

# VALLEY REPUBLIC BANK

January 28, 2021

Ms. Kathy L. Moe  
Regional Director  
Division of Supervision and Consumer Protection  
Federal Deposit Insurance Corporation  
25 Jessie Street at Ecker Square, Suite 2300  
San Francisco, CA 94105



Re: Quarterly Status Report for the Community Reinvestment Act Performance Evaluation Conducted as of January 21, 2020.

Dear Ms. Moe:

Below please find Valley Republic Bank's fourth quarterly status report regarding the Community Reinvestment Act Performance Evaluation issued pursuant to the on-site examination started on January 21, 2020. Assistant Regional Director Matthew Sheeren's noted in his response to the Q3 2020 update that the PPP service hour YTD data was potentially misleading. The table below has subsequently been revised to clarify CRA qualification expectations.

The addition of a dedicated Small Business Relationship Manager (SBRP) to focus on small business lending, including micro lending, was one of the most noteworthy events of the 4<sup>th</sup> quarter. He was hired as a dedicated resource for the Kern County small business community and is now a key member of the CRA Committee's Lending subcommittee. This seasoned professional has 15+ years of experience working with small business owners in the under \$1MM revenue segment and in LMI census tracts throughout California. Additional details about this team member's goals and projections are provided in the small business initiative section below. It should also be noted that the bank will once again participate fully in the Second Draw PPP. The bank hired five full-time temporary employees to facilitate the First Draw and Second Draw PPP to reduce the amount of time it takes for PPP Borrowers to receive their loan funds.

5000 California Avenue, Suite 110 Bakersfield, CA 93309  
Telephone 661.371.2000 Fax 661.371.2010  
[www.valleyrepublicbank.com](http://www.valleyrepublicbank.com)

To advance documentation efforts and educate staff members about Community Development (CD), CRA Officer Grochowski created a CD Loan qualification worksheet and companion Tutorial, and a 2021 Borrower Certification form for Economic Development. These tools are currently in draft form. Once training has been completed, the CD Loan forms are expected to provide clarity about CD loan qualification and ensure adequate documentation. The Borrower certification form was designed to document integral information about permanent job creation for LMI persons and LMI geographies during the loan application process.

Attached you will find a sample version of the CD Qualification worksheet and its companion tutorial, and the 2021 Borrower Certification form for Economic Development. This quarterly status update will be placed in our CRA public file which already includes a copy of the CRA Performance Evaluation dated 2/19/20, the Bank's response to the Performance Evaluation, and the 2020 first, second and third quarter status updates.

As of 12/21/20 the bank processed 206 KSB RP loan applications; forgiveness applications for 155 of these loans have been reviewed and sent to Kern County. The bank provided an application web link to each of the bank's 668 First Draw PPP Borrowers to begin the forgiveness application process. As of 12/31/20, the team received loan forgiveness in the amount of \$34 million on behalf of these PPP borrowers.

Looking ahead slightly to the first quarter of 2021, the CRA Subcommittees will establish 2021 goals before the end of March, while simultaneously supporting the Second Draw PPP.

During the month of December, bank employees voluntarily participated in the Bakersfield Homeless Center Adopt-A-Family program. Employees purchased, wrapped and delivered Holiday gifts to 20 residents of the Bakersfield Homeless Center ranging in age from 3 months to 29 years. Gift requests included: games, dolls, school supplies, clothing, basic toiletries and cleaning supplies, diapers, shoes, headphones, roller blades, scooters, bikes and helmets. Over and above the generosity of employees, Director Carlos Sanchez, a CRA Committee member, provided gifts for everyone on two of the largest family lists. A photo of some of the gifts is included here.



