues I talked about, Infisy and Hilltop Inn, and we are talking about that on slide 23. Both of these customers were long-term customers of the bank. Both had reached our lending limit with other loans. In both cases, even though miles apart, I

was able to use the business and industry program on loans for each to construct buildings. The first, Infisy, was in a rapid expansion mode and would not have qualified for a building loan under normal parameters. They didn't, they were cash poor because of their growth. But by mitigating my risk with the B&I loan, I was able to do the building loan and that was over five years ago, and they are doing very well.

The latter, Hilltop Inn, had been a customer for a long time in the Houston area, but was expanding out of my territory. This helped me mitigate risk for something that was not right next door, even though the balance sheet was strong, the customer was strong, and the management was strong. I would not be able to look out the door and see the building every day.

So as we go to the next slide, we see that we are talking about mitigating risk. There are lots of different kinds of risks, one of which is credit risk. New businesses carry more credit risk, but they are absolutely essential for economic development, not only in small towns, but everywhere. Growing businesses are also carrying more credit risk simply because of their lack of cash. And we all know it is more difficult to grow and start businesses in rural areas because of the availability of skilled labor and the potential customer pools.

On page 25, we are talking about Danmar Industries, Inc. This is a customer I have had for more than 20 years. They do the engineering work on large air compressors, not actually air conditioners, and these compressors are used in many applications. As they grew and the bank grew, they started receiving larger and larger

contracts for goods that were exported. They needed contract financing, which we all know is a scary word for bankers. They were also at our legal lending limit. So the use of the Export-Import Bank allowed us to mitigate our risk, and the customer to grow. As each contract was funded and worked the way it should, we are now at the point where we have several lines of credit against their exportable contracts and a “regular” line of credit on domestic receivables. “Well, that’s great,” you say, “but we actually used other programs as well.” Because they were expanding so rapidly when they needed to purchase the building they had been in for 10 years, we were able to use the SBA 504 loan, which allows a bank to require only 10 percent down, and for a growing business that is critical.

Another example is Snyder Brick on page 26. It was the restart of a 50-year family business. It used natural resources that were available in that town and environmental concerns could be grandfathered. It was the chief industry in this town, but the economic downturn had slowed building and was a problem for this customer. Because we have a reduced exposure, the economic slowdown, which affected their business in a rapidly expanding environment for them, we have been allowed to work with them and take a little more time than we would have in another situation. They found a buyer for the business, a major company with a great deal of capital, and we believe this will be the solution to their problems.

What about interest rate risk? We talked about credit risk, but on page 27 we will outline a few other types of risk. Generally the floating rates are quarterly. They change quarterly, which mitigates a lot of risk from a fixed

perspective. There's a higher spread over prime. In the really small SBA loans and USDA loans, the amount can be as much as 2.75 over prime, and on the really small loans under \$50,000, it can be up to 3.25. Real estate generally carries a point, and you can generate fees and sell in the secondary market at any time.

This also encourages economic development activities. You can inspire communities to bring in businesses when they are confident of the bank's support. It is pretty difficult for an economic development council or a Chamber of Commerce to invite businesses to a community when, in fact, the bank is not behind it. You can combine different program loans to create more opportunities. And in fact, one of the examples we will talk about later is that we used a county program to build a road that would allow access for the employees to get to this particular spot. It gives banks the courage to explore working with nonprofits. Again, that carries some risk, but you are allowed to do that when you have some mitigation using a government guaranteed program.

The next example on page 29 is Globitech, Inc. This brought a new business to a small community that lost 900 jobs in 2001. It encouraged the support of a local economic development corporation and the taxing authorities, because it would add jobs immediately. We combined multiple programs, which moved the new jobs created from 60 to 150 within the last six months and in the coming six months.

One of my favorites, because it's been around for so long, is Kitchen Pride Mushrooms on the next slide. It's located in Gonzales, Texas, which has a population of less

than 20,000. There were three banks in the town at the time this began in 1988, and none would consider the loan, partially because no one really knew about growing mushrooms. We were able to do the construction and permit on the plant, using the USDA Business and Industry Loan Program, for their original plan of work. We followed that in three years with an SBA-504 loan and doubled the size of the plant. Again, they have now tripled the size of the plant, but this time they were so profitable they have done it out of cash. And while I enjoy the deposits, I would really like to loan them some more money.

By combining programs as we have shown on page 31 and as we have talked about in the examples, you can use the USDA B&I loans for capital improvements, acquisition of businesses, and long-term equipment needs. You can split out the working capital needs and use an SBA guarantee, particularly if it needs to be funding against a contract. And for equipment, there are both USDA and SBA loans that can be combined with local government programs to make those happen.

So where do you start? Well, we have given you a lot of resources. You have USDA.gov; SBA.gov; state or local economic development councils; field offices of the USDA and SBA, which provide bank training onsite; and the National Association of Government Guaranteed Lenders; who provide both examples and training.

Some frequently asked questions that I hear at least when I'm talking to other bankers: Isn't there a lot of paperwork? Yes. There is a lot of paperwork, but I will venture to say there's a lot of paperwork in doing any

loans. The information we gather is identical to that for any business loan, and the fill in the blank type forms are offered on the various agency Web sites. Smaller loans of \$150,000 or less can be done with the SBA Low-doc or SBA Express. And those require a simple 8 ½” x 11” sheet of paper. Does it take a long time for approval? I’ve heard rumors from six months to two years. It’s the same thing I tell my customers, “If all the information is provided, the loans can be approved through local field officers in a few weeks, particularly if the loan is less than \$5 million.” USDA loans on real estate require their own environmental assessment by their own staff and that can take up to 30 days, but it can be done simultaneously with other paperwork required.

