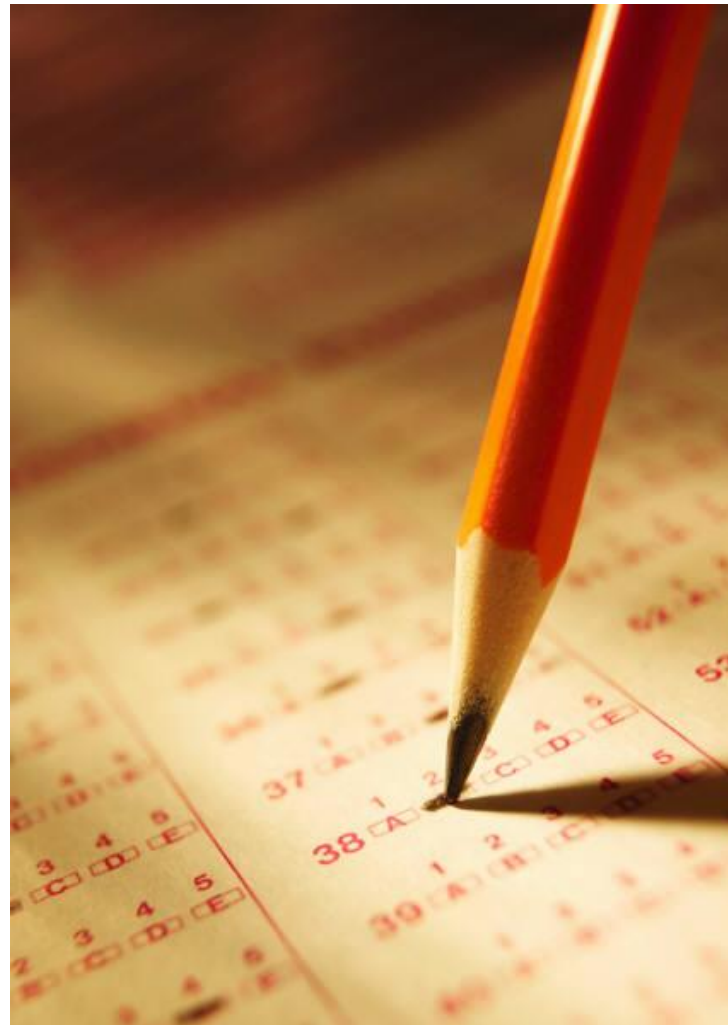


# The Exam Process



# Objectives

***Upon completion of the CRA exam overview, you should:***

- Be familiar with the different CRA exam types
- Be familiar with the CRA ratings
- Be familiar with CRA Public Notices and the CRA Public File

# Exam Types

- Small bank: assets under \$1.284 billion as of December 31 of *either* of the two prior calendar years\*
- Intermediate small bank (ISB): assets of at least \$321 million as of December 31 of *both* of the two prior calendar years, and less than \$1.284 billion as of December 31 of *either* of the two prior calendar years\*
- Large bank: assets of at least \$1.284 billion\*
- Wholesale and Limited Purpose
- Strategic Plan

\*As of 1/1/2019. These thresholds are updated annually.

# Small Bank: Performance Criteria

## Lending Test:

1. Loan to deposit ratio measures against similarly situated banks
2. Lending in and out of the assessment area includes loan originations and purchases
3. Distribution of loans by geography
  - Where are you lending
  - Are you dispersed reasonably
4. Distribution of loans by borrower income
5. Responses to complaints

# 4 Loan Products to Consider

- Residential real estate loans
- Commercial loans
- Agricultural loans
- Consumer loans

# Small Bank Lending Test: Loan to Deposit Ratio

- **Loan to deposit ratio:**
  - Average loan to deposit ratio since the prior examination
  - Is ratio reasonable in light of information from performance context? (discussed in next session)
  - Other factors to consider (Ex. Does bank sell loans in secondary market?)