The following table represents the number of hours the team has collectively spent providing service to the community through pandemic relief programs on a 2020 YTD basis:

Program Activity	March Hours	April Hours	May Hours	June Hours	July Hours	August Hours	Sept. Hours	Oct. Hours	Nov. Hours	Dec. Hours	Total Hours YTD	# of Instances
First Draw Paycheck Protection Program (PPP)*	3,543	5,824	4,119	15	52	167	129	250	72	377	14,546	69
Second Draw Paycheck Protection Program (PPP)*	0	0	0	0	0	0	0	0	0	0	0	0
Kern Small Business Relief Program (KSBRP)	0	0	0	1,035	1,793	273	57	90	44	116	3,407	27
Loan Modifications	600	54	69	69	0	0	1.5	0	0	0	792.25	24

\*hours for PPP are not likely to qualify for CD service hour credit because PPP loans are originated by VRB whereas KSBRP hours are likely to qualify because the bank did not originate any loans through that program

Data about the bank’s new initiatives, marketing, outreach activities, investments, and significant lending programs are summarized below:

**New Initiatives and Outreach**

**1) Small Business Micro Lending program initiative**

In his short time with the bank, the Small Business Relationship Manager (SBRM) has researched three guarantee programs; as of 1/01/21, the bank has registered with one of these programs. The bank will partner with the SBA to provide additional service to small business owners in LMI census tracts by participating fully its 7(a) loan program; full program implementation is expected by the 3<sup>rd</sup> quarter in 2021. The Small Business Lending credit policy is being revised to include a partnership with the State Guarantee program, which provides additional qualification capability for small business owners. The updated Lending credit policy is expected to be revised and implemented before the end of February. A Business2Business program is now being used to generate a database of businesses with less than \$1 million in annual revenue located in LMI census tracts. The preliminary data indicates that there are 550+ businesses meeting these criteria in the bank’s assessment area. Calling efforts will begin at the end of January at a rate of 200 calls per month. Projections indicate that by the end of the 1<sup>st</sup> quarter in 2021, this effort will produce a minimum of 10 new relationships. On a corporate level, the bank is striving to develop a minimum of 55 new small business relationships in Kern County LMI geographies in 2021.

## **2) KCHCC Business Academy and collaboration**

Business Development Officer Maldonado completed the Kern County Hispanic Chamber of Commerce (KCHCC) Business and Education Foundation Business Academy class in December. The 8-week class provided information and instruction on a variety of topics including: how to develop a business plan, the legal aspects of running a business, how to understand and prepare financials, how to address business and tax concerns and how to seek small business grants and loans. Ms. Maldonado has leveraged her relationship with KCHCC to create new collaborative opportunities for the bank, including a potential referral program for small business Borrowers who wish to apply for a Second Draw PPP loan, many of whom did not participate in the First Draw PPP. As indicated in a previous progress report, the bank has been working on collaboration efforts with the Hispanic Chamber of Commerce as part of its broad small business lending initiative. One of the bank's Board Directors, Director Carlos Sanchez, has played an instrumental role in helping the bank establish new business relationships within the Hispanic community.

## **3) FHLB participation: Affordable Housing Program (AHP) grant, Donation Matching funds program and Access to Housing and Economic Assistance for Development (AHEAD) grant**

The CRA Committee will discuss the FHLB Affordable Housing Program (AHP) grant at the January CRA Committee meeting. If the committee supports this initiative, the bank will connect with a local partner to submit an AHP grant application before March 10<sup>th</sup>. The bank will maximize donations for local non-profits by participating in the FHLB Matching donation funds program, ideally before the end of the 2<sup>nd</sup> quarter. This year, the FHLB Matching donation funds program has increased its 2021 matching donation contribution amount to \$25,000 per member. The bank also intends to partner with at least one local non-profit agency to submit an Affordable Housing and Access to Housing and Economic Assistance for Development (AHEAD) grant application on their behalf during the 2<sup>nd</sup> quarter.

## **Marketing**

### **1) Social Media posts**

The bank provides timely updates to the community, including an Instagram post announcing the California Small Business COVID-19 Relief Grant Program, providing cyber security prevention tips and continually updating PPP information as it is published.