In summary, using government guaranteed loans helps banks increase loans and income, while mitigating credit and interest risk. It builds community goodwill and helps fulfill CRA requirements. And it enhances government relations activities.

And now for the examiner perspective I will turn it over to Bill Glover.

Mr. Glover: Hi, my name is Bill Glover. I’m a national bank examiner and first line supervisor of examining crews located in Omaha and Grand Island, Nebraska. We are responsible for the examination of 40 national banks, all in Nebraska. Virtually all of the banks in our portfolio have concentrations in the agricultural sector, but also lend to the Main Street businesses in their community. The trend we see in ag customers is for fewer and fewer borrowers, managing larger and larger operations. Populations in rural communities are declining

in numbers and increasing in average age. In recent years we have seen increases in the level of problem loans in rural areas, especially those areas that have been hit the hardest by drought conditions.

Now to slide 37, for my part of the telephone conference, I would like to spend some time talking to you about how, from an examiner's viewpoint, the types of government loan programs highlighted by Julie can promote safe and sound banking operations. Our main goal when we examine a bank is to assess management's ability to control risk. And as Julie pointed out in her presentation your bank can utilize these programs to manage, mitigate, and better control credit risk associated with rural economic development lending opportunities. Better control of your bank's credit risk will then translate into better asset quality. and better asset quality should contribute significantly to improved financial performance.

Additional benefits accruing from your bank's participation in these government loan programs should include: an improved compliance program and an enhanced reputation in your community. We see the use of government guaranteed loans, such as the U.S. Department of Agriculture's Farm Service Agency and the USDA Business and Industry Loan Program as an excellent way to improve your overall portfolio credit quality. We are seeing widespread use of FSA guarantees to help operators over some temporary tough times. If the borrower also qualifies for interest assistance, this can immediately improve the cash flow and operating margins. I know of at least two banks that have a 2 instead of a 3 rating for the asset quality CAMEL component, because of the use of

loan guarantees. Our assessment of a bank's asset quality is based in part on the volume of problem loans, but also on the overall administration of the portfolio and the risk mitigation tools that management uses. Although we are not yet seeing widespread use of the USDA B&I program in our area, it can provide assistance to the Main Street businesses that are suffering the secondary effects of a depressed agricultural economy. Although we do not see a large volume of basic small business administration loans in any one institution, we tend to see a wide variety of loans to businesses that are not ag related, but are ag dependent. The vast majority of SBA loans are made to retail businesses, such as convenient stores and grocery stores. But we do see other types, such as loans to manufacturing companies. In addition to the basic SBA program, the Certified Development Company Loan Program, known popularly as the 504 program is gaining in acceptance. I had one local banker tell me that it is the best-kept secret in commercial real estate lending. This program may provide an avenue for you to retain a borrower seeking longer term financing without taking on significant interest rate risk.

Moving on to slide 37, assistance is also available to improve the quality of your residential real estate portfolio. Many of the banks we work with are members of the Federal Home Loan Bank. In our area the Federal Home Loan Bank of Topeka provides assistance to rural first time homebuyers through the use of a soft second mortgage, which is forgiven over a period of time. The various programs that are available for assistance and guarantees

can provide a valuable boost to your marketing efforts in trying to attract new loan demand.

Moving on to slide 40, as Julie pointed out, high quality loans with good yields can improve your earnings performance through increased interest income, higher fee income, and lower loan losses. Since the portion of the loan guaranteed by an agency of the U.S. government is an exception to the legal lending limit regulations, your bank can retain a larger loan to an individual borrower. For example, if you made a \$1 million loan that has a government guarantee of 90 percent of the outstanding principle balance, the provisions of 12CFR 32 specify that \$900,000 of that loan does not count against your bank's legal lending limit. This higher level of earning assets can boost that interest income. Although you will incur a certain administrative cost to become familiar with the various programs, we believe that the increase in earning potential will more than offset that cost. As the guaranteed portions are readily saleable in the secondary market, you could improve a stress liquidity position or at a minimum provide a source of contingent funds. You may also use the sale of the guaranteed portion to adjust the asset side of the balance sheet at lower interest rate risk

On slide 41, a lending institution will have an advantage in several areas of compliance through the use of guaranteed loan programs and other credit enhancements. The largest and most obvious benefit is compliance with the Community Reinvestment Act. Karen Tucker will give you a detailed look at this aspect, but I would like to point out some benefits in other areas.

As I mentioned, the guaranteed portion is not subject to the lending limit, and this could help your compliance with national and state regulations limiting loans to an individual. Also the guaranteed portion does not count against the loan-to-value ratio when determining adequate collateral for a loan under the appraisal regulations. We highlight some of these regulatory advantages of bank participation in government loan guarantee programs and provide examples of how banks have sold loans in the secondary market in the fall of 2002 edition of the OCC's newsletter. The newsletter is referenced in the resource guide, which we have included with your materials.

In slide 42, finally, the use of these programs can enhance the reputation of management and the bank not only in your local community, but also with regulators. The benefits to your local reputation are numerous. Your community will view you as having deep concerns for the economic health of your area. The effort to retain younger people on the farms and ranches and in the businesses of rural communities will be viewed favorably. Assisting first time homebuyers will provide an expanded market for local real estate properties, and providing financing for local businesses can create jobs. All of these things can strengthen a local economy and improve your customer base.