# Small Bank Lending Test: In and Out of Assessment Area

- **Lending in and out of the AA:**
  - Calculated using HMDA data (if available) or sample of loans
  - Number of loans and dollar volume
  - If percentage of loans in AA is less than the majority, then the institution does not meet the standards for “Satisfactory” under this criterion. However, performance context is considered when determining the effect of this criterion on the overall rating.

# Small Bank Lending Test: Geographic Distribution

- **Distribution of loans by geography:**
  - Geographies are grouped by income category
  - Look for categories where there is little or no loan penetration
  - Institutions are not expected to lend in every geography
  - Performance context considered



# Small Bank Lending Test: Borrower Income

- **Distribution of loans by borrower income:**
  - Grouped by income categories
    - ❖ Income of individuals
    - ❖ Revenues of businesses and farms
  - Examiners look for categories with little or no loan penetration (performance context considered)

# Small Bank Lending Test: Response to Complaints

- **Response to complaints:**
  - Includes written complaints received by bank and by regulatory agency
  - Number and nature of complaints
  - Bank's responsiveness to and resolution of complaints
  - Related to bank's CRA performance

# Intermediate Small Bank: Performance Criteria

## Evaluated under:

- The traditional small bank lending test
- PLUS -
- A community development test

# Community Development: Definition

## **FIVE COMPONENTS OF COMMUNITY DEVELOPMENT**

- 1. Affordable housing** for low- or moderate-income (LMI) individuals
- 2. Community services** for LMI individuals
- 3. Activities that promote economic development by providing financing** for small businesses or small farms
- 4. Activities that revitalize or stabilize** LMI geographies, distressed or underserved non-metro middle-income areas, or designated disaster areas.
- 5. Activities that support, enable, or facilitate projects or activities that meet “eligible uses” criteria** described in Section 2301(c) of the *Housing and Economic Recovery Act of 2008 (HERA)* and are conducted in designated target areas identified in plans approved by HUD in accordance with the *Neighborhood Stabilization Program (NSP)*.

# ISB: Community Development

## **Community Development Test:**

- Number and dollar amount of community development loans and qualified investments
- Extent of CD services provided
- Extent to which CD activities are responsive to community needs
- Must consider the bank's capacity, constraints, and other factors

# ISB: Performance Criteria

Must receive at least a **Satisfactory** on the **lending test** and on the **community development test** to get an overall rating of **Satisfactory** or better.

# Large Bank: Exam Criteria

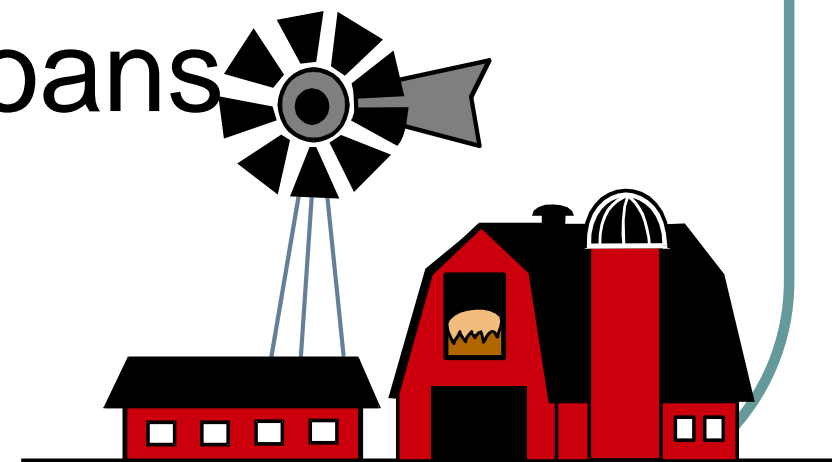
## Exam Criteria – Three Tests:

- Lending
- Investments
- Services
  - *Consideration is given to innovativeness, complexity, and responsiveness of the community development activity.*