### **2) E-mail communication to Customers and PPP Borrowers**

The bank provides communication to Borrowers about not only routine matters including branch hours of operation, but also about programs that are of critical importance at this time, including PPP. Several First Draw PPP Borrowers have already submitted their forgiveness application and obtained forgiveness. On 1/14/21, an email was sent to VRB customers and PPP Borrowers providing detailed instructions about how to apply for the

Second Draw PPP and how to contact a bank employee to request additional information. The bank's PPP application platform provides additional guidance and information about the program as well.

## **Investments**

### **1) CDFI investment**

As reported in our Q3 2020 report, the bank invested \$2 million in the cumulative perpetual preferred stock of a Community Development Financial Institution (CDFI) that provides mortgages to LMI individuals in 14 western states, 71% of which were to California LMI residents as of 6/30/20. This CDFI estimated having originated \$2 million in CRA mortgage loans in the Kern County MSA, half of which are to LMI individuals and half of which are located in LMI census tracts. The organization reports having hired a team of loan officers who are projected to generate LMI mortgage loans at a rate of 30 loans per month beginning the end of January. In addition, they have hired a wholesale account executive to focus on target markets including Kern County and expect wholesale production to increase by the end of the 2<sup>nd</sup> quarter.

### **2) CRA Partners/Senior Housing Crime Prevention Foundation investment**

Before February, CCO Smith and CFO Corrigan will meet with David Lenoir, President & CEO of the SHCPF, on 1/22/21 to learn more about programs including Senior CrimeStoppers, Senior Secure and Senior Sentry programs. All programs provide education and safeguards against theft, abuse and neglect among the vulnerable elderly population. It is possible that a customized program can be created to provide employees with an opportunity to deliver the program's standard training materials along with the bank's own cyber security training. Ideally, the training would be conducted at the participating senior center once pandemic distancing orders are lifted.

## **CRA Education**

### **1) CRA Wiz training**

During the week of December 14<sup>th</sup>, many members of the CRA Committee participated in 16 hours of Wolters Kluwer CRA Wiz training to learn how to generate and interpret CRA data generated from the bank's core system. During Q1, the CRA CD and Lending Subcommittees will use CRA Wiz to track their performance to 2021 goals and establish ongoing reporting metrics which will be used on not less than a quarterly basis.

### **2) FDIC Money Smart and Consumer Financial Protection Bureau (CFPB) Your Money, Your Goals: Tools to Foster Greater Economic Inclusion webinar**

Several members of the CD and Lending subcommittees participated in a webinar on 1/14/21 to learn about the FDIC Money Smart program and CFPB Your Money, Your Goals programs; the webinar explored how the programs were similar, dissimilar, and how elements of each program could be used simultaneously. The webinar will be discussed at the 1/21/21 CRA Committee meeting and could lead to implementation once the pandemic orders have been lifted.

The CRA Committee and its subcommittees have also conducted several meetings and attended webinars about a wide range of subjects. Meetings include:

- 10/26/20 regular CRA Committee meeting
- 11/17/20 CD Subcommittee viewed a webinar presented by FDIC, OCC, and Federal Reserve about racial equity strategies for California institutions
- 11/18/20 CD Subcommittee viewed a webinar presented by ProBank Austin and findCRA about CRA credit for COVID-19 related CD activities
- 12/02/20 CD Subcommittee viewed a webinar about Elder Abuse Prevention programs
- 12/09/20 Lending Subcommittee viewed a webinar presented by the California Reinvestment Coalition about access to capital for Black and Latino businesses
- 12/10/20 Lending Subcommittee viewed a webinar about access to capital for bi-racial, indigenous and people of color
- 12/10/20 regular CRA Committee meeting

We look forward to demonstrating our ongoing commitment to the Kern County community and the significant progress we have made on internal CRA initiatives at our CRA visit on March 15<sup>th</sup>.