The positive things I just mentioned are not lost on the examiners as they analyze the effectiveness of management. We believe that the primary function of management is to identify, measure, monitor, and control risk in the institution. The things I have discussed will

certainly mitigate short-term risk and provide a basis for long-term profitability. Participation in rural development programs is an indication of the willingness of management to seek innovative solutions to individual problems.

Moving on to slide 44, you can accomplish all of this with a minimum of resources. A wealth of information exists concerning these programs, and a great many people are available to assist you. Much information is available on the Internet from various agencies and organizations. These sites can walk you through the qualification criteria and application methods in a minimum of time. Once you have the knowledge base in one type of program, the addition of similar programs will be much easier. Your staff can gather this information and obtain training at times that may be more operationally efficient. You can easily gain access to the information you need by referring to the resource contact list that we have provided with your materials. The Internet Web sites provide instant access, and we at the OCC are ready to assist through our district community affairs officers. Field examiners work closely with community affairs officers. Your assistant deputy comptroller, examiner in charge, or portfolio manager can get you in contact with the right person. All in all, from a regulator's perspective, I would encourage you to investigate just one of the programs we are discussing today to see if it might be right for you.

And now, I'd like to turn the discussion over to Karen Tucker.

Ms. Tucker: Thank you, Bill. My name is Karen Tucker. I'm a national bank examiner and senior compliance specialist with the OCC. I am the policy

subject matter expert for CRA. You have heard a lot about the advantages of economic development and government guaranteed small business lending. Now let me tell you how these types of loans can enhance your CRA performance and rating.

Rural economic development needs include issues that are related to CRA consideration. They include: job training and childcare availability for low- or moderate-income individuals; equity capital for business development; access to loans and retail banking services; affordable housing; credit education and financial literacy training; support for farm-based and home-based businesses; and technical assistance to small businesses. The CRA can help provide incentives for bank action. A national bank that participates in programs through lending, investments, or services, which help meet any of these needs, will receive positive CRA consideration. I'm on page 47 in your packet. As you know, lending is the key to doing well on CRA, whether you are a small or large bank. And small business and small farm loans are important parts of the CRA lending evaluation. You can find the call report definitions of small business and small farm loans on page 64 of your packet, under the heading "Special Loan Programs and CRA." Government guaranteed business loans that are \$1 million or less are considered small business loans under the CRA. The programs discussed today, SBA7A, 504, USDA business and industry, and the Ex-Im Bank would be considered small business loans if they were \$1 million or less in size. Similarly, government guaranteed farm loans of \$500,000 or less would be considered small farm loans.

Using government guaranteed loan programs to help increase the volume of your small business or small farm lending in your assessment area will have a positive impact on your CRA performance. In addition, community development lending is valuable in a CRA examination. Your packet also includes on page 64 the definition of a community development loan. While you can pass the CRA without CD lending, it generally has a positive influence on the bank's rating. The extent to which community development loans address difficult to meet credit needs or promote activities that have a positive impact on a community, from a community development perspective, are important issues in our CRA evaluation. In fact, a bank with weaknesses in one performance criterion can mitigate that by an exceptionally strong performance in community development lending. Community development loans can also be the icing on the cake that raises your lending rating to outstanding. However, community development loans can sometimes be a challenge to make in rural communities. But they are valuable, so it's worth your time to seek them out.

In fact, you may have some community development loans hidden in your portfolio. Here are some hints to find them. The most obvious kind of community development loan is one that provides affordable housing for low- or moderate-income individuals. Please see page 49. Nearly all communities need affordable housing. These loans can finance rentals or owner-occupied affordable housing. You don't have to finance a big apartment complex. Small projects with at least five units qualify as multifamily housing and are reported to the

agencies as both HMDA and community development loans, regardless of the amount of the loan. An interim construction loan for a one-to-four family residential housing structure that provides affordable housing for low- or moderate-income individuals also is a community development loan, regardless of loan size. Please refer to the CRA Loan Data Collection grid in your packet for more guidance on these reporting items.

Julie and Bill both discussed SBA 504 certified development company loans. Some 504 loans could also be considered community development loans. 504 loans generally meet the purpose of community development. However, the loan amount must be more than \$1 million for it to be considered a community development loan instead of a small business loan. If it were \$1 million or less, it would be a small business loan according to the regulation.

This same concept applies to other business loans as well, not only government guaranteed loans. See page 51. Business loans of \$1 million or less are reported as small business loans even if the purpose of that small business loan also meets the purpose definition of community development. But if that same loan were more than \$1 million and met the purpose definition of community development, it is a community development loan. This same treatment applies to farm loans, using a \$500,000 cut off.

So what about extra credit for these small loans, including 504 loans that also meet the purpose of community development? If your bank has a small business or small farm loan that meets the definition of

community development, you can provide information to the examiners about this loan as other loan data, and they will consider that when they evaluate the responsiveness of your lending activities to community credit needs, including community development needs.