# Large Bank - Lending Test: Scope

## Types of loans evaluated:

- Home mortgage loans
- Small business loans
- Small farm loans
- Community development loans





# Large Bank - Lending Test:

## Scope *(Continued)*

### **Consumer loans:**

- At the institution's option
- At the examiner's discretion, where they constitute a "substantial majority" of the bank's lending
- Evaluated in categories (motor vehicle, credit card, home equity, or other secured and unsecured loans)

# Large Bank - Lending Test: Performance Criteria

- Lending activity in the assessment area
- Distribution of loans in census tracts of varying income levels
- Distribution of loans to borrowers of varying income levels, and to businesses and farms of different sizes
- Use of innovative and flexible lending practices
- Level of community development lending

# Large Bank - Investment Test: Performance Criteria

## **Performance criteria:**

- The number and dollar amount of qualified investments
- Their innovativeness or complexity
- Their responsiveness to credit and community development needs
- The degree to which the qualified investments are not routinely provided by private investors

# Large Bank - Service Test: Performance Criteria

## **Performance Criteria:**

- Distribution of branch offices and deposit-taking ATMs in census tracts of varying income levels
- Types of services offered in each branch
- Record of opening and closing branches
- Alternative delivery systems offered
- Community development services offered

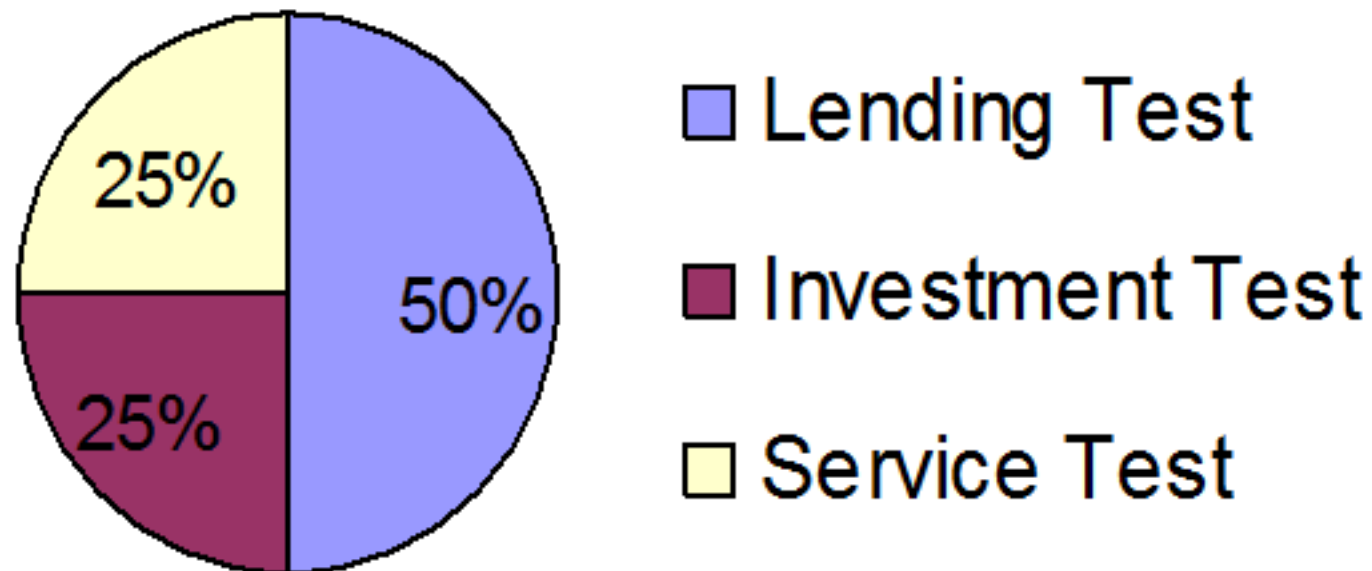
# Large Bank - Community Development Services

**Must be related to financial services  
and/or financial institution employees'  
areas of expertise:**

- Generally provided by financial services industry
- Makes use of the bank's financial and/or other expertise
- Considered separately from traditional retail services

# Large Bank - Performance Criteria

Large Bank



Note: Any small bank or intermediate small bank may opt to be evaluated under the large bank test.

