



Comptroller of the Currency
Administrator of National Banks

A Telephone Seminar

Rural Economic Development Lending Opportunities for Community Banks

Thursday, September 25, 2003

Speaker Biographies
Electronic Polling Question
Power Point Presentation

John D. Hawke, Jr.

Comptroller of the Currency



John D. Hawke, Jr. was sworn in as the 28th Comptroller of the Currency on December 8, 1998. After serving for 10 months under a Recess Appointment, he was sworn in for a full five-year term as Comptroller on October 13, 1999.

The Comptroller of the Currency is the Administrator of National Banks. The Office of the Comptroller (OCC) supervises about 2,200 federally chartered commercial banks and about 52 federal branches and agencies of foreign banks in the United States comprising more than half of the assets of the commercial banking system. The Comptroller also serves as a Director of the Federal Deposit Insurance Corporation, the Federal Financial Institutions Examination Council, and the Basel Committee on Banking Supervision.

Prior to his appointment as Comptroller, Mr. Hawke served for 3 1/2 years as Under Secretary of the Treasury for Domestic Finance. In that capacity he oversaw the development of policy and legislation in the areas of financial institutions, debt management, and capital markets, and served as Chairman of the Advanced Counterfeit Deterrence Steering Committee and as a member of the board of the Securities Investor Protection Corporation. Before joining Treasury, Mr. Hawke was a Senior Partner at the Washington, D.C., law firm of Arnold & Porter, which he first joined as an associate in 1962. At Arnold & Porter he headed the Financial Institutions practice, and from 1987 to 1995 he served as Chairman of the firm. In 1975 he left the firm to serve as General Counsel to the Board of Governors of the Federal Reserve System, returning in 1978.

Mr. Hawke was graduated from Yale University in 1954 with a B.A. in English. From 1955 to 1957 he served on active duty with the U.S. Air Force. After graduating in 1960 from Columbia University School of Law, where he was Editor-in-Chief of the Columbia Law Review, Mr. Hawke was a law clerk for Judge E. Barrett Prettyman on the U.S. Court of Appeals for the District of Columbia Circuit. From 1961 to 1962 he served as counsel to the Select Subcommittee on Education in the House of Representatives.

From 1970 to 1987 Mr. Hawke taught courses on federal regulation of banking at the Georgetown University Law Center. He has also taught courses on bank acquisitions and financial regulation and serves as the Chairman of the Board of Advisors of the Morin Center for Banking Law Studies at Boston University School of Law.

In 1987 Mr. Hawke served as a member of a Committee of Inquiry appointed by the Chicago Mercantile Exchange to study the role of futures markets in connection with the stock market crash in October of that year.

Mr. Hawke has written extensively on matters relating to the regulation of financial institutions, and is the author of Commentaries on Banking Regulation, published in 1985. He was a founding member

of the Shadow Financial Regulatory Committee, and served on the committee until joining Treasury in April 1995.

Mr. Hawke is a member of the Cosmos Club, the Economic Club of Washington, and the Exchequer Club of Washington.

Born in New York City on June 26, 1933, Mr. Hawke resides in Washington, D.C. He was married in 1962 to the late Marie R. Hawke and has four adult children, Daniel, Caitlin, Anne, and Patrick, and two grandchildren, Spencer Patrick Hawke and Camerynn Marie Hawke.

Anna Alvarez Boyd

Deputy Comptroller for Community Affairs



Anna Alvarez Boyd has served as deputy comptroller for Community Affairs in the Office of the Comptroller of the Currency since May 2000. Prior to that time, she managed the OCC's team of community reinvestment and development specialists located throughout the country, who had an important role in facilitating community development activities. Ms. Boyd joined the OCC in 1995 in the newly created position of community reinvestment and development specialist.

Prior to coming to the OCC, Ms. Boyd was director of Advocacy for Consumer Action, a consumer education and advocacy organization. She supervised a department of community organizers and educators conducting innovative outreach projects in low-income communities. She represented consumers and community groups before the California State legislature, public agencies, and the media. At 1st Nationwide Bank's broker dealer subsidiary, she managed the delivery and implementation of marketing programs for the sale of securities to bank customers through a nationwide branch network.

Ms. Boyd was graduated from San Francisco State University.

Julie Cripe

President and Chief Operating Officer

OMNIBANK, N.A.



Julie Cripe is president and chief operating officer of OMNIBANK, N.A. Ms. Cripe has been an officer of this independent, community bank since 1979.

She has been an advocate for small, minority-owned and women-owned business. As a spokesperson for the American Bankers Association and the Texas Bankers Association, she has given speeches nationally on business-related banking issues. Ms. Cripe is currently Financial Women International president and board president of Capital Certified Development Corporation (CDC). She served for three years as a Communications Council member of the American Bankers Association,

HMDA task force chair, banking advisor for the Texas Bankers Association, and board member of the American Bankers Association Education Foundation.

