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The New Merger Requirement: A Better CRA Plan

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A strong Community Reinvestment Act rating is no guarantee that a bank looking to buy another will win automatic approval from its regulators.

Just ask Valley National Bancorp in Wayne, N.J., which late last year was forced to strengthen its overall CRA plan in order to win approval to expand into Florida with its acquisition of 1st United Bank in Boca Raton. This despite the fact that the $19 billion-asset Valley had received a "satisfactory" rating on its 2013 CRA examination from the Office of the Comptroller of the Currency and a "high satisfactory" score on the lending portion of the test.

Even more unusual, the OCC ordered Valley to make its CRA plan public — something the agency had done only once before in evaluating a bank's consolidation plans.

The OCC would not say why it suddenly toughened up on Valley, but it appears the regulator was responding to concerns from community groups that had long viewed Valley's lending record in low- and moderate-income communities as poor. Community groups had a lot of back-and-forth with the OCC about what they saw as Valley's weak CRA record in the New York City area in particular. Jaime Weisberg, a senior campaign analyst at the Association for Neighborhood and Housing Development, said that dialogue led to substantive changes in the bank's lending policies.

"Had the community groups not commented, the Valley deal in Florida could have just gone through with no CRA changes," Weisberg said.

Community groups are exerting pressure on other banks involved in mergers as well, and the upshot is that banks are placing CRA plans front and center as they aim to sell their deals to the public and their regulators. City National Bank — a bank that largely caters to affluent borrowers — worked with the California Reinvestment Coalition, a San Francisco community group, to come up with an $11 billion CRA plan ahead of its sale to Royal Bank of Canada. The $4 billion-asset Bank of California agreed to put 20% of deposits toward loans, investors or donations to low-income communities in order to win the support of the California Reinvestment Coalition. The nonprofit ended up backing the bank's purchase of 20 Southern California branches from Banco Popular.

Gerald Lipkin, Valley's longtime chairman, president and chief executive, said that banks looking to expand through acquisitions are going to have to pay much closer attention to their past CRA records if they hope to get their deals approved.

"If somebody is looking to grow, they better make sure their CRA plan is robust," Lipkin said. "We wrote a much more aggressive plan than we had in the past and we're committed to it. It's not a light switch, you have to build to it, and we are relying on the community groups to some degree to help us develop relationships that will get us more" business from low- and moderate-income customers.

C.K. Lee, a managing director at Commerce Street Capital, a Dallas investment bank, said mergers often expose weaknesses in a bank's practices that regulators may have overlooked during exams,

"A transaction is a pretty significant leverage on management, and it's a time when you have everybody's focus," said Lee, who advises bank sellers. Though Lee questions whether the merger-review process "is the appropriate vehicle to extract all these concessions," he nevertheless advises sellers and buyers to do a careful review of CRA filings and to have intensive conversations "to make sure there aren't lingering issues that could derail a deal down the road."

Valley's CRA changes appear far-reaching. The bank agreed to establish a new executive CRA board committee and appoint two new CRA advisory committees, one for New York and New Jersey, and another just for Florida, where it recently announced a second deal. The bank also agreed to hire a second senior CRA officer, have a member of the bank's executive risk committee oversee its CRA initiatives, and train all levels of the bank to support the plan in sales and outreach activities.

Ken Thomas, an independent bank consultant and economist, said the advisory committee for Florida was particularly important given the history of out-of-state banks moving into Florida but focusing CRA efforts in their home markets.

"There is some concern that many of the CRA pledges made by northern, or other out-of-state banks focus on their northern [demographics] even though Florida is the growth engine and the reason they are doing these mergers," Thomas said. "We will be carefully watching that Florida gets its fair share of Valley's CRA planned loans, investments and services relative to deposits generated here."

By 2018, Valley National plans to have its lending match 90% of the demographics of its assessment areas for one- to four-family loans in low- and moderate-income census tracts. The bank created a new department for loans of under $100,000 to small-businesses and nonprofits. It also plans to increase lending on affordable multifamily buildings in low-and moderate-income census tracts.

In addition, the bank plans to dedicate 12% of average Tier 1 capital over three years beginning in 2016 to community development lending, and 8% to CRA-qualified investments, including grants.

Lipkin said he's already started to see much higher volume on some single-family home loans going on the bank's books. Still, he acknowledged the difficulty of reaching certain borrowers particularly in a high-cost area like New York City.

"I don't have to tell you how expensive housing is and how it's impossible for somebody making $40,000 a year to own their own home in the New York-New Jersey area," Lipkin said. "We've taken a very pro-active view towards this. Everybody has their agenda and we try to satisfy everybody's agenda."

John Taylor, the president and CEO of the National Community Reinvestment Coalition, met with Lipkin and other top executives. He and Weisberg at the Association for Neighborhood and Housing Development said they hope more banks follow Valley's lead and revise their CRA plans.

"It's not about emptying the vault and throwing money in the street," Taylor said. "It's about making responsible loans and a commitment to the credit needs of the community. None of us on the community side want banks to do unsustainable lending."

"To their credit, they put the plan in place and it covers all areas of CRA loans," Weisberg added. "It sets a great precedent."