You may have other large business loans that meet the definition of community development. For example, say your local county has developed a plan, formal or informal, to redevelop certain low-income census tracts that are considered economically distressed. The plan envisions attracting and retaining businesses and jobs. Your bank grants a \$1.2 million loan to a business located in one of these low-income census tracts in your assessment area. The loan enables the business to retain a significant number of jobs to low- or moderate-income individuals who reside in and near the low-income area. Because this loan helps to retain businesses and residents in the low-income area, it is helping to revitalize and stabilize the low-income area, which makes it a community development loan for CRA. Please see page 52. In addition, sometimes a loan can be located immediately adjacent to a low- or moderate-income area and still result in revitalizing and stabilizing that particular low- and moderate- income area. An example, would be a supermarket located at the edge of a middle-income area that stabilizes the adjacent low-income community by providing needed shopping services that are not otherwise available in the low-income community.

Well, you say, that's fine and dandy for those assessment areas that include low- or moderate-income census tracts, but my county is all middle income. What

can I do? I don't have any census tracts designated low or moderate income to revitalize. For this type of assessment area, you will need to use the other parts of the community development definition, such as the economic development prong. Interagency question and answer 12H3-1 indicates that the agencies will presume that any loan to or investment in a small business investment company, a small business development company, or a new markets venture capital company promotes economic development. These entities do not need to be located in a low- or moderate-income area. Do keep in mind, however, that if you are talking about a loan, we still have the \$1 million loan cutoff to remember.

Another example of a community development loan is on page 54. You make a \$100,000 unsecured line of credit to a nonprofit organization whose purpose is to make very small loans to farms or businesses having gross annual revenues of \$1 million or less. These small farms or small businesses do not have to be located in low- or moderate-income areas. And affordable housing loans do not have to be located in low- or moderate-income areas to meet the definition of community development. Finally, a loan that provides community services targeted to low- or moderate-income individuals, which is another part of the definition, also does not have to be located in a low- or moderate-income area. And again, a 504 loan that is more than \$1 million generally meets the CD definition and doesn't have to be located in a low- or moderate-income area.

Well, so far so good. However, now you say, I really don't want to make a loan more than \$1 million. It's too close to my legal lending limit and it's over my internal

loan concentration limits, not to mention my lending authority. Can I participate out some of this large loan without losing its designation as a community development loan? The answer is yes. It doesn't matter if your bank originates the loan and sells the guaranteed portion or any portion. The bank still reports the origination amount. The amount of loan at origination is important, because of the \$1 million cutoff for most community development loans. An example is on page 56. If a bank originates a community development loan at \$1.2 million, but sells a participation of \$500,000, it would still be reported as a \$1.2 million community development loan. Although, keep in mind that the examiners may consider it as a \$700,000 community development loan.

Another example is on the next page. Say you purchase a \$200,000 participation in a \$2 million community development loan that was originated by another institution. Even though your purchased amount is less than \$1 million, it is still a community development loan, because the call report instructions tell us to use the lead loan amount to determine the original amount of a participation purchase. And so you have a community development loan instead of another type of loan. Incidentally, you would report this as a \$200,000 CD loan.

Finally, consortium loans. Here's one more way to increase your community development lending. The CRA regulations indicate that a bank may ask the OCC to consider loans originated or purchased by consortia, in which the bank participates, or by third parties, in which the bank has invested. The bank can do that only if the loans meet the definition of community development loans

and only if the bank reports the data pertaining to these loans, that applies to those banks required to report CRA loan data. These types of loans may be allocated among participants or investors as they choose for purposes of the lending test. Of course, no double counting. And the investor cannot claim more than its percentage share of the total loans originated. These loans are considered only under the community development lending part of the bank's CRA examination.

In summary, national banks can make government guaranteed loans and other types of business and community development loans in a safe and sound manner, improving the bank's bottom line and enhancing its reputation and CRA performance, while also helping to meet local economic development needs. Sounds like a win-win-win to me.

Now we'll go back to Anna.

Ms. Alvarez-Boyd: Thank you, Karen. And thank you to all the speakers this afternoon. I want to remind you all that you can send us questions online or through your phone connection. And I want to start with a question for Julie. Jack can you give us some instructions on how to submit a question on the phone?

Jack: Anna, I would be happy to. And we would love to have you, the audience, join us with your questions and comments. We've made it very easy. All you have to do is press the '1' on your phone's touchtone keypad. This will put you into our electronic queue and bring your line up on my computer screen. Then when your turn comes up, I'll call on you by city and the first name of the person who registered at your location. And if your question is

answered while you are in line, then pressing the ‘#’ will take you back out of the queue. We would like to encourage you to take advantage of this interactive format and talk with our panel and have your questions or concerns addressed.

A couple of tips for you, if you are listening on a speakerphone and it’s at all possible, please pick up the handset when you ask your question. We can all hear you much better that way. And then this reminder, when replacing the handset, remember to press and hold the speakerphone button so you are not disconnected. However, should that happen for that or any other reason, dial back in, reenter your PIN number, and you will be immediately reconnected to the program.

So if you have a question, go ahead and press ‘1’ now. And again if your question is answered while you are in line, pressing the ‘#’ will take you back out of the queue before your turn comes up. And if you’ve joined us a bit late, via the Internet you can send us questions that way as well. All you have to do is click on the narrow white box under “Question for Presenter” on the left side of your screen, type in your question, and click on the “Submit” button. When your question reappears on the larger white box, you will know that we have received the question, and the speakers will address it as soon as possible.

Anna, let me tell you that I’ve got one phone question in the queue right now, and I know you’ve got a lot of Internet questions, but I thought you should know that you have a minimum of 334 attendees out there from all across the country and Canada. And before we go to the

phones, I have two phone questions now, let's take an Internet question first and then we'll go to the phones.