Julie Cripe frequently writes and gives interviews on banking, finance, and other small business topics. Her articles have appeared in Houston and San Antonio newspapers and magazines. She also appeared on the Texas Consumer Show radio program to discuss protecting the elderly from financial scams.

William S. Glover

Assistant Deputy Comptroller

Midwestern District



Bill Glover is the assistant deputy comptroller for the Omaha South field office in the Midwestern District. He joined the OCC in 1968 upon graduation from the University of Nebraska. He first worked in the North Platte, Nebraska, duty station before entering Naval service. He rejoined the OCC in 1972 upon completion of his military obligation and was stationed with the Norfolk, Nebraska crew. In 1975 Glover was transferred to Dodge City, Kansas. He obtained his commission as a national bank examiner in December 1975 and became the sub-regional examiner in charge in 1976. In 1985 he became the field manager of the Wichita, Kansas duty station. There he completed the Graduate School of Banking at Colorado. In October 1994, he transferred to Washington, DC as the Assistant Chief National Bank Examiner for Training and Performance Development.

Karen Tucker

National Bank Examiner/Senior Compliance Specialist

Office of the Comptroller of the Currency



Karen Tucker is senior compliance specialist in the Compliance Division in the Office of the Comptroller of the Currency. She has worked in that division since 1995. Ms. Tucker works on policy and procedural issues surrounding the CRA, HMDA, CRA Sunshine, and Section 109 (DPO) rules. She provides guidance to field examiners, bankers, and other interested parties. In addition, she represents the OCC on interagency committees and working groups. Ms. Tucker was a field examiner in the Southeastern and Western districts for 14 years. She joined the OCC in 1981 in Miami, Florida. Ms. Tucker is a former member of the ABA Compliance Advisory Board for the national and graduate compliance schools. She holds a Bachelor of Science degree from the University at Albany and a Master of Business Administration degree from the University of Miami.

Polling Question
9/25/03 Teleconference

How many people are at your listening site? Press:

- 1 for one person**
- 2 for two people**
- 3 for three people**
- 4 for four people**
- 5 for five people**
- 6 for six people**
- 7 for seven people**
- 8 for eight people**
- 9 for nine or more people listening at your site.**

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Anna Alvarez Boyd
Deputy Comptroller for Community Affairs

Introduction

Office of the
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Julie Cripe
President and COO
Omnibank, N.A.

Creating Loan Opportunities

Why Rural Development Lending?

- Rural development lending is profitable.

What Do Banker's Think?

- Loan demand is slim to none.
- Community bankers lack expertise.
 - Community development
 - CRA lending
- Government guaranteed loans take too much time.

OMNIBANK, N.A.

- Began in 1954.
- Purchased several failed banks in late 80's and early 90's.
- Makes loans to new and growing businesses.
 1. What about risk?
 - Investigated guaranteed loans
 2. What about profitability?

Educate Lenders and Customers

- Work with local field offices for in-house training
- Use the National Association of Government Guaranteed Lenders for help and training
- Sponsor a local workshop or seminar for customers about lending programs

How Do I Find Loans?

- Relationships
 - Local field offices of SBA and USDA
 - Chamber of Commerce
 - Local economic development group
 - Referrals
 - Advertise that your bank participates in these programs
 - Lobby
 - Articles

- Learned all I could about the programs
- Wrote articles for local papers or newsletters that explained the programs
- Joined an area Certified Development Corporation
- Gave talks at Rotary, Lions, etc.
 - Customers began calling me
 - Created more requests for talks

Train Loan Officers To Look for Opportunities,
Including:

- Volunteer services
 - New buildings or equipment
- Housing
- New businesses
 - Tax roles
 - Local EDC
- Expansion of businesses
 - Chamber
 - Golf course
- Investment properties
- Nonprofit organizations

Educate Loan Officers and Community

- Programs available
 - USDA Business and Industry (B&I) Loan Guarantees
 - USDA Community Facilities Loan
 - SBA 7(a) Loan Guarantees
 - SBA 504 Certified Development Company Program
 - Various state and local programs

Livengood Feeds
Lockhart, TX Pop. 10,000

- We purchased failed bank in 1991.
- Low loan demand
- Major businesses banking in nearby Austin
 - Other bank focused on consumer lending.
- Livengood had Letter of Credit secured by real estate.
 - Major bank in Austin
 - Created problem because of seasonality
 - We converted to long-term B&I loan.
 - Significantly improved cash flow
 - Properly matched assets to liabilities

- Traditionally command higher rates
 - Prime + 2.5 percent floating, 1 point
 - Fee for packaging
- Saleable in secondary market
 - Farmer Mac
 - Traditional purchasers of SBA loans now buying B&I