# Overall Ratings

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance



# Small Bank: Rating

- Small banks are typically rated on the lending test only.
- They're evaluated on the five criteria under the lending test:
  1. Loan to deposit ratio
  2. Lending in and out of the assessment area
  3. Distribution of loans by geography
  4. Distribution of loans by borrower income
  5. Response to complaints



# Intermediate Small Bank: Rating

- An ISB bank must be rated Satisfactory on BOTH the traditional small bank lending test AND the community development test in order to achieve an overall Satisfactory rating
- Excelling in one area cannot make up for poor performance in another area
- Any small bank or intermediate small bank may opt to be evaluated under the large bank test

# Large Bank: Evaluation - Rating Matrix

<b>Component Test Ratings</b>	<b>Lending</b>	<b>Investment</b>	<b>Services</b>
Outstanding	12 Points	6 Points	6 Points
High Satisfactory	9 Points	4 Points	4 Points
Low Satisfactory	6 Points	3 Points	3 Points
Needs to Improve	3 Points	1 Point	1 Point
Substantial Noncompliance	0 Points	0 Points	0 Points

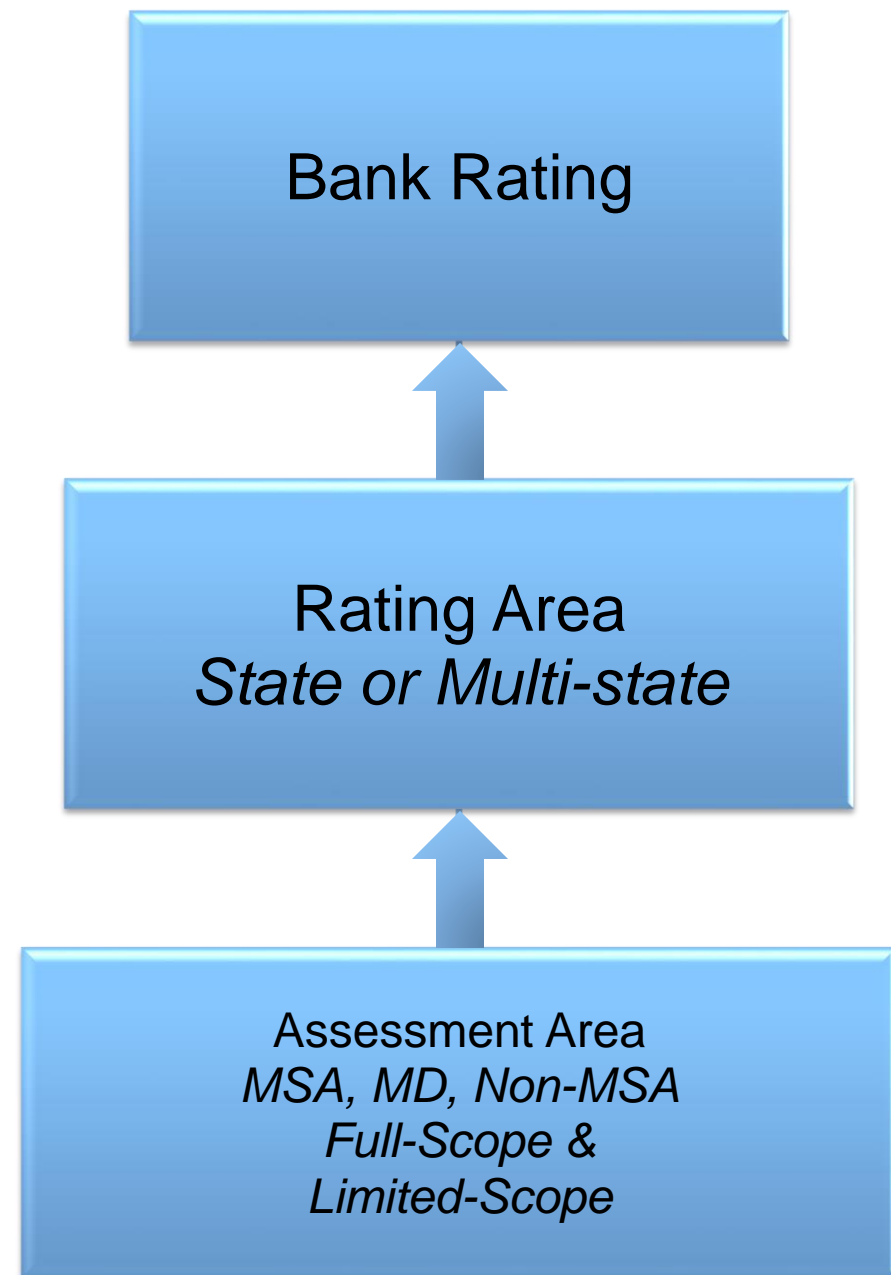
*NOTE – A Bank must receive at least a Low Satisfactory rating on the lending test in order to receive an overall rating of Satisfactory or higher.*