Sincerely,

Michele Jasso  
Executive Vice President  
Chief Operating Officer

cc: Ms. Catherine Nahnsen-Robison, Dept. of Financial Protection & Innovation  
Mr. Geraud Smith, President and CEO, Valley Republic Bank

Encl. CD Qualification worksheet, CD Qualification Tutorial, and 2021 Borrower Certification form for Economic Development

## VRB Community Development Qualification Worksheet

Borrower/Entity Name: Charlie and Peppermint Patty Brown  Loan<sup>1</sup> - Loan #: 12345  
Loan address: 123 Truxtun Ave Bakersfield, CA 93309  Investment<sup>2</sup>  
Branch Location-RM: Main Branch- J. Hepp  Donation<sup>2</sup>  
Date(s): 12-31-2020  
Loan/Investment (\$): 345,000

**Describe** how the **majority** of the funds will be used and who will benefit from the loan in the box below, then select the applicable CD pillar(s). Include documentation, i.e. screenshot from the company website, describing the mission statement, prospectus, a letter from the Borrower, etc. Supply proof of low-or-moderate income (LMI) status, affordability (rent rolls vs. HUD Fair Market Rent), and LMI geography (Census Tract data), as applicable.

Mr. and Mrs. Brown would like to purchase a 10-unit low-income apartment building in Central Bakersfield. Eight of the ten units have monthly rent schedules that are less than Fair Market Rent. A comparison of FMR to Rent Rolls for each unit is attached.

**1. CD Purpose Pillars (4 options)** – The **primary** purpose of the activity/loan addresses:

**Affordable housing** for LMI individuals. Attach proof and indicate the percentage of persons or housing units<sup>3</sup> that qualify as LMI based on HUD Fair Market Rent: 80% **TOOL: [HUD Fair Market Rents](#)**

**Community services** targeted to LMI individuals/groups. Examples include childcare, educational services, health services, social services, etc. Indicate the percentage of services that benefit LMI persons \_\_\_\_%. Note: to qualify, a majority (51% or more) of group served must be LMI; 501(c)(3) non-profits qualify regardless of loan amount or GAR.

**Activities that promote economic development**

Activities that promote economic development by financing small business and small farms. Must satisfy both **Size and Purpose** tests. **Size:** Must meet small business size standards of SBA or Small Business Investment Companies **or** have GAR of \$1MM or less. **TOOL: [SBA Size Standards Tool](#)** **Purpose:** to promote permanent job creation, retention, or improvement for LMI people or LMI geographies, or geographies targeted for redevelopment by federal, state, local or tribal governments. Requires documentation about LMI job creation<sup>4</sup> **TOOL: [FFIEC Median Family Income](#)**

**Activities that revitalize or stabilize...**

LMI geographies, distressed, or underserved rural middle-income geographies or designated disaster areas<sup>5</sup>. Activities attract new or retain existing residents or businesses and must provide a long-term, direct benefit to the entire community, including LMI groups and neighborhoods. Infrastructure needs to meet essential community needs including those of LMI. The property location itself does not need to be in an LMI area.

**2. Geocoding Data** (attach data sheet from **[FFIEC site-Geocode Map](#)**)

State Code: \_\_\_\_\_  
MSA: \_\_\_\_\_ Assessment Area (AA) or Region<sup>6</sup> Benefitted:  
County Code: \_\_\_\_\_  
Census Tract: \_\_\_\_\_

Does the activity benefit an AA or a broader statewide/regional area that includes the bank's AA?  
(If **YES**, the activity may be a qualified Community Development activity)

**3. Conclusion:**

Qualified  Not Qualified

**Footnotes:**

- <sup>1</sup> Includes only loans originated, refinanced or renewed within the current examination review period.
- <sup>2</sup> Includes investments, grants, donations, in-kind contributions, deposits, and membership shares. For investments made prior to the current examination review period but remaining on the bank's books, report the book value at the end of the review period.
- <sup>3</sup> To qualify as CD, the activity must accomplish or reasonably be expected to accomplish the CD purpose. If a majority of the units qualify, the entire loan amount qualifies; if less than a majority qualifies, the bank can receive pro rata share credit.
- <sup>4</sup> Borrower must stipulate in writing the number of permanent jobs improved, created or retained for LMI employees. LMI persons are defined as earning 80% or less than the area median family income. In 2020, median family income for Kern County is \$56,600 so LMI persons earn \$45,280 or less (80% of \$56,600).
- <sup>5</sup> Disaster areas designated by FEMA for a period of 36 months following the designation. Distressed or underserved geographies are based on rates of poverty (20% or more), unemployment (1.5 times the national average) and population loss (of 10% more since last census) or size, density and dispersion for underserved rural middle-income geographies.
- <sup>6</sup> May benefit a broader statewide or regional area that includes one or more of the bank's assessment areas, however the bank must first meet its obligations to its assessment area(s).