- Sold in 2001 one B&I loan for 7 percent premium
- Used various sales in 2002 to enhance fee income
 - Fees from sales go immediately into income

- Excess liquidity
 - Hold loans in portfolio
 - Ability to make larger loans and hold in portfolio
- Need funding source
 - Sell loans in secondary market
 - Guaranteed portion
 - Unguaranteed portion

Increase Lending Limit

- Government guaranteed portion does not count in legal lending limit
 - Allows banks to make larger loans
 - May increase loans to known customers
- Builds stronger community relationships

- In 1991, our legal lending limit was approximately \$300,000; their credit need was \$500,000.
- New to community
 - Outsiders (from the big city)
 - Larger businesses had established relationships in Austin.

- Both long-term customers of bank
- Both at bank's lending limit with other loans
- Used B&I on loans for each to construct buildings
 - First in rapid expansion
 - Latter expanding out of territory

Credit Risk

- New businesses carry more credit risk, but important for economic development
- More difficult to grow and start businesses in rural areas
 - Skilled labor
 - Potential customer pools

- Engineer large air conditioners
- Started receiving larger and larger contracts for goods exported
 - Needed contract financing
 - Was at our legal lending limit
 - Use of Export-Import Bank allowed us to mitigate risk and customer to grow

- Restart of 50-year family business
- Utilization of natural resources
- Chief industry in this town
- Economic downturn slowed building
- Reduced exposure allowed us to work with them
- Found buyer

Interest Rate Risk

- Generally floating rates quarterly
- Higher spread over prime
- Real estate generally carries a point
- Generate fees
- Can sell at any time

Encourage Economic Development Activities

- Can inspire community to bring in businesses when confident of bank support
- Can combine different program loans to create more opportunities
- Gives banks courage to explore working with some nonprofits

- Brought new business to small community that had lost 900 jobs in 2001
- Encouraged support of local Economic Development Corporation and taxing authorities
- Combined multiple programs to move new jobs from 60 to 150 in next 12 months

- Gonzales, Texas Population <20,000
- Three banks, none would consider
- OMNIBANK used USDA B&I Loan Program for original plan.
- Followed in three years with a SBA-504 loan to double plant
- Profitable and expanded again out of cash

Combining Programs

- Use USDA B&I for capital improvements/acquisition
- Split out working capital needs; Use SBA
- Equipment, use USDA or SBA, combined with local government programs

Where Do I Start?

- USDA.gov
- SBA.gov
- State or local economic development councils
- Field offices of USDA and SBA provide bank training onsite
- National Association of Government Guaranteed Lenders (NAGGL) – examples and training

- Isn't there a lot of paperwork?
 - Information required is identical to what we gather for any business loan.
 - Fill in the blanks, Web sites offer downloadable forms.
 - Smaller loans (\$150,000 or less) can be done with SBA Low-doc or SBA Express.

- Does it take six months for approval?
 - If all information is provided, loans can be approved through local field offices if less than \$5 million in a few weeks.
 - USDA loans on real estate require their own environmental assessment that can take 30 days.

- Using government guaranteed loans helps banks increase loans and income while mitigating credit and interest risk.
- Builds community goodwill and helps fulfill CRA requirements
- Enhances government relations activities

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William S. Glover
Assistant Deputy Comptroller

Regulatory Advantages

Safety and Soundness Benefits

- Assessment of bank management
- Risk mitigation tool for management
- Improved Credit Quality
- Better asset quality/CAMELS ratings
- Better financial performance and flexibility
- Benefits to your compliance program
- Enhancing your reputation in your community

Use of Government Guarantee Programs

- U.S. Department of Agriculture –
Farm Service Agency (FSA)
- U.S. Department of Agriculture –
Business and Industry Loan Program (B&I)
- SBA 7(a) Loan Guarantee Program
- SBA 504 Certified Development Company
(CDC) Loan Program

Use of Government Programs To Improve Credit Quality

- Improve the quality of your residential real estate loan portfolios
- Guarantees can provide a boost to your marketing effort in trying to attract new loan demand.
- Federal Home Loan Bank – Affordable Housing Program (AHP)

Better Performance and Flexibility

- Improve earnings performance through increased interest income and lower loan losses
- Guaranteed portions can be sold.
- Improve liquidity position

- Community Reinvestment Act
- Guaranteed portion of the loan is not subject to legal lending limit.
- Retain larger loans and increase net interest income
- Guaranteed portion does not count against loan-to-value ratio when determining adequate collateral for a loan under appraisal regulations.

Enhance Bank Reputation

- Enhance reputation of management and the bank in community and with regulators
- Community views bank as having deep concern for its economic health.
- Effort to retain younger people on farms, ranches, and businesses viewed as positive.
- Assisting first time homebuyers provides expanded market for local real estate properties.
- Providing financing for local businesses can create jobs.

