

Swimming in CRA

by [Steve Brown](#)

The duck billed platypus is a semi-aquatic mammal that lives in Australia and Tasmania. They are a just bit bigger than a rugby ball and similar in build to one. Only with a few decorative additions - there is a flat tail like a beaver and a rubbery billed mouth a bit like that of a duck. One of the oddest things about this garage sale of an animal is that they lay eggs, one of only two species of mammals to do so. The first drawings of a platypus were sent to Europe near the end of the 18th Century and were thought to be either a naturalist's hoax or a taxidermist's trick. They exist indeed and were almost hunted to extinction for their fur in the 19th Century, but with protection have rebounded throughout Australia. They are also the only known mammal that carries poison. Platypuses have a venomous spur on the inside of their hind legs which can cause severe pain to intrusive humans or curious canines.

Speaking of severe pain and oddities, we've spoken in this newsletter quite a bit about customer migration to electronic banking means, both internet or mobile. The resulting drop in branch traffic has been painful for many banks and has necessitated discussions to determine whether certain branches need to be closed. Community banks don't take this type of decision lightly, but there are considerations other than branch traffic, personnel or building cost to be considered. One important consideration in the decision to maintain a branch should be the bank's obligations under the Community Reinvestment Act (CRA). One of our regulator friends passed along some thoughts on CRA and how those rules could lead to a decision to maintain a branch that otherwise would seem a logical choice for closure.

Banks have an obligation under CRA to serve their entire community, including low and moderate income (LMI) areas, as well as low and moderate income families and individuals. Frequently LMI persons are less mobile than higher income people, so closing a local branch could have a real impact on that community's access to financial services. Lack of brick and mortar branches often leaves communities vulnerable to pay day lenders, check cashing facilities and similar alternatives that often are very costly for those who can least afford them. To survive and thrive, however, that is exactly what bankers may have to do in order to keep efficiency ratios in line at competitive levels.

As part of a CRA evaluation, regulators look at a bank's distribution of branches in neighborhoods of different income levels. A weak record of serving LMI neighborhoods can lead not only to a poor CRA rating, but also hinder regulatory approval of mergers, acquisitions, new branches and similar activities.

So to help all involved, we highlight some other alternatives that can help banks save expenses on less-than-profitable branches. Personnel costs could be lowered through greater use of automated services like remote teller attended ATMs for basic tasks. These can be augmented by personnel in smaller branches handling more complex transactions. To have a good overall CRA performance score and to be sure bank performance doesn't suffer as a result, take time to evaluate the impact of any branch closures on the communities you serve as well as the bottom line of the bank. More closures will certainly be needed and the impact has yet to be completely felt as bankers are evaluating everything right now, but keep in mind there is a regulatory component here as well to avoid

problems later on. Sorry about that, but it is just one more thing to consider as you consider the duck billed platypus this morning.

BANK NEWS

M & A

East West Bank (\$23.3B, CA) will buy the parent company of MetroBank (\$1.1B, TX) and Metro United Bank (\$457mm, TX) for \$273mm in cash and stock or about 1.7x tangible equity.

Job Cuts

Bloomberg reports Wells Fargo will cut another 1,800 jobs in its home loan origination business as rising rates have reduced activity.

Loan Growth

The National Credit Union Administration (NCUA) announced total loans at credit unions grew by 5.5% through 2Q. States that saw the most growth were ID (+13.4%), OK (+12.1%), IA (+10.1%), VA (+10.0%) and ND (+9.6%).

Mobile Action

The Mobile Marketing Association reports 70% of smartphone searches will result in the person taking some type of action within an hour.

Small Biz Lending

Research by the Fed finds C&I loans of less than \$1mm (a proxy for small business loans) has fallen to less than 78% of the level seen in early 2007. The data shows there are just fewer opportunities for community bankers to capture overall.

Customers

Research by RightMixMarketing finds the percentage of moms on Facebook climbed from 50% in 2010 to 72% in 2012. Moms own small businesses, so perhaps that is why the larger banks are so active through this channel.

Less Borrowing

Research by the NFIB finds the percentage of small business owners who said they borrowed every 3 months has declined from 35% in 2007 to only 29% as of 2Q 2013 - a 17% decrease.

Small Biz Clients

Community bankers will be interested to note a Zoomerang survey of small to medium sized businesses finds the 3 most important reasons business owners leverage social media are to connect with their own customers, gain visibility and for self promotion.

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