Community Reinvestment Act[1]

Introduction

The Community Reinvestment Act (CRA) is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations. It was enacted by the Congress in 1977 (12 USC 2901) and is implemented by Regulations 12 CFR Parts 25, 228, 345, and 563e. The Regulations were revised in 1995 and 2005.

The CRA requires that each insured depository institution's record in helping meet the credit needs of its entire community be evaluated periodically. That record is taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions. CRA examinations are conducted by the federal agencies that are responsible for supervising depository institutions: the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).

The agencies, through the FFIEC, have established interagency examination procedures for the following types of institutions: Small Institutions, Intermediate Small Institutions, Large Retail Institutions, Limited Purpose and Wholesale Institutions, and Institutions under Strategic Plans. The five different procedures correspond to the five alternative evaluation methods provided in the CRA regulations and are designed to respond to basic differences in institutions' structures and operations. All of the procedures reflect the intent of the regulation to establish performance-based CRA examinations that are complete and accurate but, to the maximum extent possible, mitigate the compliance burden for institutions. There are also instructions for writing public evaluations; the public evaluation template for each institution type is provided in Section XII.

Small Bank

Small Institutions have a streamlined assessment method. The regulations contain only five performance criteria under the small bank lending test:

1. The institution's loan-to-deposit ratio adjusted for seasonal variation and, as appropriate, other lending related activities such as secondary market participation, community development loans or qualified investments;
2. The percentage of loans and other lending-related activities located in the institution's assessment area(s);
3. The distribution of lending among borrowers of different income levels and businesses and farms of different sizes;
4. The distribution of lending among geographies of different income levels; and
5. The institution's record of taking action, if warranted, in response to written complaints about its CRA performance.

Small institutions are eligible for a rating of Outstanding, as well as Satisfactory. An examiner may conclude that an institution's performance so exceeds the standards for a Satisfactory rating under the five core criteria that it merits a rating of Outstanding. In addition, at the institution's option, the examiner will consider the institution's performance in making qualified investments and in providing services that enhance credit availability in its assessment area(s) in order to determine whether the institution merits an Outstanding rating.

In carrying out their examination responsibilities, examiners should exercise judgment and common sense in deciding how much material to review and what steps are necessary to reach an accurate conclusion. For example, if an institution's assessment area(s) is comprised of only a few homogenous geographies, a geographic analysis of loans within the assessment area(s) may be unnecessary. Or, if an institution has done an analysis to determine where, and to whom, it is making loans in its assessment area(s) to assist itself in its business efforts, examiners may be able to validate and then use the institution's analysis rather than conduct a detailed analysis of their own. In other words, when evaluating the performance criteria, examiners should always consider and use available, reliable information.

Similarly, if an institution's loan-to-deposit ratio appears low, the examination procedures ask the examiner to evaluate the institution's lending-related activities, such as loan sales and community development lending and investments to determine if they materially supplement its lending performance as reflected in its loan-to-deposit ratio. However, such an analysis may not be necessary or a less extensive analysis may be sufficient if the loan-to-deposit ratio is high.

Examination Procedures for Small Institutions

Examination Scope

1. For institutions with more than one assessment area, identify assessment areas for full scope review. In making those selections, review prior CRA performance evaluations, available community contact materials, and

1 This section fully incorporates the examination procedures issued under DSC RD Memo 05-032: Interagency Community Reinvestment Act Examination Procedures for Intermediate Small Institutions *and* DSC RD Memo 06-009: Revised Interagency Community Reinvestment Act Examination Procedures.

reported lending data and demographic data on each assessment area. Consider factors such as:

a. The lending opportunities in the different assessment areas;
b. The level of the institution's lending activity in the different assessment areas, including low- and moderate-income areas, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies[2] based on (a) rates of poverty, unemployment, and population loss, or (b) population size, density, and dispersion;[3]
c. The number of other institutions in the different assessment areas and the importance of the institution under examination in serving the different areas, particularly any areas with relatively few other providers of financial services;
d. The existence of apparent anomalies in the reported HMDA data for any particular assessment area(s);
e. The length of time since the assessment area(s) was last examined using a full scope review;
f. The institution's prior CRA performance in different assessment areas;
g. Examiners' knowledge of the same or similar assessment areas; and
h. Comments from the public regarding the institution's CRA performance.

2. For interstate institutions, a rating must be assigned for each state where the institution has a branch and for each multi-state metropolitan statistical area (MSA) or metropolitan division (MD) where the institution has branches in two or more states that comprise that multi-state MSA/MD. Select one or more assessment areas in each state for examination using these procedures.