Ms. Alvarez-Boyd: Terrific, let me start off with a question for Julie. Bill said earlier that the SBA 504 program is the best kept secret in CD lending, and I have to agree from some of what I've heard from our CBA contacts. Can you tell me a little bit, Julie, about how a bank can find a section 504 certified development company to work with? And about your experiences working with CDCs?

Ms. Cripe: That's a good question, Anna, and it's really easy. On the SBA.gov Web site, a map of the United States will jump right up. You merely have to click on your state and the part of the state in which you are located, and it will pull up the list of the CDCs or community development corporations closest to you. My experience, as I said, was involved on the board of the CDC, which helped me see both sides of the equation. Many of you may not know that under SBA 504, the bank retains a 50 percent piece of the total loan and retains a first lien. In this particular program, the SBA through its CDCs has 40 percent of the loan and keeps a second lien. So your collateral risk is mitigated a great deal, and it's a great program.

Jack: Alright, let's go to the phones now. Fredericksburg, Virginia first, then we'll have Los Angeles and Denver. Fredericksburg and Margaret's location, you are first. Go ahead please.

Virginia: Thank you so much. My question was for Karen to clarify a 504 loan that meets the community

development definition as far as the amount. Under or over \$1 million?

Ms. Tucker: Hi, this is Karen. I had to take my mute button off, but I'm back.

Virginia: Thank you, Karen.

Ms. Tucker: That's a good question, to clarify the cutoff for 504 loans and the cutoff for something to be reported as a small business loan. If the loan is \$1 million or less, it is a small business loan. So once you exceed \$1 million and you have a 504 loan, you can consider a community development loan. Does that answer your question?

Virginia: Yes, thank you so much, Karen.

Jack: Thank you for joining us, Fredericksburg. We go next to Los Angeles and Irene's location, go ahead please.

California: Yes, this is a question for Bill Glover. On your slide 41, when you mentioned that the guaranteed portion does not count against the loan-to-value ratio to determine adequate collateral, I don't quite follow that. Can you elaborate a little bit more, Bill?

Mr. Glover: Right, if you'll look under the appraisal regulation, the exact site is under 12CFR34.43. Under that section A, it talks about how you need a certified or licensed appraisal for all real estate, except, and number 9 under that, and I'll quote, "the transaction is wholly or partially insured or guaranteed by a U.S. government agency or United States government sponsored agency." So an appraisal is not subject to the appraisal regulations. 34.43 is the site.

California: Okay, but that does depend, right? Even an unguaranteed portion exceeds the \$250,000? I know the recent appraisal ruled that a loan less than \$250,000 is subject to a different set of appraisal requirements. So let's say, assume the unguaranteed portion exceeded the \$250,000, does that mean that a self-contained appraisal is not required? Is that what you're saying?

Mr. Glover: I've read this a couple times, and it says that it is an exception if the transactions is wholly or partially insured or guaranteed by a United States government agency or United States government sponsor. That means that the certified license requirements are good, except in this case. So I don't think that the \$250,000 applies to that.

California: OK, can you give me the section again, Bill? You quote a section.

Mr. Glover: Yes, it is 12 CFR 34 Section 43A9.

California: Thank you.

Mr. Glover: You bet.

Jack: Los Angeles, thank you for joining the conversation. Before we go to Denver for our next phone question, let me come back to Anna and perhaps we can do two of the Internet questions. Anna?

Ms. Alvarez-Boyd: Great. Thanks, Jack. This is a question for Karen. It has been very difficult to find community development loans locally. Our parent company, located in another state, has more opportunity. If we participated in a community development loan they made in their local market, how do we get credit for the purchased amount?

Ms. Tucker: That's a really good question. You might be able to get some credit for that. In your packet on the back of the definition page, I have a little explanation of the geographic restrictions for CD loans. And I think if you refer to page 65, this will give to you in writing what I'm going to say verbally, because I personally think it's a little complicated, which is why I wanted to put it in this definition page. Let's assume that you are in Buffalo and your parent company is in Philadelphia, You said it was in a separate state. Obviously, Philadelphia is outside your local assessment area, and you normally would not get credit for that. However, Philadelphia is within the broad regional or statewide area. So if you had otherwise adequately met the CD lending needs of your assessment area, you could get a secondary icing on the cake type of credit for a CD loan that your parent company made in Philadelphia, for which the parent company didn't need to take credit. We must be careful about the double counting, and you must first meet the CD lending needs within your assessment area as best you can given your performance context. So assuming you had done that, you could get this additional,, what I like to call, icing on the cake credit for the Philly loan that the holding company didn't otherwise need. Back to you, Anna.

Ms. Alvarez-Boyd: Thanks, Karen. Next question is for Julie. It is one we received earlier. Are B&I loans available to farmers?

Ms. Cripe: Without knowing exactly the nature of why they are asking that question, I will answer it the best way I can. The B&I loan program was specifically designed to enhance rural communities through economic

development. And while farmers are having a lot of problems right now, the program is not to be used for growing, for any kind of crop loans, or direct agricultural loans. However, in the case of perhaps a dairy farm or the mushroom farm I referred to earlier, when it's part of a bigger picture, an ongoing business, it is eligible for B&I. (Is this Julie or Anna? Ed) I don't know if we have anyone on the line who is from USDA who might want to comment further on this question. Jack, can you see if there's someone out there from USDA? We're looking for Pandoor Haagee.

