

## Community Investments Vol 16, Issue 2 A Recipe for CRA Success

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### **Introduction**

For Valley Independent Bank (VIB), headquartered in El Centro, California, community development is much like cooking -- an art requiring certain skills, proper tools, attention to detail and a commitment to producing a quality product. These are all factors that contribute to a successful CRA program. The result of VIB's efforts was an "outstanding" CRA rating from the Federal Reserve Bank of San Francisco for the Bank's investment, service and lending performance within its largely rural and economically challenged communities.

In the past six years, VIB has experienced tremendous asset growth – expanding from a \$700 million institution to one of about \$2.4 billion today. During that time, VIB's community development activities expanded on the same scale. Examples of Valley Independent Bank's community development accomplishments include:

- Over \$100 million in financing of community facilities and rural service providers, including hospitals, water districts, health clinics, schools and affordable housing since January 2003.
- In 2003, Valley Independent Bank was recognized by the United States Department of Agriculture as the Lender of the Year for

“financing businesses that improve the economic and environmental climate of rural communities.”

This article highlights VIB’s key focus areas for developing a successful CRA program: engaged leadership, partnerships, documentation, and motivation.

### **Progressive and Engaged Leadership**

“If you don’t know where you’re going, any road will get you there.” This is certainly not the case in the operation of a successful business. Our community development initiatives remain consistent with our business goals and unquestionably contribute to “the bottom line.” Any program, promotion, initiative, or objective worth pursuing requires a plan and the commitment of management to achieve it. An effective CRA program must be sold to management as an essential element to the Bank’s overall business plan -- not just for compliance, but for the development of the business base through sustainable, profitable, and marketable tactics.

The commitment of a progressive and engaged board of directors and management team are key factors in Valley Independent Bank’s extraordinary success in meeting the financial needs of its communities. The Board and senior management are actively involved in the planning and implementation of strategic community development initiatives. Eight members of senior management and one director serve as the Bank’s CRA and Community Development Committee, which meets quarterly and has a direct reporting line to the Board.

The board and senior management team set the direction and commitment, communicating the message to bank staff that the Community Reinvestment Act is not just a regulatory requirement, but a true business strategy, and perhaps more importantly, essential for the economic vitality of our communities.

The leadership of the Bank has also made its commitment to CRA clear by setting aggressive annual CRA performance targets, as well as incorporating specific CRA driven initiatives into Valley Independent Bank's Strategic Plan.

### **Select Your Partners Wisely**

True in marriage, true in business, and true in terms of successful and sustainable community development initiatives. Developing the right partners is critical for successful project implementation and sustainable community development initiatives. A bank should seek three different types of partners: (1) local community partners who are keenly tied to its target group be it the small business or farming community or low- and moderate-income residents (e.g. nonprofit entities; community development corporations, or local groups or associations); (2) industry colleagues—partners with whom it can share resources and expertise to effectively serve its target group (e.g. other financial institutions, bank regulators and consultants); and (3) external resource partners with whom its funds can be leveraged either through gap financing, grant subsidies, or loan guarantees (e.g. USDA Rural Development, Federal Home Loan Bank, Small Business Administration).

Local community partners are essential in reaching target groups, particularly if these groups are not identified as the bank's direct target market. For example, VIB has traditionally been regarded as a commercial bank and agri-business lender; however, we also have an outstanding record for meeting the affordable housing needs of low- and moderate-income consumers and their families. VIB accomplishes this by partnering with local public housing authorities and in-market housing developers to serve this segment of the community.

Industry or colleague partners are important because they enable us to share or trade expertise, allowing the Bank to adopt practices that work well or that can mitigate potential issues early, resulting in a stronger CRA

program. Accessing the regulatory agencies as partners is also a highly advisable practice as this communication enables us to advance several community development initiatives with innovative and flexible practices while retaining safety and soundness.

The final set of “right partners” is resource providers such as the Federal Home Loan Bank, Department of the Treasury, and other financially resourceful institutions including private foundations. These organizations have the ability to leverage and maximize financial resources with grant contributions or guarantees. Partnerships with these agencies bring resources back into the community, rather than just making use of what is currently available, thus maximizing a bank’s – and the community’s – return on investment. For instance, during 2003, VIB secured over \$3.5 million for local housing benefiting low-income families by linking external resources such as the Federal Home Loan Bank’s affordable housing grant program to local projects.

### **Document, Document, Document**

It is not enough to be actively involved in community development projects. You must document those activities for the regulators.

Valley Independent Bank has successfully implemented an effective CRA data collection process. To document CRA-qualifying lending activities, VIB developed a one-page CRA data collection worksheet that captures relevant CRA-related information, and requires attachments for address and income verification, as well as geo-coding results. Through employee training and attention to detail, Valley Independent Bank has perfected the data collection process to ensure accurate reporting. The bank’s regulators have come to rely on the accuracy of these worksheets and the supporting documentation during the exam process.