Performance Context

1. Review standardized worksheets and other agency information sources to obtain relevant demographic, economic and loan data, to the extent available, for each assessment area under review.
2. Obtain for review the Consolidated Reports of Condition (Call Reports), Uniform Bank Performance Reports (UBPR), annual reports, supervisory reports, and prior CRA evaluations of the institution under examination. Review financial information and the prior CRA evaluations of institutions of similar size that serve the same or similar assessment area(s).
3. Consider any information the institution may provide on its local community and economy, its business strategy, its lending capacity, or that otherwise assists in the evaluation of the institution.
4. Review community contact forms prepared by the regulatory agencies to obtain information that assists in the evaluation of the institution. Contact local community, governmental or economic development representatives to update or supplement this information. Refer to the Community Contact Procedures for more detail.
5. Review the institution's public file for any comments received by the institution or the agency since the last CRA performance evaluation for information that assists in the evaluation of the institution.
6. Document the performance context information gathered for use in evaluating the institution's performance.

Assessment Area

1. Review the institution's stated assessment area(s) to ensure that it:
   a. Consists of one or more MSAs/MDs or contiguous political subdivisions (e.g., counties, cities, or towns);
   b. Includes the geographies where the institution has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originated or purchased a substantial portion of its loans;
   c. Consists only of whole census tracts;
   d. Consists of separate delineations for areas that extend substantially across MSA/MD or state boundaries unless the assessment area is located in a multi-state MSA/MD;
   e. Does not reflect illegal discrimination; and
   f. Does not arbitrarily exclude any low- or moderate-income area(s), taking into account the institution's size, branching structure, and financial condition.
2. If an institution's assessment area(s) does not coincide with the boundaries of an MSA/MD or political subdivision(s), assess whether the adjustments to the boundaries were made because the assessment area would otherwise be too large for the institution to reasonably serve, have an unusual configuration, or include significant geographic barriers.
3. If the assessment area(s) fails to comply with the applicable criteria described above, develop, based on discussions with management, a revised assessment area(s) that complies with the criteria. Use this assessment area(s) to evaluate the institution's performance, but do not otherwise consider the revision in determining the institution's rating.

2 The Board of Governors of the Federal Reserve System, The Federal Deposit Insurance Corporation, and The Office of the Comptroller of the Currency

3 A list of distressed or underserved nonmetropolitan middle-income geographies is available on the FFIEC web site at www.ffiec.gov.

Performance Criteria

Loan-to-Deposit Analysis

1. From data contained in Call Reports or UBPRs, calculate the average loan-to-deposit ratio since the last examination by adding the quarterly loan-to-deposit ratios and dividing by the number of quarters.
2. Evaluate whether the institution's average loan-to-deposit ratio is reasonable in light of information from the performance context including, as applicable, the institution's capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area(s), demographic and economic factors present in the assessment area(s), and the lending opportunities available in the institution's assessment area(s).
3. If the loan to deposit ratio does not appear reasonable in light of the performance context, consider the number and the dollar volume of loans sold to the secondary market, or the innovativeness or complexity of community development loans and qualified investments to assess the extent to which these activities compensate for a low loan-to-deposit ratio or supplement the institution's lending performance as reflected in its loan-to-deposit ratio.
4. Discuss the preliminary findings in this section with management.
5. Summarize in workpapers conclusions regarding the institution's loan-to-deposit ratio.

Comparison of Credit Extended Inside and Outside of the Assessment Area(s)

1. If available, review HMDA data, automated loan reports, and any other reports that may have been generated by the institution to analyze the extent of lending inside and outside of the assessment area(s). If a report generated by the institution is used, test the accuracy of the output.
2. If loan reports or data analyzing lending inside and outside of the assessment area(s) are not available or comprehensive, or if their accuracy cannot be verified, use sampling guidelines to select a sample of loans originated, purchased or committed to calculate the percentage (by number and dollar amount) located within the assessment area(s).
3. If the percentage of loans or other lending related activities in the assessment area is less than a majority, then the institution does not meet the standards for "Satisfactory" under this performance criterion. In this case, consider information from the performance context, such as information about economic conditions, loan demand, the institution's size, financial condition, branching network, and business strategies when determining the effect of not meeting the standards for satisfactory for this criterion on the overall rating for the institution.
4. Discuss the preliminary findings in this section with management.
5. Summarize in workpapers conclusions regarding the institution's level of lending or other lending related activities inside and outside of its assessment area(s).