Effectiveness of Management

- These positive things are not lost on examiners as they analyze the effectiveness of bank management.
- Primary function of management is to control risk.
- These programs will mitigate short-term risk and provide for long-term profitability.
- Participation in these programs indicates willingness of management to seek innovative solutions for their institutions.

Where To Find Information

- Resource Contact List is provided with this seminar in the Appendix.
- Obtain staff training from the organizations included on the list and other Internet Web sites.
- Contact the OCC's District Community Affairs Officers for their assistance.

| | | | |
|-----------|--------------------|------------------------------------|---------------------------|
| Northeast | John Farrell | (617) 424-4995 (<i>Boston</i>) | (617) 424-4992 <i>fax</i> |
| | Denise Kirk-Murray | (212) 790-4053 | (212) 790-4098 <i>fax</i> |
| Southeast | Karol Klim | (404) 588-4538 | (404) 588-4532 <i>fax</i> |
| Central | Paul Ginger | (312) 360-8876 | (312) 435-0951 <i>fax</i> |
| Southwest | David Lewis | (214) 720-7027 | (214) 720-7017 <i>fax</i> |
| | David Miller | (214) 720-7067 | (214) 720-7017 <i>fax</i> |
| Western | Julia Brown | (415) 545-5956 | (415) 545-5974 <i>fax</i> |
| | Susan Howard | (818) 240-5175 (<i>Glendale</i>) | (818) 240-9690 <i>fax</i> |

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Karen Tucker
National Bank Examiner/
Senior Compliance Specialist
CRA Considerations

Rural Economic Development Needs:

- Job training
- Child Care
- Access to credit
- Affordable housing
- Financial literacy
- Technical support

- Small Business Loans are “small loans to businesses” in the amount of \$1 million or less.
- Small Farm Loans are “small loans to farms” in the amount of \$500,000 or less.
 - See *A Guide to CRA Data Collection and Reporting* on the FFIEC.gov Web site

- Positive impact on CRA performance and rating:
 - Address difficult-to-meet credit needs
 - Promote activities that have a positive impact on a community from a community development perspective
 - Mitigate weakness in a performance criterion
 - “Icing on the cake” – up to Outstanding!

- Affordable housing:
 - Rental or owner-occupied
 - Five units = multifamily
 - Interim construction loan for 1-4 family
 - See *CRA Loan Data Collection Grid in the Appendix.*

- SBA 504-Certified Development Company:
 - Generally meets the purpose of community development as defined in CRA regulation
 - Must be more than \$1 million to be a CD loan
 - If \$1 million or less, it is a small business loan.

- Business loan as CD loan:
 - Must meet the purpose of community development, as defined in the CRA regulation.
 - Must be more than \$1 million.
- Farm loan as a CD loan:
 - Must meet the purpose of community development, as defined in the CRA regulation.
 - Must be more than \$500,000.
 - Loans that meet the purpose, but not the size, can be brought to examiners' attention as "Other Loan Data."

- Revitalize or stabilize low- or moderate-income areas:
 - \$1.2 million business loan in LMI area:
 - Retain a significant number of jobs to low- or moderate-income individuals
 - Retain businesses and residents in the low- or moderate-income area
 - Supermarket adjacent to low-income area

- Assessment area all middle income:
 - Use economic development part of CD definition
 - Loans to these entities are CD loans:
 - Small Business Investment Company
 - Small Business Development Company
 - New Markets Venture Capital Company
 - See Q&A _____.12(h)(3)-1

- Economic development lending does not have to be made in low- or moderate-income area:
 - \$100,000 unsecured line of credit to a nonprofit organization that makes micro loans to small farms or small businesses
 - Small farms or small businesses have gross annual revenues of \$1 million or less. These farms/businesses need not be located in LMI areas.

- More community development lending that does not have to take place in a low- or moderate-income area:
 - Affordable housing
 - Providing community services (such as child care, educational, health, or social services) to low- or moderate-income individuals
 - 504-CDC loan more than \$1 million

Selling Portions of CD Loans

- Yikes! \$1 million is too big for me!
 - Original amount \$1.2 million
 - Participate out \$500,000
 - \$700,000 on books
- \$700,000 for responsiveness evaluation
- \$1.2 million is the amount reported as a CD loan

Participations Purchased

- What about buying part of a CD loan?
 - Lead loan amount \$2 million
 - Purchase \$200,000 participation
 - \$200,000 on books
- \$200,000 for responsiveness evaluation
- \$2 million is the amount reported as a CD loan

- Consortium Loans
 - Must meet the definition of CD loans
 - Must report the CD loan data
 - No double-counting
 - Claim only your percentage
 - Considered under CD lending