## Community Development Activities/Lending Qualification Tutorial

The most important term to remember is Low-or-moderate income (LMI). To qualify as LMI, the person must have income equal to or less than 80% of the median family income for an assessment area or the LMI geography must be a Low or Moderate Census Tract. VRB's Assessment Area (AA) is Kern County, MSA number is 12540.

Loan types WITH Call report codes that qualify for CRA CDL credit, with criteria:

- CIL- Commercial Industrial Loan
- CRE- Commercial Real Estate
- Multi-family loans with rents affordable to LMI persons, in any dollar amount
- AGP- Ag Production
- AGRE- Ag Real Estate

### Lending considerations

- 1) If a CIL or CRE loan has a loan of amount \$1MM or less, it is a **small business loan**  
If an AGP or AGRE loan has a loan amount of \$500M or less, it is a **small farm loan**
- 2) Is the gross annual revenue (GAR) for the Borrower(s), including Guarantors, \$1MM or less?  
If so, it is a (small business/small farm) loan to a small business/small farm and may be considered by Examiners as being "particularly responsive" to the community. Provide as much data as possible for these.
- 3) If the loan amount at origination is more than \$1MM to a business and more than \$500M to a farm, it is not a small business/small farm loan but could still qualify as a Community Development (CD) loan.  
**See 4 CD qualification pillars below.**

### Community Development (CD) Pillars that can be used to qualify a loan or activity as CD

- 1) **Affordable Housing**
- 2) **Community Service**
- 3) **Economic Development**
- 4) **Activities that Revitalize or Stabilize**

#### 1) Affordable Housing

Because of our current CRA score\*, the unit must be located in our Assessment Area (AA) which is Kern County, and the rent must be less than the Fair Market Rent (FMR) for Kern County based on the # of bedrooms. FMR = Gross rent, or the cost of shelter plus utilities, regardless who pays. The Borrower's revenue and the geography of the location address (low, moderate, middle, or upper Census Tract) is irrelevant. Compare the rent rolls for the property to the HUD FMR data. If a majority of units qualify, the entire loan amount qualifies; if less than a majority, the bank can receive pro rata (prorated) share of the loan only if the units are Section 8 set asides and documentation is provided to prove this. Compare the monthly rent per unit to the FMR based on the total number of bedrooms to determine each unit's FMR status. Use the query tool on the HUD website, select the Year, State and County to determine FMR for our AA. **TOOL:** [Fair Market Rents | HUD USER](#)

Select Geography

First select a state:

- Alabama - AL
- Alaska - AK
- American Samoa - AS
- Arizona - AZ
- Arkansas - AR
- California - CA
- Colorado - CO
- Connecticut - CT
- Delaware - DE
- District of Columbia - DC

Then select a county:

- Cherokee County, GA
- El Dorado County, CA
- Fresno County, CA
- Glenn County, CA
- Humboldt County, CA
- Imperial County, CA
- Inyo County, CA
- Kern County, CA
- Kings County, CA
- Lake County, CA
- Los Angeles County, CA

The FY 2021 Bakersfield, CA MSA FMRs for All Bedroom Sizes

Final FY 2021 & Final FY 2020 FMRs By Unit Bedrooms					
Year	Efficiency	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom
FY 2021 FMR	\$734	\$743	\$970	\$1,388	\$1,679
FY 2020 FMR	\$711	\$726	\$946	\$1,365	\$1,624

[Click Here For FY2021 FMRs](#)

Using the information provided above, in 2021, FMR for a two-bedroom apartment in the Bakersfield MSA is \$970. If your Borrower charges less than \$970 for their two-bedroom apartment in 2021, the unit is considered affordable housing. Rent rolls should provide the monthly rent and number of bedrooms in each unit.