Distribution of Credit Within the Assessment Area(s)

1. Determine whether the number and income distribution of geographies in the assessment area(s) are sufficient for a meaningful analysis of the geographic distribution of the institution's loans in its assessment area(s).
2. If a geographic distribution analysis of the institution's loans would be meaningful and the necessary geographic information (street address or census tract numbers) is collected by the institution in the ordinary course of its business, determine the distribution of the institution's loans in its assessment area(s) among low-, moderate-, middle-, and upper-income geographies. Where possible, use the same loan reports, loan data, or sample used to compare credit extended inside and outside the assessment area(s).
3. If a geographic analysis of loans in the assessment area(s) is performed, identify groups of geographies, by income categories, in which there is little or no loan penetration. Note that institutions are not expected to lend in every geography.
4. To the extent information about borrower income (individuals) or revenues (businesses) is collected by the institution in the ordinary course of its business, determine the distribution of loans in the assessment area(s) by borrower income and by business revenues. Where possible, use the same loan reports, loan data, or sample used to compare credit extended inside and outside the assessment area(s).
5. Identify categories of borrowers by income or business revenue for which there is little or no loan penetration.
6. If an analysis of the distribution of loans among geographies of different income levels would not be meaningful (e.g., very few geographies in the assessment area(s)) or an analysis of lending to borrowers of different income or revenues could not be performed (e.g., income data are not collected for certain loans), consider possible proxies to use for analysis of the institution's distribution of credit. Possibilities include analyzing geographic distribution by street address rather than geography (if data are available and the analysis would be meaningful) or analyzing the distribution by loan size as a proxy for income or revenues of the borrower.
7. If there are categories of low penetration, form conclusions about the reasons for that low penetration. Consider available information from the performance context, including:

a. Information about the institution's size, branch network, financial condition, supervisory restrictions (if any) and prior CRA record;

b. Information from discussions with management, loan officers, and members of the community;

c. Information about economic conditions, particularly in the assessment area(s);

d. Information about demographic or other characteristics of particular geographies that could affect loan demand, such as the existence of a prison or college; and

e. Information about other lenders serving the same or similar assessment area(s).

8. Discuss the preliminary findings in this section with management.

9. Summarize in workpapers conclusions concerning the geographic distribution of loans and the distribution of loans by borrower characteristics in the institution's assessment area(s).

Review of Complaints

1. Review all complaints relating to the institution's CRA performance received by the institution (these should all be contained in the institution's public file) and those that were received by its supervisory agency.

2. If there were any complaints, evaluate the institution's record of taking action, if warranted, in response to written complaints about its CRA performance.

3. If there were any complaints, discuss the preliminary findings in this section with management.

4. If there were any complaints, summarize in workpapers conclusions regarding the institution's record of taking action, if warranted, in response to written complaints about its CRA performance. Include the total number of complaints and resolutions with examples that illustrate the nature, responsiveness to, and resolution of, the complaints.

Investments and Services (at the institution's option to enhance a "Satisfactory" rating)

1. If the institution chooses, review its performance in making qualified investments and providing branches and other services and delivery systems that enhance credit availability in its assessment area(s). Performance with respect to qualified investments and services may be used to enhance an institution's overall rating of "Satisfactory", but cannot be used to lower a rating that otherwise would have been assigned.

2. To evaluate the institution's performance in making qualified investments that enhance credit availability in its assessment area(s), consider:

   a. The dollar amount of qualified investments, by type and location;

   b. The impact of those investments on the institution's assessment area(s); and

   c. The innovativeness or complexity of the investments.

3. To evaluate the institution's record of providing branches and other services and delivery systems that enhance credit availability in its assessment area(s), consider:

   a. The number of branches and ATMs located in the institution's assessment area(s);

   b. The number of branches and ATMs located within, or that are readily accessible to, low- and moderate-income geographies compared to those located in, or readily accessible to middle- and upper-income geographies;

   c. The type and level of service(s) offered at branches and ATMs and alternative delivery systems; and

   d. The institution's record of opening and closing branches.

Ratings

1. Group the analyses of the assessment areas examined by MSA[4] and nonmetropolitan areas within each state where the institution has branches. If an institution has branches in two or more states of a multi-state MSA, group the assessment areas that are in that MSA.

