



Bank of Eastern Oregon

March 12, 2020

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attention: Comments, RIN 3064-AF22

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219
Docket ID OCC-2018-0008

Re: Community Reinvestment Act Regulations

Dear Madam or Sir:

The FDIC just completed the onsite CRA Compliance Exam work at Bank of Eastern Oregon. We were examined under the Intermediate Small Bank guidelines. As we have found to be generally true, the FDIC compliance examiners were professional, thorough, listened well, and took the Bank's views and thoughts into consideration at each phase of the examination process. This recent experience allows me to approach the proposed CRA examination criteria with a fresh perspective to share with you.

First, much of the criticism about today's CRA examinations are lack of clarity on what qualifies and what doesn't qualify. The proposed rule does a lot to eliminate this opacity and attempts to provide a framework for CRA certainty, however, one of the strengths (and weaknesses) of the current process is that it allows an examiner to have 'interpretive flexibility', which I believe is critical in certain settings.

We believe examiners should continue to be able to evaluate an institution on the SPIRIT OF THE REGULATION in addition to the letter of the regulation. I fear the proposed rules will take away the positive aspects of an examiners interpretive powers and inadvertently exclude 'good works' if the proposed framework becomes too rigid. Let me illustrate this from discussions from our current exam.

- Bank of Eastern Oregon operates 20 branches in 15 primarily rural counties in eastern Oregon and Washington states. Most of our branches are in cities with a population under 5,000 and many of these are designated 'distressed'. Community Development activities in these markets often skirt the edge of the qualifying rules and generally these communities tend to be classified as middle income due to their limited census tracts and homogeneous nature. The process of qualifying these activities is through conversations and examples with the examiner regarding the unique nature of the communities and the activity itself. Many of these activities could fail a standard 'litmus test' if the qualifying structure becomes too rigid.
- Community Development Loans are a very different beast in a rural community than they are in an urban setting. Lending to the local hospital to purchase needed equipment or to provide them cash flow is critical when they are the only facility in the county. Funding a new road grader is a big deal

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to the county when half of its roads are gravel and good roads are critical for farmers to get their commodities to market. Neither of these loans would likely qualify in a suburban or urban setting.

Recommendation: CRA examiners need to retain the ability to make subjective judgements regarding CRA applicability, in particular with Community Development activities, when examining Bank's that operate in rural and distressed markets.

The current examination process has other flaws which the proposed rules don't seem to fix. Again, let me illustrate from our recent examination:

Whitman County, Washington is a rural county in eastern Washington on the Idaho border, with a unique characteristic, it is home to Washington State University in Pullman, WA. The county consists of ten census tracts, eight of which represent 85% of the territory and which are predominantly farmland. Four of those eight tracts include slices of the residential areas of the City of Pullman. These four tracts are rated as Upper, Upper, Middle, and Moderate in terms of the income metrics. The remaining two tracts in the county are essentially Washington State University itself and are classified as Low income tracts due to the presence of the University's student housing complexes.

Bank of Eastern Oregon operates two branches in Whitman County, the closest one is 15 miles north and west from Pullman in wheat and cattle country. For CRA purposes our rating is based on Small Farm and Small Business lending. For this examination the Bank was evaluated on Small Farm and Small Business lending in the two Low income and one Moderate income tract in Pullman. I guarantee you there is no Small Farm lending opportunities on the campus of Washington State University, and the number of Small Business lending opportunities are virtually nil. The moderate tract east and north of the campus includes the regional airport and the Palouse Ridge Golf Club and hills and trees all the way to the Idaho border. Again, limited lending opportunities.

Though we consider the six census tracts around Pullman as outside of our market, we cannot exclude them in terms of CRA despite the distance, lack of business opportunity, and community even though only two tracts, both upper income, are adjacent to the tract which includes our nearest branch.

Here are two specific issues that arose during our exam:

1. Whitman County was included in our CRA examination despite our short-term presence in the market (12 months). It is difficult for smaller banks to attain enough of a presence in a new market to generate a sufficient degree of small business and small farm lending to properly evaluate the institution's lending profile. During the acquisition process for these branches we were unable to identify a lender to serve this market and the timeframe to build new business lending relationships is measured in months not weeks. We should not have to look at our regulatory exam calendar to decide when we will do business in a new market.