- Win – Win – Win!
 - Meet regulatory safety and soundness standards
 - Improve the bottom line
 - Enhance your reputation
 - Help meet local economic development needs
 - Improve your CRA performance

Appendix

OCC's Rural Telephone Seminar

Resource Contact List

OCC's Small Business Resource Directory - www.occ.treas.gov/cdd/resource.htm

OCC's Rural Development Banking Resource Directory - www.occ.treas.gov/cdd/rural.htm

OCC's *Community Developments* Rural-Focused newsletters:

- Shaping the Future of Rural America-Banks and Economic Development, Fall 2002
- A Place to Call Home: Financing Housing in Rural America, Spring 2003
www.occ.treas.gov/cdd/resource.htm

Small Business Administration (SBA) - www.sba.gov

- **SBA 7(a) Loan Guaranty Program** – SBA's primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. It is SBA's most flexible business loan program, since financing under this program can be guaranteed for a variety of general business purposes. Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets. For those applicants that meet the SBA's credit and eligibility standards, the Agency can guaranty up to 85 percent of loans of \$150,000 and less, and up to 75 percent of loans above \$150,000 (generally up to a maximum guaranty amount of \$1,000,000). This standard applies to most variations of the 7(a) Loan Program. However, SBAExpress loans carry a maximum guaranty of 50 percent guaranty. The Export Working Capital Loan Program carries a maximum of 90 percent guaranty.
<http://www.sba.gov/financing/sbaloan/7a.html>
- **SBA Certified Development Company (504) Loan Program** – provides long-term, fixed-rate financing to small businesses to acquire real estate or machinery or equipment for expansion or modernization. Typically, a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (financing by a 100 percent SBA-guaranteed debenture) with a junior lien covering up to 40 percent of the total cost, and a contribution of at least 10 percent equity from the borrower. The maximum SBA debenture generally is \$1 million (and up to \$1.3 million in some cases). <http://www.sba.gov/financing/sbaloan/cdc504.html>
- **SBA *CommunityExpress* Program** – part of the 7(a) Loan Guaranty Program, *CommunityExpress* guarantees loans to small businesses in low- and moderate-income geographies, and includes technical assistance to the small business – www.sba.gov/financing/lendinvesrt/comexpress.html
- **SBA CAPLines** – finances short-term and cyclical working capital needs of small businesses – www.sba.gov/financing/frcaplines.html

- **SBA Small Business Development Centers** – training and technical assistance – www.sba.gov/SBDC
- **SBA Office of International Trade** – export assistance – www.sba.gov/oit

U.S. Department of Agriculture – Rural Business and Cooperative Service (RBCS) – www.rurdev.usda.gov/rbs.index.html

- **USDA’s Business and Industry (B&I) Loan Guarantee Program** - provides a guarantee of up to 90 percent of a commercial loan made by a private lender. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing. B&I loan guarantees can only be extended in rural areas (this includes all areas other than cities or towns with a population greater than 50,000 people and the urbanized area contiguous to such city or town). The maximum aggregate B&I Guaranteed Loan(s) amount that can be offered to any one borrower under this program is \$25 million.
http://www.rurdev.usda.gov/rbs/busp/b&i_gar.htm
- **USDA Community Facilities Guaranteed Loan Program** - http://www.rurdev.usda.gov/rhs/cf/brief_cp_direct.htm

Export-Import Bank of the United States – www.exim.gov/index.cfm

- **Export-Import Bank Loan Pre-Export Financing Working Capital Loan Guarantees** – Export-Import Bank’s working capital guarantee allows a lender to expend pre-export working capital loans to qualifying U.S.-based companies. Loans guaranteed by the Export-Import Bank can support bid and performance bonds, export-related inventory advances up to 75 percent (including work-in-process) and advances up to 90 percent against export-related accounts receivable. Pre-qualified commercial lender partners, working under Export-Import Bank’s delegated authority can expedite the loan process by committing to an Ex-Im Bank loan guarantee with the agency’s prior approval.
http://www.exim.gov/products/work_cap.html

National Association of Government Guaranteed Lenders (NAGGL) - The National Association of Government Guaranteed Lenders, Inc. was established as a source of technical information for small businesses and financial institutions on the SBA 7(a) loan program.
www.naggl.com

National Association of Development Companies (NADCO) - NADCO is a trade association of Certified Development Companies (CDCs) - companies that have been certified by the Small Business Administration (SBA) to provide funding for small businesses under the SBA 504 Program.
www.nadco.org/NADCO/welcome.html

CRA Questions and Answers – www.ffiec.gov/cra/qnadoc.htm

OCC - Rural Economic Development Seminar

Definitions

Small business loan

A small business loan is really a “small loan to a business.” Small loans to businesses are loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, part 1, item 1e “Loans secured by nonfarm nonresidential properties” and in Schedule RC-C, part 1 item 4, “Commercial and industrial loans” of the Call Reports. (See *Call Report Instructions* for detailed reporting instructions, available on the FDIC Web site. Also, see the *CRA Loan Data Collection Grid* for examples of where to report certain types of loans.)