Jack: Pandoor, if you're out there all you have to do is press the '1' on your phone's touchtone keypad, it will bring you into the queue, and I can open up your line. So please don't hesitate to do that. And there he is in Washington, D.C. Go ahead, please.

Washington, D.C.: Hi, my name is Bill Smith. I'm sitting in with Pandoor Haagee. And concerning your question about agricultural production, we would look at it when it's not eligible for the farm service agency program. We can consider as an example an apple orchard in conjunction with a food processing facility or poultry in conjunction with a meat processing operation. We'd be participating in the processing piece. Does that answer your question?

Ms. Cripe: Great, thank you. Yes, thank you for the extra comment. Jack, back to you for questions from the phone.

Jack: Alright, we have two in the queue right now. We will go to Denver, Colorado first, then to Sycamore, Illinois. Denver at Kristin's location, go ahead please.

Colorado: Hi, this question is for Julie Cripe. Looking at your first example with the Livengood Feeds, it looks like there was a refinance to better secure your collateral position. And I was just wondering, is it at all common to use B&I guarantees on refinances?

Ms. Cripe: It can be done. It's not the most common use of the program. In this case it was really not used to shore up a revolving line of credit. In fact, this company did not need a revolving line of credit. The reason they needed a line of credit, at the time I first met them back in 1991, was merely because they had a building that was worth \$5 million that had been paid off. So they used their cash flow to pay off a building, and that was their primary asset. Because they did have the cash flow when they needed it, if they had minimal payments on real estate we chose to finance the building. So I hesitate to call it a refinance, even though the major bank in Austin had taken it as a form of collateral. It in fact was not a true finance on the building, because the loan was a one-year building. It was at a prime +2, and we were able to do something that was for the longer term and more properly matched the loan to the type of collateral. And in fact, that is the kind of loan they should have had all along.

Jack: Denver, any follow-up? Thank you for joining the conversation. We go next to Sycamore, Illinois at Charles' location. Go ahead please.

Illinois: Hello, my name is Harvey, and this question is directed for Karen Tucker. On page 55 of your slide, "Finding CD Loans," it says 504-CDC loan more than \$1 million. Is that \$1 million of the loan amount or the retention amount for the institution?

Ms. Tucker: That refers to the original amount of the loan because we default to call report instructions. And it is to determine how to report loans for CRA purposes. And in the call report, it says if you have a loan, if the original amount of your loan is \$1 million or less, it's reported as a small business loan. But if the original amount is more than \$1 million and it meets the purpose of a CD (community development purpose), then you would report it as a community development loan. So in that slide I'm referring to the original amount of the loan.

Illinois: OK, do you have a reference for the call report with schedules for the instructions to which you are referring? Just out of curiosity?

Ms. Tucker: A reference for the call report? Well, I actually have included on page 64 of your packet the definitions that I pulled out of the call report instructions.

Illinois: Okay.

Ms. Tucker: And if you wanted to get further on call report instructions, I know that they are available on the FDIC Web site.

Illinois: Okay, great. Thank you.

Ms. Tucker: Julie, did you want to comment on that as well?

Ms. Cripe: Yes, if someone hasn't participated in the SBA 504 program before, it's important to note that in all cases the original part of the loan., – In this case if you had let's say a \$2 million loan and you were providing a 90 percent loan-to-value ratio, \$1.8 would be the bank's original loan until such time, which ranges anywhere from 30 days at the very earliest to maybe a year if construction is involved, to pay off their 40 percent portion and the

second lien portion of the loan. So the original amount of the loan in the scenario of a \$2 million project would be \$1.8 million. Then later, at completion or at the booking of your loan a few days later, the SBA would wire the debenture money to you of \$800,000 and your loan on the books would be a much smaller amount. It's almost like a participation. They pay that portion off and retain a second lien.

Jack: Sycamore, Illinois, any additional follow-up?

Illinois: No, we're good. Thank you.

Jack: Thank you for joining us. That clears out the question queue. We have about 15 minutes left for questions from our audience. We have plenty of room and plenty of time for you. So please don't hesitate to join us. All you have to do is press the '1' on your touchtone keypad. Anna, let's do two more of the Internet questions and then check back with me and see if we have any other phone questions.

Ms. Alvarez-Boyd: Great, Jack. I have a question that came in that I can answer. Would affordable housing include multifamily units subsidized by section 8? The answer to that is yes. Section 8 requirements target persons at 80 percent or less of median area income. So that is included in the definition of affordable housing. Karen, did you want to add anything to that? No, okay, that's fine.

Here's a question for Karen. How do we find out which census tracts are LMI areas within our market?

Ms. Tucker: Oh, that's a good question, one that I had not anticipated. I think probably you go to the census bureau home page, and they have various maps that you can look up there. And another really good place to go is

the FFIEC.gov Web page, which has a whole geo coding section. So sSay you were planning to open a new branch and you were not sure of the geography in which the branch was to be located, you didn't know the income level, or you thought maybe it was moderate income but we have had this census 2000 that came in and you are not sure it's still moderate income - and that's always a good thing to know for CRA before you open a new branch. If you go to the FFIEC.gov, which is short for Federal Financial Institutions Examination Council. it has a geo coding section where you can input the address of the branch and find out the demographic data about it, including whether it is in a low-, moderate-, middle- or upper-income census track. Otherwise, I'd check on the census bureau Web site.

Ms. Alvarez-Boyd: Great. Thank you. Jack, back to you.