# Overall Rating

Outstanding	20 or more
Satisfactory	11 to 19
Needs to Improve	5 to 10
Substantial Noncompliance	Less than 5

# Ratings

- Bank Overall Rating
  - Outstanding
  - Satisfactory
  - Needs to Improve
  - Substantial Noncompliance
- Individual Rating Areas
  - Outstanding
  - High Satisfactory
  - Low Satisfactory
  - Needs to Improve
  - Substantial Noncompliance
- Full-Scope Areas
  - Limited-Scope Areas



Full-Scope	Limited-Scope
<p>Analyze bank performance considering full performance context:</p>	<p>Analyze bank performance in light of the comparable demographics as contained in the standardized tables:</p>
<p><b>Lending Test</b> – volume/activity; borrower &amp; geographic distribution; conspicuous gaps; CD lending; qualitative factors (innovation, flexibility, leadership)</p>	<p><b>Lending Test</b> – volume/activity; borrower &amp; geographic distribution; CD lending numbers &amp; dollars only</p>
<p><b>Service Test</b> – branch distribution; branch openings &amp; closings; hours of operations; gaps in operations and services; alternative delivery systems; CD services; qualitative factors (responsiveness)</p>	<p><b>Service Test</b> – branch distribution; branch openings &amp; closings</p>
<p><b>Investment Test</b> – level of investments; qualitative factors (innovation, complexity)</p>	<p><b>Investment Test</b> – level of investments only</p>

# Assessing Performance: Overall Bank Rating

## **RATINGS ROLL-UP:**

***Conclude on performance factors in each assessment area***

***Rate performance under each “test” at the state or multi-state level***

**Overall Bank Rating**

# Fair Lending Considerations

- **Substantive violations could impact overall CRA rating**
  - Discrimination against applicant on a prohibited basis (Equal Credit Opportunity Act/Fair Housing Act)
  - Violations of section 5 of Federal Trade Commission Act (Unfair and Deceptive Practices)
  - Violations of section 8 of Real Estate Settlement Procedures Act (illegal kickbacks)
  - Violation of Truth in Lending Act provision regarding a consumer's right of rescission.

# Public Evaluation

- Prepared by the agencies
- Exit discussion with bank management
- Exam completed and conclusions discussed with management
- Published on regulators' & FFIEC web sites
- Made available to the public on request



# Why are CRA Ratings Important?

- Regulators must take into account a bank's record of helping to meet the community's credit needs when considering any corporate or licensing action.
  - Examples include:
    - Opening new branch offices or deposit-taking ATMs, mergers, acquisitions, or consolidations