Small farm loan

A small farm loan is really a “small loan to a farm.” Small loans to farms are loans with original amounts of \$500,000 or less that have been reported in Schedule RC-C, part I, item 1.b, "Loans secured by farmland (including farm residential and other improvements)" (in domestic offices), and loans with original amounts of \$500,000 or less that have been reported in Schedule RC-C, part I, item 3, "Loans to finance agricultural production and other loans to farmers" (in domestic offices) of the Call Reports.

Original amount of loans, per the Call Report Instructions:

1. Loans drawn down under lines of credit or loan commitments: the original amount of the loan is the size of the line of credit or loan commitment when the line of credit or loan commitment was most recently approved, amended, or renewed prior to the Call Report date. However, if the amount currently outstanding as of the Call Report date exceeds this size, the original amount is the amount currently outstanding on the report date.
2. Loan participations and syndications: the original amount of the loan is the entire amount of the credit originated by the lead lender.
3. All others: the original amount is the total amount at origination or currently outstanding as of the Call Report date, whichever is larger.

What is a Community Development Loan?

A community development loan has as its primary purpose community development and, except in the case of a wholesale or limited purpose bank, has not been reported or collected by the bank or an affiliate for consideration in the bank's CRA assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (per HMDA regulation); and it benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

Community development means:

1. Affordable housing (including multifamily housing) for low- or moderate-income individuals;
2. Activities that revitalize or stabilize low- or moderate-income geographies.

3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company (SBDC) or Small Business Investment Company programs (SBIC) or have gross annual revenues of \$1 million or less; or
4. Community services targeted to low- or moderate-income individuals;

Can you explain #3 promote economic development?

To meet this definition, activities must meet both a size test and a purpose test.

1. Size test. Finance entities that meet either:
 - a. The size eligibility standards of SBDC and SBIC, or
 - b. Have gross annual revenues of \$1 million or less.
2. Purpose test. Promote economic development by:
 - a. Supporting permanent job creation, retention, and/or improvement for persons who are currently LMI, or
 - b. Supporting permanent job creation, retention, and/or improvement in:
 - i. LMI geographies, or
 - ii. Areas targeted for redevelopment by federal, state, local, or tribal governments.
3. Q&A ____ .12(h)(3)-1 indicates a loan to a New Markets Venture Capital Company, Small Business Investment Company, or Small Business Administration's Development Company promote economic development – and so these are all CD loans.

How do you apply the geographic restriction to CD loans for small and large banks?

1. A loan whose purpose meets the CD definition, that is not otherwise considered a small business, small farm, consumer, or home mortgage loan (except for multifamily housing), and whose proceeds benefit the assessment area (AA) is a CD loan – and the bank receives positive CRA consideration.
2. The same loan, located somewhere in the broader statewide or regional area that includes the bank's AA, whose proceeds have the *potential* to benefit the AA, as in a statewide affordable housing program, is a CD loan – and the bank receives positive CRA consideration.
3. The same loan, whose proceeds have *no potential* to benefit the AA, even though it is located somewhere within the broader statewide or regional area around the bank's AA – does not provide positive CRA consideration to the bank, UNLESS the bank has otherwise adequately met the CD lending needs of its AA.
4. The same loan, whose proceeds benefit an area outside the broader statewide or regional area, does not provide positive CRA consideration to the bank.

Loans Made to For-Profit Entities

| | Type of Loan | Small Business | 2003 HMDA | Community Development | Not Collected |
|-------------------------------------|---|----------------|-----------|-----------------------|---------------|
| Non-real estate secured | Loan to a for-profit entity not secured by real estate and equal to or less than \$1 million. * | X | | | |
| | Loan to a for-profit entity not secured by real estate and greater than \$1 million with a primary purpose consistent with the definition of community development. | | | X | |
| | Loan to a for-profit entity not secured by real estate and greater than \$1 million without a primary purpose consistent with the definition of community development. | | | | X |
| Non-residential real estate secured | Permanent loan to a for-profit entity secured by nonresidential real estate and equal to or less than \$1 million. * | X | | | |
| | Permanent loan to a for-profit entity secured by nonresidential real estate and greater than \$1 million with a primary purpose consistent with the definition of community development. | | | X | |
| | Permanent loan to a for-profit entity secured by nonresidential real estate and greater than \$1 million without a primary purpose consistent with the definition of community development. | | | | X |
| Residential real estate secured | Interim construction loan to a for-profit entity secured by residential real estate with a primary purpose consistent with the definition of community development. | | | X | |
| | Interim construction loan to a for-profit entity secured by residential real estate without a primary purpose consistent with the definition of community development. | | | | X |
| | Permanent loan to a for-profit entity for 1–4 family real estate (rental property) with a primary purpose consistent with the definition of community development. | | X | | |
| | Permanent loan to a for-profit entity for multifamily real estate with a primary purpose consistent with the definition of community development. | | X | X | |
| | Permanent loan to a for-profit entity for multifamily real estate without a primary purpose consistent with the definition of community development. | | X | | |

* Small farm loan data are collected on loans of \$500,000 or less if (1) the loan is secured by farmland (including farm residential and other improvements) or (2) the loan is used to finance agricultural production and other loans to farmers.