2. Summarize conclusions about the institution's performance in each MSA and the nonmetropolitan portion of each state in which an assessment area received a full scope review. If two or more assessment areas in an MSA or in the nonmetropolitan portion of a state received full scope reviews, weigh the different assessment areas considering such factors as:

   a. The significance of the institution's activities in each compared to the institution's overall activities;

   b. The lending opportunities in each;

   c. The importance of the institution in providing loans to each, particularly in light of the number of other institutions and the extent of their activities in each; and

   d. Demographic and economic conditions in each.

3. For assessment areas in MSAs and nonmetropolitan areas that were not examined using the full scope procedures, consider facts and data related to the institution's lending to ensure that performance in those assessment areas is not inconsistent with the conclusions based on the assessment areas that received full scope examinations.

4. For institutions operating in only one multi-state MSA or one state, assign one of the four preliminary ratings -- "Satisfactory", "Outstanding", "Needs to Improve", and "Substantial Noncompliance" -- in accordance with step 6 below. To determine the relative significance of each MSA

4 The reference to MSA may also reference MD.

and nonmetropolitan area to the institution's preliminary rating, consider:

a. The significance of the institution's activities in each compared to the institution's overall activities;
b. The lending opportunities in each;
c. The importance of the institution in providing loans to each, particularly in light of the number of other institutions and the extent of their activities in each; and
d. Demographic and economic conditions in each.

5. For other institutions, assign one of the four preliminary ratings – "Satisfactory", "Outstanding", "Needs to Improve", and "Substantial Noncompliance" -- for each state in which the institution has at least one branch and for each multi-state MSA in which the institution has branches in two or more states in accordance with step #6 below. To determine the relative significance of each MSA and the nonmetropolitan area on the institution's preliminary state rating, consider:
   a. The significance of the institution's activities in each compared to the institution's overall activities;
   b. The lending opportunities in each;
   c. The importance of the institution in providing loans to each, particularly in light of the number of other institutions and the extent of their activities in each; and
   d. Demographic and economic conditions in each.
6. Consult the Small Institution Ratings Matrix and information in workpapers to assign a preliminary rating of:
   a. "Satisfactory" if the institution's performance meets each of the standards for a satisfactory rating or if exceptionally strong performance with respect to some of the standards compensates for weak performance in others;
   b. "Needs to Improve" or "Substantial Noncompliance" if the institution's performance fails to meet the standards for "Satisfactory" performance. Whether a rating is "Needs to Improve" or "Substantial Noncompliance" will depend upon the degree to which the institution's performance has failed to meet the standards for a "Satisfactory" rating; or
   c. "Outstanding" if the institution meets the rating descriptions and standards for "Satisfactory" for each of the five core criteria, and materially exceeds the standards for "Satisfactory" in some or all of the criteria to the extent that an outstanding rating is warranted, or if the institution's performance with respect to the five core criteria generally exceeds "Satisfactory" and its performance in making qualified investments and providing branches and other services and delivery systems in the assessment area(s) supplement its performance under the five core criteria sufficiently to warrant an overall rating of "Outstanding".
7. For an institution with branches in more than one state or multi-state MSA, assign a preliminary rating to the institution as a whole taking into account the institution's record in different states or multi-state MSAs by considering:
   a. The significance of the institution's activities in each compared to the institution's overall activities;
   b. The lending opportunities in each;
   c. The importance of the institution in providing loans to each, particularly in light of the number of other institutions and the extent of their activities in each; and
   d. Demographic and economic conditions in each.
8. Review the results of the most recent compliance examination and determine whether evidence of discriminatory or other illegal credit practices that violate an applicable law, rule, or regulation should lower the institution's overall CRA rating or, if applicable, its CRA rating in any state or multi-state MSA.[5] If evidence of discrimination or other illegal credit practices in any geography by the institution, or in any assessment area by any affiliate whose loans have been considered as part of the institution's lending performance, was found, consider:
   a. The nature, extent, and strength of the evidence of the practices;
   b. The policies and procedures that the institution (or affiliate, as applicable) has in place to prevent the practices;
   c. Any corrective action the institution (or affiliate, as applicable) has taken, or has committed to take, including voluntary corrective action resulting from self-assessment; and
   d. Any other relevant information.
9. Assign a final rating for the institution as a whole and, if applicable, each state in which the institution has at least one branch and each multi-state MSA in which it has branches in two or more states, considering:
   a. The institution's preliminary rating; and
   b. Any evidence of discriminatory or other illegal credit practices (*see* #8 above).
10. Discuss conclusions with management.