Jack: I have no additional phone questions at this time. Ah, Duncan, Oklahoma just popped up on the screen. We will go there. Shannon's location. Go ahead please.

Oklahoma: Hi, this is Shannon. And I have a question for Karen. On page 49 it talks about affordable housing, and it has rental units listed. We know rental investment properties are not eligible for CRA business loans because they are secured by real estate, but what would make them qualify for the CD? I mean, obviously they are affordable housing. But for a rooming unit would it have to reside in a low- to moderateincome area, since the tenancy of that dwelling could have substantial turnover?

Ms. Tucker: I am not clear on the question. When a bank finances affordable housing, whether it be rental or

for ownership, we consider that an affordable housing loan for CRA purposes. We don't draw distinctions. It doesn't matter to us, or to HMDA, whether it's carried on the bank's books as a business loan or a mortgage loan, because HMDA has requirements for reporting loans that are secured by dwellings.

Oklahoma: I'm talking about only for CRA business loans. Say you have a business customer whose business is rental investment properties. But since those properties will more than likely be secured by real estate, even if the original loan amounts are under \$1 million we would not count them for a CRA business loan, because they are secured by that real estate. Is that right? Is that part of my statement correct?

Ms. Tucker: I'm still not sure I'm quite getting the whole question but I will look up my CRA data collection and...

Oklahoma: OK. The main part of my question is for it to be a community development loan, and it is a rental unit where obviously it has to be affordable housing for it to qualify for a CD loan, must that rental unit reside in a low- to moderate-income area?

Ms. Tucker: No.

Oklahoma: Or can it be rented to low- to moderate-income tenants?

Ms. Tucker: Yes. As I said, in some of my comments, for affordable housing, the tenant is the deciding thing. The rental unit can be located in a high-income area. It could be part of a mixed use development project. You might have a section 8 unit downtown near a

luxury hotel or something. But at any rate, affordable housing can be located anywhere.

Oklahoma: Okay, and the tenants only need to be low to moderate income?

Ms. Tucker: Right.

Oklahoma: Okay. Alright, thank you.

Jack: Back in Oklahoma, thank you for joining us. That clears out the question queue. We have about 10 minutes left for questions. And, Anna, let me turn it back to you to do the Internet questions, and I will let you know when I have another phone question.

Ms. Alvarez-Boyd: Great. Terrific, Jack. This one is for Julie. Let's talk for a minute about what happens if a default occurs. Can you comment on your experiences in presenting claims when government guaranteed programs go into default? How long do you have to wait to get reimbursed? Have you had any difficulty in getting these government agencies to honor their guarantee? What happens in that case?

Ms. Cripe: That's a really good question. I'm sure none of us ever intend to have any of those loans go into default, but on occasion it does happen. Each agency has a pretty specific method that they would like to use when you ask them to, what is called, "Buy back" the guarantee, both SBA and USDA and the government agencies. In most cases, they want to know a little bit about what happened and exactly what is the plan for liquidation of collateral. That is presented to the local field office or in the case of some smaller SBA loans, to a centralized location, and that plan is approved and then within a period of time, depending on the complication of

the credit, the bank receives a check for the guaranteed portion. Now that's in a perfect world. And again, as we tell our customers, all the information has to be presented. On occasion, I have had different agencies ask for backup or more follow up work, because any time you do a loan, particularly if it's guaranteed by the government, there are standard operating procedures that must be followed, and it is always good to give them evidence of that SOP being followed at the time you make a claim. It makes life a lot simpler. However, they may come back and ask a follow-up question or ask you to provide more backup information. I have not had any major problems, even though we have all had questions and discussions about certain things as we go on down the road.

Ms. Alvarez-Boyd: Great. Thank you. Jack, anything from you?

Jack: I have nothing on the phones at this time, Anna. But let me invite the audience one more time. We have about seven minutes left for your questions. And please take advantage of this opportunity to talk with our panel. We'd love to hear from you. As I said all you have to do is press '1', and we can bring you into the conversation. But until that happens, Anna, I'm coming back to you for more Internet questions.

Ms. Alvarez-Boyd: Okay, great. We have some coming in now. One is for Karen. How can I be sure that the examiners look at business loans under \$1 million that also meet the community development definition?

Ms. Tucker: Anna, that's a really good question. If you are a large bank for CRA purposes, which means that you have more than \$250 million in total assets,

generally the examiners are required to look at small business lending. And as you know, if you are that size of bank you have been reporting the small business loan data. So examiners will always look at small business lending in the larger bank. Now in a smaller bank it really depends on your primary loan products. The way a small bank exam is done is that the examiners determine through various reports and discussions with management what types of loans the bank primarily originates and purchases. And for most of our banks, those will be business loans and mortgage loans (home mortgage loans). So they will sample from both of those categories. And when they do, they will be looking at hopefully those types of loans. If the particular loan in which you are interested does not show up in the loan sample, then you can bring any particular loan to the examiner's attention, and this applies to both small banks and large banks. We call it other loan data that you want considered. You can gather information about these loans and present it to the examiners during the examination and say, "Look, we have made these loans. I know they can't be reported as community development loans because they are way under \$1 million, but here's how they help fulfill credit needs for our community development needs in our area." And they will be more than happy to take a look at them and evaluate them as part of their examination.

Ms. Alvarez-Boyd: Great, I've got another question for you, Karen. And I think this refers to the definition in the CRA regulation. What is the definition of rural?