Loans Made to Nonprofit Entities

| | Type of Loan | Small Business | 2003 HMDA | Community Development | Not Collected |
|-------------------------------------|---|----------------|-----------|-----------------------|---------------|
| Non-real estate secured | Loan to a nonprofit entity that is not secured by real estate or production payments and with a primary purpose consistent with the definition of community development (no dollar limit). | | | X | |
| | Loan to a nonprofit entity that is not secured by real estate or production payments and without a primary purpose consistent with the definition of community development (no dollar limit). | | | | X |
| Non-residential real estate secured | Permanent loan to a nonprofit that is secured by nonfarm, nonresidential real estate or production payments and in an amount equal to or less than \$1 million with or without a primary purpose consistent with the definition of community development. | X | | | |
| | Permanent loan to a nonprofit that is secured by nonfarm, nonresidential real estate and greater than \$1 million with a primary purpose consistent with the definition of community development. | | | X | |
| | Construction loan to a nonprofit secured by nonresidential real estate with a primary purpose consistent with the definition of community development (no dollar limit). | | | X | |
| | Construction loan to a nonprofit secured by nonresidential real estate without a primary purpose consistent with the definition of community development. | | | | X |
| Residential real estate secured | Interim construction loan, i.e., not permanent, to a nonprofit secured by residential real estate with a primary purpose consistent with the definition of community development. | | | X | |
| | Interim construction loan, i.e., not permanent, to a nonprofit secured by residential real estate without a primary purpose consistent with the definition of community development. | | | | X |
| | Permanent loan to a nonprofit secured by 1–4 family residential real estate and whose purpose falls under the purview of HMDA 2003. | | X | | |
| | Permanent loan to a nonprofit entity for 1–4 family real estate (rental property) with a primary purpose consistent with the definition of community development. | | X | | |
| | Permanent loan to a nonprofit entity for multifamily real estate with a primary purpose consistent with the definition of community development. | | X | X | |
| | Permanent loan to a nonprofit entity for multifamily real estate without a primary purpose consistent with the definition of community development. | | X | | |



Comptroller of the Currency
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Community Developments

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Community Affairs OnLine News Articles

A Community Bank's Experience with Rural Development Lending

By Julie Cripe, President and CEO, OMNIBANK, N.A.



Omnibank helped Livenwood Feeds, Inc. in Lockhart, Texas, refinance its buildings using the USDA's B&I loan guarantee program.

When you're headquartered in Houston, Texas, it can be hard to think of yourself as rural. But OMNIBANK, a locally owned and conservatively managed financial institution with approximately \$300 million in assets, does in fact have a rural outlook. In our 48 years of operation — in a state which still has more than 3 million nonmetropolitan residents — we've learned that it's just good business to promote the economic well-being of rural Texans. It's good for the state as a whole, and it's good for our bank, too. We've found that rural development lending can be profitable and rewarding.

That said, it's also true that when community bankers hear the term "rural development lending," their first reaction is likely to be: "We don't have (1) the opportunities or (2) the expertise to generate community development loans that qualify for Community Reinvestment Act purposes."

These are understandable concerns. However, community bankers have many opportunities in this arena — if we're willing to educate ourselves as well as our customers. Simply put, rural development lending means making loans that meet the needs of individual communities. No two communities are identical, of course, but most, regardless of size, are concerned about similar issues: creating employment opportunities, strengthening the tax base, improving government services and providing affordable housing. There are many programs available to help community banks provide loans that will address these and similar issues.

Risk Mitigation and Profitability

OMNIBANK makes loans to new and growing businesses, community centers, and churches for real estate, equipment, and working capital. These are loans in which we have expertise. If we get past our traditional concept of Community Development and CRA credit products, we then, as prudent bankers, raise two extremely important questions: *What about risk?* and *What about profitability?*

Risk mitigation is the key to rural development lending. This is where education of lenders and borrowers is crucial. Numerous federal, state, and in some cases local programs can help lenders miti-

gate risk on loans to support start-up businesses, high growth businesses, relocating businesses, and so forth. OMNIBANK has spent years developing expertise in various types of loan programs, but help is readily available for any banker willing to learn.