5 "Evidence of discriminatory or other illegal credit practices" includes, but is not limited to: (a) Discrimination against applicants on a prohibited basis in violation, for example, of the Equal Credit Opportunity Act or the Fair Housing Act; (b) Violations of the Home Ownership and Equity Protection Act; (c) Violations of section 5 of the Federal Trade Commission Act; (d) Violations of section 8 of the Real Estate Settlement Procedures Act; and (e) Violations of the Truth in Lending Act regarding a consumer's right of rescission.

11. Write an evaluation of the institution's performance for the examination report and the public evaluation.
12. Prepare recommendations for a supervisory strategy and for matters that require attention or follow-up activities.

Public File Checklist

1. There is no need to review each branch or each complete public file during every examination. In determining the extent to which the institution's public files should be reviewed, consider the institution's record of compliance with the public file requirements in previous examinations, its branching structure and changes to it since its last examination, complaints about the institution's compliance with the public file requirements, and any other relevant information.
2. In any review of the public file undertaken, determine, as needed, whether branches display an accurate public notice in their lobbies, a complete public file is available in the institution's main office and at least one branch in each state, and the public file available in the main office and in a branch in each state contains:
   a. All written comments from the public relating to the institution's CRA performance and responses to them for the current and preceding two calendar years (except those that reflect adversely on the good name or reputation of any persons other than the institution);
   b. The institution's most recent CRA Public Performance Evaluation;
   c. A map of each assessment area showing its boundaries and, on the map or in a separate list, the geographies contained within the assessment area;
   d. A list of the institution's branches, branches opened and closed during the current and each of the prior two calendar years, and their street addresses and geographies;
   e. The HMDA Disclosure Statement for the prior two calendar years, if applicable;
   f. The institution's loan-to-deposit ratio for each quarter of the prior calendar year;
   g. A quarterly report of the institution's efforts to improve its record if it received a less than satisfactory rating during its most recent CRA examination; and
   h. A list of services (loan and deposit products and transaction fees generally offered, and hours of operation at the institution's branches), including a description of any material differences in the availability or cost of services among locations.
3. In any branch review undertaken, determine whether the branch provides the most recent public evaluation and a list of services available at the branch or a description of material differences from the services generally available at the institution's other branches.

Public Notice

Determine that the appropriate CRA public notice is displayed as required by § 345.44.

CRA Ratings Matrix — Small Institutions

Characteristic	Outstanding	Satisfactory	Needs to Improve	Substantial
Loan-to-Deposit Ratio	The loan-to-deposit ratio is more than reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs.	The loan-to-deposit ratio is reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs.	The loan-to-deposit ratio is less than reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs.	The loan-to-deposit ratio is unreasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs.
Assessment Area(s) Concentration	A substantial majority of loans and other lending related activities are in the institution's assessment area(s).	A majority of loans and other lending related activities are in the institution's assessment area(s).	A majority of loans and other lending related activities are outside the institution's assessment area(s)	A substantial majority of loans and other lending related activities are outside the institution's assessment area(s)
Geographic Distribution of Loans	The geographic distribution of loans reflects excellent dispersion throughout the assessment area(s).	The geographic distribution of loans reflects reasonable dispersion throughout the assessment area(s).	The geographic distribution of loans reflects poor dispersion throughout the assessment area(s).	The geographic distribution of loans reflects very poor dispersion throughout the assessment area(s).
Borrower's Profile	The distribution of borrowers reflects, given the demographics of the assessment area(s), excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.	The distribution of borrowers reflects, given the demographics of the assessment area(s), reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.	The distribution of borrowers reflects, given the demographics of the assessment area(s), poor penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.	The distribution of borrowers reflects, given the demographics of the assessment area(s), very poor penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
Response to Substantiated Complaints	The institution has taken noteworthy, creative action in response to substantiated complaints about its performance in meeting assessment area credit needs.	The institution has taken appropriate action in response to substantiated complaints about its performance in meeting assessment area credit needs.	The institution has taken inadequate action in response to substantiated complaints about its performance in meeting assessment area credit needs.	The institution is unresponsive to substantiated complaints about its performance in meeting assessment area credit needs.
Investments	The institution's investment record enhances credit availability in its assessment area.	N/A	N/A	N/A
Services	The institution's record of providing branches, ATMs, loan production offices, and/or other services and delivery systems enhances credit availability in its assessment area(s)	N/A	N/A	N/A

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