



CRA AT FORTY

Storytelling Matters: Sharing Your CRA Efforts During Exams

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In our business of providing Community Reinvestment Act self-assessments and related consultation to our community bank clients, we see the common daily challenges they face. In its 2010 Community Banking Study, the FDIC described community banks as those who provide and depend upon long-term relationship banking; banks whose majority of core deposits are local; and those with a “specialized knowledge of their local community.”¹ Community banks tend to make many of their loans to local businesses, and they generally serve cookies in their lobbies. (Okay, the cookies were not mentioned in the study, that’s just a well-accepted fact.)

Under the CRA, a community bank will typically be identified as a small or intermediate-small bank, which means that in the prior two calendar years, their asset size was below \$307 million or \$1.226 billion, respectively.² Depending on previous ratings and other factors, community banks are examined by prudential banking regulators every three to five years. During a CRA examination, regulators determine how well they believe the bank is meeting the needs of the community in which it serves. Seems simple enough, right?

In actuality, it isn’t simple at all. In 2016, prudential regulators completed 79 CRA examinations of banks below one billion dollars in asset size.³ Only eight of these institutions received the coveted *Outstanding* rating, while 70 received a rating of *Satisfactory*. For those doing the math, one institution was told it *Needs to Improve*.

Most of our clients are happy to receive a Satisfactory rating, which in itself is no small task. CRA is not a noun, but rather an action. In the time between examinations, community banks are hitting the pavement and having constant conversations and discussions within their walls and out in the community on ways they can ensure that they are

¹ Federal Deposit Insurance Corporation, “FDIC Community Banking Study,” December 2012, available at <https://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf>

² Federal Financial Institutions Examination Council, “Explanation of the Community Reinvestment Act Asset-Size Threshold Change,” 2017

³ Ibid.

meeting the credit needs of low- and moderate-low income (LMI) individuals and areas. In addition to properly defining and serving the assessment areas, a bank is also subject to analysis of its loan-to-deposit ratio, its borrower profiles, its investments and services, comments from the community and distribution of its loans, including those for community development purposes.

Directly below, we summarize some of the CRA issues common amongst our client banks, but later, we will share some of the more innovative and original ideas to have come from them.

CONTRIBUTIONS AND DONATIONS

Many banks don't do a good job in gathering documentation to support that their contributions have a community development purpose. This is often because they simply don't ask. We are frequently asked to review the list of each contribution made to a business, charity or organization, and are provided with no background information on the beneficiary. How are we, or the regulators, to know that a \$1,000 check to the "Wine Tasting Ball" didn't just buy alcohol for the la-de-das of the town? Could this contribution, in fact, have supported an event which made considerable donations to the local boys' and girls' club to subsidize a summer camp, which allows both parents to continue working in the community through summer? If so, that additional information supports the community development purpose for sure.

Sponsoring chili cook-offs, golf tournaments and galas are good for business development and name recognition, but, with the right documentation, they can receive credit for their community development purposes as well! One best practice we often recommend is for accounts payable to require the business or organization requesting funds to identify the organization's mission and individual or geographic beneficiaries on the fund request form. Banks would also do well to provide lenders and executive officers with practical examples of income assistance or community development initiatives.

COMMUNITY DEVELOPMENT SERVICES

Similar to the contributions challenge, bank employees are rightfully encouraged to participate in their communities, but some banks don't communicate that a financial component is needed in order to receive CRA credit. Teaching Sunday school or volunteering for school sporting events do not qualify. The message needs to be communicated and incentivized for employees to share their specialized financial knowledge and skills with the community.

Another challenge community banks face, especially those well past *de novo* status, is that the low-hanging fruit is gone when it comes to community development services or lending. In most community banks, each employee is responsible for many different functions; scouring the street for CRA opportunities is sometimes tabled because of other daily, monthly and quarterly deadlines. Community banks don't have the resources that larger institutions have, and so it is likely they don't employ a community development officer whose sole function is to hunt opportunities. Likewise, their assessment areas are only so big, yet these are the areas given the most scrutiny during exams.

We recommend that our clients pair up with a partner to increase their community development opportunities. This goes back to the old adage, "you don't know what you don't know." By teaming up with a local organization, such as

Habitat for Humanity for example, opportunities to assist with affordable home construction, neighborhood revitalization and financial education may present themselves in ways banks would otherwise have missed. The same goes for the local United Way chapter, Junior Achievement and other, often smaller local organizations. Simply letting these organizations know that the bank has the resources and willingness is akin to putting yourselves on call for CRA opportunities. Everybody wins.

RESIDENTIAL LENDING

Circling back to the limited size of many community banks' assessment areas, these institutions are challenged to identify qualified LMI borrowers for home loans. But institutions that do cover larger geographies have told us they simply do not have the resources or incentive pay programs to reach affordable housing and LMI borrowers. Carefully arranged, targeted marketing efforts can help in this area, as can the right partnerships - as previously discussed.

SUCCESSES AND INNOVATION

Community banks are achieving great things in small business lending. Responsible for more than 40 percent of the nation's small business lending (despite holding only 13 percent in assets), community banks provide a disproportionately high share of small business credit as compared to large banks. This is important because small businesses (defined here as having less than 500 employees) "provide 50 percent of U.S. private employment."¹ Thus, so long as the economy is relatively healthy, our community banks are succeeding in lending to businesses of all sizes and in all geographies of their community.

We like to ask our banks what they have done to organically support general community development. One of our clients has achieved success through an attorney promotion, in which they not only welcome Interest on Trust Accounts (IOTA), but with each account opened, they donate \$250 to the Legal Aid society for the county in which the attorney operates. To make their annual donation dollars go further and create the most positive impact for the community, some institutions have started earmarking a percentage of their contribution funds to be used strictly for community development or income assistance.

Recognizing the issue of a growing population of unbanked (person/family without at least one bank account with an insured institution) and underbanked, we have seen a greater willingness by community banks to offer "second chance" accounts for those who have previously been shut off from traditional banking based on poor loan or deposit account activity. The reason for this is most often tied back to relationship banking. Community banks typically operate through a hands-on, personal model. Working closely with their customers, often through generations, they can provide solid financial literacy and independence for those who are willing and ready to proceed down that path.

¹ Esther L. George, "Why Community Banks Matter," Remarks at Federal Reserve Bank of New York Community Banking Conference, April 6, 2017, available at <https://www.kansascityfed.org/~media/files/publicat/speeches/2017/2017-george-nyfed-4-6.pdf>

STORYTELLING MATTERS

The single piece of CRA-related advice that we most often give our clients is to *tell their story*. This is not accomplished by collecting a pile of loose papers and leaving them (or a flash drive) in the conference room with an examiner. Clearly, you want documentation to back up each of your claims, but by using words and emotion, bankers can create a colorful and intricate picture that speaks volumes to the ears and sometimes to the hearts of their examiners. CRA exams are a chance to shine. This is your time; this is your spotlight. Be proud of what you accomplish with often-limited resources, and go out there and start bragging.

ABOUT THE AUTHOR

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ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.