These programs include: Small Business Administration loan guarantees (including 7(a), 504, Export programs, CAPLines “contract financing”); U.S. Department of Agriculture Business and Industry (B&I) loans; community development loan guarantees, CDFIs and lending consortia; local city and state guarantee programs; and many more. Each program is different, but typically provides a guaranty to the bank for up to 90 percent of the loan amount (within program lending limits: for example, \$25 million is the maximum for a B&I guaranteed loan). This not only mitigates risk, but also allows small banks to provide loans that exceed their legal lending limits, since the guaranteed portion is not counted toward that limit. Other programs provide direct portions of a loan, in which a second lien is taken by the non-bank partner, putting the bank in a favorable loan-to-value (50-60 percent) position.

Although risk mitigation is of paramount importance, profitability is also a basic concern. Rural development loans are often in relatively small dollar amounts and hence have less access to other markets. One strategy is to offer floating rather than fixed rates. Borrowers in many cases are less price-sensitive at this stage in the development of their community facilities or businesses; obtaining credit is their primary concern. Banks can also avail themselves of another income opportunity by selling the guaranteed portions of loans in the secondary market.

Some B&I (and Other) Success Stories

OMNIBANK, which now has branches in Austin and in the small central Texas community of Lockhart (“the Barbecue Capital of Texas,” pop. 13,670) as well as in Houston, has provided a wide range of loans throughout the years, using many different programs and combining them in some instances. We often put together a consortium of small banks on a particular loan in a community we serve, to mitigate risk even further.

We’re currently the most active direct lender under the USDA B&I program in Texas. We used a B&I loan to help a start-up technology company locate in Sherman, about 75 miles north of Dallas. We accomplished this by being actively involved in the approval process with B&I, packaging the request in-house, and working closely with the local Economic Development Council. While the process was arduous, in part because this was the first loan of its size approved in many years, it has been a profitable venture for us and for the other small community banks participating with us. The loan enabled GlobiTech, Inc., to construct a state-of-the-art computer wafer plant which, in its first year of operation, has created over 100 jobs in the community.

In another example, we’ve been instrumental in the success of a rural mushroom farm that provides over 150 jobs and has expanded three times in 15 years. Partnering with USDA, SBA and county programs enabled us to complete the financing. The initial building was constructed using a guaranteed program administered by the former Farmer’s Home Administration (now part of the USDA Rural Development B&I program) and we financed the doubling of the building size 6 years later utilizing the SBA’s section 504 program. County programs were utilized to complete roads to the property. The company was able to use internally generated cash for its third expansion.

Using the B&I program, we were able to help Livenwood Feeds, a 50-year old feed store and bagging operation in Lockhart, Texas, to refinance its buildings. For years, the store had relied on short-

term, high-cost financing, collateralized by its buildings, to operate. Once the buildings were properly financed, the working-capital issue took care of itself. One year later, the firm was able to expand twice, by buying a new retail facility and by buying another company in another rural area.

We've worked with numerous small start-ups that received SBA loans, are now extremely profitable, and provide employment for many Texans. We've also worked with established businesses that were able to expand using SBA contract financing, enabling them to hire or retain more employees — and, of course, to pay more taxes.

We've provided loans to rural churches that have yielded multiple benefits: property improvements, services to lower-income households, and improved community stability. We've also made loans to create low- to moderate-income housing in many communities. All of these loans have been profitable for us, thanks in part to the variety of USDA, SBA and other programs that help community banks provide innovative financing to builders and developers and to individuals.

In the final analysis, the field of rural development lending is as wide and varied as the communities we all serve. The willingness to keep our eyes open for opportunities, the patience to take the extra time to research risk-mitigating programs, and the tenaciousness to educate less sophisticated borrowers — these are the proven ways to build profitable loan portfolios while helping to strengthen rural America.

For more information, contact Julie Cripe, President and CEO, at (281) 999-9100; e-mail: juliec@omnibank.com. Or visit www.omnibank.com.

Regulatory Advantages of Bank Participation in Rural Loan Guarantee Programs

- In accordance with 12 CFR 32, the guaranteed portion of the loan does not count against the bank's legal lending limits. This allows community banks to make larger loans to bigger customers since the guaranteed portion is not counted toward that limit.
- The guarantee tends to reduce the level of credit risk in the relationship which may result in a lower loss allocation for these loans.
- The guaranteed portion does not count against the loan-to-value ratio when determining adequate collateral for a loan (see "Excluded Transactions" in 12 CFR 34, Subpart D-Real Estate Lending Standards).
- An appraisal is not required for loans under \$250,000.
- An active secondary market has been established by Farmer Mac, permitting lenders to sell the guaranteed portion of their farming and rural economic development loans to investors. This reduces interest rate risk while increasing liquidity and return on investment.