Similarly, service and donation activities must also be accompanied by a CRA activity log when submitted to the bank's CRA/community development officer. Officers are encouraged to collect income and demographic information related to the activity prior to service delivery or funding commitment, which facilitates data collection and the reliability of information reported.

The Bank's CRA division is responsible for complete file documentation, organization, and verification of all CRA activities. VIB used the Federal Reserve's CRA data entry software through 2003 to track lending performance. However, it recently became necessary to purchase a market system to facilitate analysis of the Bank's expanding service areas.

Documenting and tracking CRA activities is essential for an effective CRA program. Recognizing and quantifying trends is important and allows the CRA division to keep management and the board informed. This is particularly important if negative trends require immediate mitigating action. To that end, the CRA officer prepares monthly, quarterly and annual performance reports comparing performance to prior years and to peer banks. These reports are provided to various management committees and to the board. Consistent and timely communication provides management a very clear picture of the bank's performance and opportunities. There should never be any surprises!

### **Motivate—If You Build It, They Will Come:**

In the movie "Field of Dreams," Ray Kinsella is convinced that if he builds a baseball diamond in a corn field, fans will come to watch the great ones play. So it is with a bank's CRA program – if a successful, meaningful program is built, bank employees will come, and not just to watch.

VIB's employees are dedicated to community development because it has created a successful program that makes a difference in its communities and

also recognizes its employees' efforts. During 2003, VIB officers volunteered at 130 community organizations and provided over 3,000 hours of qualified community development services. These services ranged from fund-raising and financial education in schools and housing centers to technical services for nonprofit organizations, including financial audits and loan underwriting services. The marketing department highlights an outstanding officer's CRA commitment in every internal newsletter published. VIB believes that when employees see the results of their efforts and understand that they have the opportunity to make a difference in their own neighborhood, they will be motivated to engage in community development activities.

### **If You Want to Be The Best – Practice The Best**

Through trial and error, Valley Independent Bank has determined that some things work better than others when it comes to community development. Some examples of "best practices" that have proven successful include:

- Senior management and the board of directors adopted a specific CRA and community development component within the bank's strategic plan.
- Human Resources incorporates CRA service responsibilities into all officer job descriptions and provides CRA orientation training to new employees.
- The Compliance Action Team facilitates mandatory bank-wide training on CRA for all employees in the form of computer-based training, videos, and written study materials.
- Lending divisions incorporate quantifiable goals and measurements for lending performance, compensating officers accordingly or conversely, holding them accountable for their performance.
- The marketing department provides external and internal publicity of community development projects and programs, including press releases and publication of an internal newsletter featuring employee CRA activities.

## **Final Thoughts on the Recipe for Success**

Using the right tools, ingredients, and resources will produce a positive outcome for any CRA program. Valley Independent Bank's CRA program is successful because we don't just treat CRA as a regulatory requirement; management and the board have made CRA a priority and facilitated the development of skills and tools for employees to be actively engaged in providing high-quality service. Add in great partners with a shared community vision, a handful of motivated key players, a good measure of effectively leveraged resources, and you have a recipe for success.

Valley Independent Bank's finished product—economically stronger communities, an enhanced bottom line, a positive community image, and employees who are proud of the company they work for.

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## **Justina Gamboa-Arce**

Justina Gamboa-Arce is CRA and community development officer for Valley Independent Bank. Her career-related experience includes both public and private sector community development program administration and implementation. She worked as a private planning consultant before joining Valley Independent Bank.

Ms. Gamboa-Arce is a member of a number of local and regional organizations and committees including local chambers, financial advisory committees, and nonprofit boards. Born and raised in rural California, she continues to work on behalf of smaller agricultural communities.

Ms. Gamboa-Arce earned a bachelor of science in urban and regional planning from the California Polytechnic University, Pomona. Her studies focused on rural economic development and affordable housing issues. She

is also a graduate of the Federal Reserve Bank of San Francisco's National Community Development Lending School.

Bob was going to be a tough act to follow, but when the Fed announced the appointment of Janet Yellen as our president, we recognized a new ally. She is a renowned economist, noted for her research in areas that affect low- and moderate- income people and communities including issues such as unemployment, labor markets, and income and wage inequality. As chair of President Clinton's Council of Economic Advisers, she was involved with welfare reform, and as a Fed Governor she served on the oversight committee monitoring the work of Community Affairs throughout the Fed System.

We feel fortunate that Janet understands the importance of community development. She's made it clear that she is interested in learning more about and playing a role in our various initiatives. In fact, her first public meeting was with a community advocacy organization during which she gained a better understanding of issues facing this District's low- and moderate-income communities.

It's convenient to have support from the top. As we often tell bankers, senior-level support for community development efforts is critical to any bank's success in the community. It's nice for us that we can practice what we preach.