Ms. Tucker: The definition of rural? That is a really interesting question. I've never been asked that before. I will have to guess that it would be anything that's outside of an MSA at this point. And the reason I say 'guess' is because the Office of Management and Budget (OMB) recently issued new definitions of what is an MSA, and the term 'block numbering area (BNA)', with which probably a lot of your rural locations are familiar, has gone away. So now everything in the country is under a census tract instead of a BNA, which makes some people think that maybe we're all urban or something. But I think when you think about urban you are thinking about MSAs of certain population levels. Would anybody else here care to comment?

Ms. Cripe: This is Julie. Each agency has a definition of rural and, in the case of USDA and B&I, they use the definition that is something in a populated area of less than 50,000. But you can easily tell if it qualifies for rural under these various programs, again by using their Internet sites and entering a ZIP code or clicking on a particular area. If it abuts a major metropolitan area, it does not generally qualify under the B&I program. But again each program has a different definition.

Ms. Alvarez-Boyd: OK, Jack, I will check in with you one more time.

Jack: No additional phone questions at this time. And we have about three minutes left before we have to start wrapping up, Anna.

Ms. Alvarez-Boyd: Okay, I have one more for Karen. I would like to clarify the effect of an FSA guarantee on the legal lending limit. Or actually, Bill, you

could probably chime in on this one as well. If we have a \$520,000 loan with a 90 percent FSA guarantee, we would need to count only \$52,000 toward our limit with that customer. Is that correct?

Let me ask the question again. I want to clarify the effect of the FSA guarantee on the legal lending limit. If we have a \$520,000 loan with a 90 percent FSA guarantee, we would need to count only \$52,000 toward our legal lending limit. Is that correct?

Mr. Glover: That is correct. I thought you said \$500,000 in the beginning instead of \$520,000. But yes, it would be \$52,000. It's the 10 percent. The easier way is to look at it from that way as the unguaranteed portion and then go back from there.

Ms. Alvarez-Boyd: Thank you. I hope that answers the question out there. Oh, we have one more coming in on the Internet. Jack, anything from you?

Jack: Nothing here, Anna. And about a minute and a half, two minutes to go before we have to wrap up.

Ms. Alvarez-Boyd: OK, well this one really is for Karen. Is there anything that can be double counted? I'm thinking that I've heard over time that multifamily dwelling loans can be double counted. Is that true?

Ms. Tucker: Yes, that is true because they are double reported. If you're subject to reporting under HMDA, you will be reporting your multifamily loans that financed dwellings, and if it's affordable housing, you will also be reporting that loan as a community development loan. So in that respect it is double counted.

Ms. Alvarez-Boyd: Okay, I think we are out of questions at this point. And Jack, anything else?

Jack: I have nothing else in the phone queue, Anna. And we are about a minute from wrapping up. I don't know that there is enough time to adequately handle another complicated question. Unless you have something that just came in that might be a little bit easier to talk about for one minute.

Ms. Tucker: Well, this is Karen. We have one more. It's very long. I'm going to read it and maybe we can get to it. Otherwise, I'll have to ask the person to send me an e-mail. "At the time a loan is made for rental home, the borrower might not have a tenant at that time. To qualify as a CD loan for affordable housing, would the borrower have to have a tenant at the time of the loan and income from them to qualify as an LMI tenant? Or would they just have to state that they plan to rent only to LMI tenants?" Well, that is actually an excellent question. And one of our Q&As does talk about how examiners will look at the express intent purpose of a loan in the absence of a rent roll. So, for example, if a building is designed and constructed to be an affordable housing building and the loan is being made to construct it, so you don't have a rent roll to prove that it was rented to LMI tenants, then it can still be considered an affordable housing building based on the express intent. And that's usually found in the loan documents and the proposal, and sometimes in a prospectus even.

Jack: Thank you very much. And Anna, with that it's time to wrap up.

Ms. Alvarez-Boyd: Thank you, Jack. I want to thank our speakers for their excellent presentations and thoughtful responses to questions today. I also want to

encourage all of you to avail yourselves of the information you heard. Included in your materials are short descriptions about the government agency programs we mentioned, as well as Web addresses for these agencies where you can find out who to contact to begin participating in the program. And please don't forget the resources available through the OCC after this seminar. Speak with our examiners and assistant deputy comptrollers about the ideas you have in this area.

On the community affairs page of OCC's Web site you will find a resource guide on rural economic development. This site has information on OCC as well as other agencies and organizations offering economic development financing partners. In addition, the OCC's district community affairs officers, whose phone numbers are included in your materials, are available at each of our district offices to provide you with any assistance you may need in identifying the opportunities in your community. Please call on them for assistance. Thank you again for participating in this telephone seminar on rural economic development. We hope it has been useful and informative, and we wish you all the best in accomplishing your bank's economic development mission.

Jack: Alright, thank you very much. And with that we conclude today's telephone and Web-based program, "Rural Economic Development Lending Opportunities for Community Banks," brought to you by the Office of the Comptroller of Currency, and well presented by Anna Alvarez-Boyd, Julie Cripe, Bill Glover, and Karen Tucker. As a reminder we encourage you to fill out and fax your evaluation form to the number listed on the form. Please

mark only in the area specified and use the fine or superfine setting on your fax machine. Your comments and suggestions are important to us, since they help us provide you with future quality programming. Thank you for joining us today. Please enjoy the rest of your day, and you may disconnect from the Web and hang up now.