Recommendation: CRA examinations should exclude new markets from a Bank's formal rating if a Bank requests this. An advisory rating should be provided instead.

2. The number of loans upon which the Bank was evaluated in our Washington Non-MSA evaluation was 16; 7 small business loans and 9 small farm loans. The exam reviewed the numbers of these loans in Low and Moderate Income tracts AND the distribution of loans by

Revenue Level. The Rating was determined by the distribution of Small Farm and Small Business loans in these tracts and by revenue levels as compared to loans reported to D&B by other institutions in these tracts.

There was no comparison to the number of D&B reported loans for context and without this context comparative assumptions become difficult. You get a very different result if there are 500 loans in the market versus 50 when determining performance. In our case, one loan moved from one category to another is the difference between a Satisfactory and a Needs Improvement rating in that category. That is very thin soup indeed!

In addition, the number of loans in a market are then not balanced with where the Bank's deposits in a market are. If a bank is gathering deposits from a Low or Moderate Income tract, it should be expected to have a comparable proportion of lending in those tracts. In this case, we have no local presence and the three Low and Moderate tracts are heavily banked with nine other banks and credit unions operating nearby.

Low or Moderate Income tracts driven by resident college student populations SHOULD NOT be treated the same as Low or Moderate tracts without a college presence. My daughter's FAFSA application was based on family income, not my daughter's income.

Recommendation: CRA examinations should evaluate lending activity in a market in context with its deposit share in a market rather than the entirety of the market. Distribution comparisons need to better reflect the business model of the Bank compared to the tracts being evaluated against.

Recommendation: CRA examinations should consider tracts containing concentrations of college students to have very different business lending characteristics than surrounding tracts when evaluating a Bank's lending activity.

Other recommendations:

Recommendation: Investments in public infrastructure, including loans, should qualify for CRA credit, not just when that activity meets community development standards. Smaller communities lack access to financial markets, especially for small yet necessary projects. Community banks are well positioned to fill this need and the inclusion as a CRA qualifying investment would help.

Recommendation: Branches in Distressed, Underserved, Low, and Moderate census tracts should be measured by the Small Bank CRA model, regardless of the size of the institution. The Small Bank model is focused on loans made in the community and services available to the community. For community development that is what really matters.

Recommendation: Banks should receive full CRA credit for supporting or providing financial education or literacy programs, including digital literacy, regardless of the classification of the community served.

Recommendation: Small business and small farm lending are critical categories of business lending, but the threshold for a qualifying small farm needs to be increased from \$500,000 to \$1,000,000.

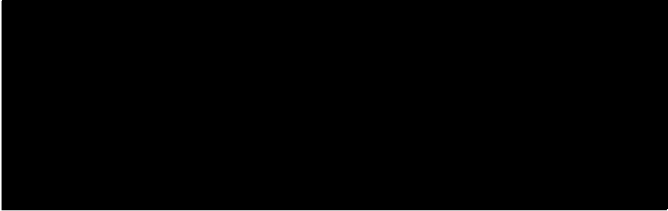
Recommendation: Banks should not be allowed to close the last branch in a rural market without first offering that branch for public sale to another institution. Communities without banks lose economic energy and vitality and electronic offerings do not replace local access to a bank. Community banking is

about the health of the whole community, serving its the needs without a need to focus on groups or individuals; Banks do well when their communities prosper. That is our purpose.

About Bank of Eastern Oregon

Bank of Eastern Oregon was chartered in 1945 with a mission to serve the agricultural banking needs of its customers in rural Oregon. The Bank currently operates in eastern Oregon and eastern Washington State with 20 branches and 4 loan production offices, primarily in small rural communities. We are an FDIC regulated financial institution and our current asset size is \$485 million. We take pride in being an engine of economic growth and development in the communities we serve, a purpose which we believe is fundamental to the CRA itself.

Bank of Eastern Oregon's specific CRA challenges lie in the lack of qualified Community Development lending and investment opportunities within our assessment area. As a community bank, we want to invest in our service area, not in substitute qualifying investments outside of our markets. We clearly understand where the needs are in our communities, but the resources to measurably address those issues are often beyond the capacity of any single institution or governmental entity.



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