



Comptroller of the Currency  
Administrator of National Banks

# Community Developments

Fall 2002

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](mailto:juliec@omnibank.com), or visit [www.omnibank.com](http://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.