\* **Note: once the bank has an overall CRA score of Satisfactory or better, the bank can earn additional credit for CD loans made in the greater regional or statewide area. This data needs to be tracked and presented separately.**

## **2) Community Services**

These services need to be targeted to an LMI person. Examples include childcare, education, health, or social services. Is the Borrower a 501 (c)(3) non-profit, Veterans Org or Tribal business? If so, they may qualify if they have a primary purpose of serving LMI individuals regardless of amount of loan or GAR. Need to document their Mission statement, 501 (c)(3) form, and any other information that proves the **majority** of the people they serve are **LMI**. Include geocoding if an LMI geography.

## **3) Economic Development- must meet Size and Purpose tests**

Activities promote economic development by financing small businesses and small farms. The **Size test** means it has met the small business size standards of the SBA **or** has GAR of \$1MM or less. If GAR is above \$1MM, be sure to consult the SBA Size Standards list to see if it still qualifies. The SBA classifies businesses by industry via a NAICS code. Use the SBA Size Standards **TOOL: [SBA Size Standards Tool](#) or [TOOL: SBA Size Standards Table](#).**

The **Purpose test** means it promotes permanent job creation, retention, or improvement for LMI people **or** LMI geographies or areas deemed redevelopment areas by federal, state, local or tribal governments. We must provide documentation to show that the jobs were for LMI persons **or** in LMI geographies. LMI persons are defined as earning 80% or less of the Median Area Income per FFIEC. Calculate this amount by consulting FFIEC Median Family Income report, select the year, open in Excel or PDF and find the Bakersfield MSA (#12540) which is on page 1. The annual median family income in 2020 is 56,600. Multiply 56,600 by .80 to determine the annual threshold for an LMI person. Borrower needs to sign a form or state in writing that an approval of this loan will create, retain, or improve X number of permanent jobs for persons making \$45,280 (56,600 \* .80) or less. Consult Bakersfield MSA Median Family Income by year on FFIEC website. **TOOL: [FFIEC Median Family Income](#)** . To research LMI geography, see Geocoding TOOL immediately below.

## **4) Activities that revitalize or stabilize an LMI geography (Census Tract), Distressed or underserved middle income geography, or designated disaster area.**

- a) LMI Geography. **TOOL: [FFIEC Geocode Map](#)**. Select Census Demographic Data box on left. A box with 4 tabs will be generated: Census, Income, Population and Housing. Consult Census Tab. First box shows Tract Income Level: Low, Moderate, Middle, Upper, etc. LMI means Low or Moderate Census Tract.
- b) Distressed or Underserved middle income geography by County. Our AA is Kern County. **TOOL: [FFIEC Distressed and Underserved CT](#)** areas by State and County. Will open in Excel or PDF format. Per the report, there are no distressed or underserved areas in Kern County.
- c) Designated Disaster Area. Consult FEMA website. **TOOL: [FEMA Disasters](#)**



## Certification Worksheet- Economic Development

Date: \_\_\_\_\_

Borrower name: \_\_\_\_\_

Business name: \_\_\_\_\_

Business address (location of operation): \_\_\_\_\_

Product requested: Loan  Line of Credit

Amount requested: \_\_\_\_\_

Loan application number: \_\_\_\_\_

Does this business operate primarily in Kern County? Yes  No

Is the business located in a LMI census tract? Yes No

If yes, how many full-time permanent jobs will be created, retained or improved? \_\_\_\_\_

How many jobs will be held by employees with a salary of less than \$45,280 on an annual basis?  
\_\_\_\_\_

\_\_\_\_\_  
Name (Signed)

\_\_\_\_\_  
Name (Printed)

Date: \_\_\_\_\_