

# Community Reinvestment Act Examination Procedures for Intermediate Small Savings Associations Program

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## EXAMINATION SCOPE

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For institutions (interstate and intrastate) with more than one assessment area, identify assessment areas for a full scope review. A full scope review is accomplished when examiners complete all of the procedures for an assessment area. For interstate institutions, a minimum of one assessment area from each state, and a minimum of one assessment area from each multistate MSA/MD, must be reviewed using the full scope examination procedures.

1. To identify assessment areas for full scope review, review prior CRA performance evaluations, available community contact materials, and reported lending data and demographic data on each assessment area. Consider factors such as:
  - The retail lending and community development opportunities in the different assessment areas, particularly areas where the need for credit and community development activities is significant;
  - The level of the institution's activity in the different assessment areas, including in low- and moderate-income areas, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies<sup>1</sup> based on (a) rates of poverty, unemployment, and population loss or (b) population size, density, and dispersion;<sup>2</sup>
  - 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;
  - The existence of apparent anomalies in the reported data for any particular assessment area(s);
  - The length of time since the assessment area(s) was last examined using a full scope review;
  - The institution's prior CRA performance in different assessment areas;

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<sup>1</sup> The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

<sup>2</sup> A list of distressed or underserved nonmetropolitan middle-income geographies will be made available on the FFIEC web site at [www.ffiec.gov](http://www.ffiec.gov).

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- Your knowledge of the same or similar assessment areas; and
  - Comments from the public regarding the institution's CRA performance.
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2. Select one or more assessment areas in each state, and one or more assessment areas in any multistate MSA, for examination using these procedures. This is required because for interstate institutions, a rating must be assigned for each state where the institution has a branch and for each multistate MSA/MD where the institution has branches in two or more states that comprise that MSA/MD.
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## EXAMINATION PROCEDURES

See Appendix A to the CRA Handbook Section for Intermediate Small Savings Associations.

### *Performance Context*

3. Review the Matters Requiring Board Attention and Corrective Actions from the three or four previous ROEs to ensure that the board and management have taken appropriate corrective action where necessary and persistent problems have not recurred.
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4. 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.
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5. Obtain for review the Thrift Financial Reports (TFRs), Uniform Thrift Performance Reports (UTPRs), annual reports, supervisory reports, and prior CRA evaluations of the institution under examination to help understand the institution’s ability and capacity, including any limitations imposed by size, financial condition, or statutory, regulatory, economic or other constraints, to respond to safe and sound opportunities in the assessment area(s) for retail loans, and community development loans, qualified investments and community development services.

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6. Discuss with the institution, and consider, any information the institution may provide about its local community and economy, including community development needs and opportunities, its business strategy, its lending capacity, or information that otherwise assists in the evaluation of the institution.

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7. 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.

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8. Review any comments received by the institution or the agency since the last CRA examination.

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9. By reviewing the public evaluations and other financial data, determine whether any similarly situated institutions (in terms of size, financial condition, product offerings, and business strategy) serve the same or similar assessment area(s) and would provide relevant and accurate information for evaluating the institution’s CRA performance. Consider, for example, whether the information could help identify:

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- Lending and community development opportunities available in the institution’s assessment area(s) that are compatible with the institution’s business strategy and consistent with safe and sound banking practices;
  - Constraints affecting the opportunities to make safe and sound retail loans, community development loans, qualified investments, and community development services compatible with the institution’s business strategy in the assessment area(s); and
  - Successful CRA-related product offerings or activities utilized by other lenders serving the same or similar assessment area(s).
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10. Document the performance context information, particularly community development needs and opportunities, gathered for use in evaluating the institution’s performance.

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## ***Assessment Area***

11. Review the institution’s stated assessment area(s) to ensure that it:
- consists of one or more MSAs/MDs or contiguous political subdivisions (e.g., counties, cities, or towns);
  - 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;
  - consists only of whole census tracts;
  - consists of separate delineations for areas that extend substantially across MSA/MD or state boundaries unless the assessment area is located in a multistate MSA/MD;
  - does not reflect illegal discrimination; and

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- does not arbitrarily exclude any low- or moderate-income area(s), taking into account the institution's size, branching structure, and financial condition.

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12. 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.

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13. 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.

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### ***Performance Criteria***

### **Loan-to-Deposit Analysis**

14. From data contained in TFRs or UTPRs, 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.

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15. 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).

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16. If the loan-to-deposit ratio does not appear reasonable in light of the performance context, consider whether the number and dollar amount of loans sold to the secondary market compensate for a low loan-to-deposit ratio or supplement the institution's lending performance.

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17. Summarize in work papers conclusions regarding the institution's loan-to-deposit ratio.

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

18. 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.

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19. 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).

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20. 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.

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21. Summarize in work papers conclusions regarding the institution’s level of lending or other lending related activities inside and outside of its assessment area(s).

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## **Distribution of Credit Within the Assessment Area(s)**

22. 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).

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23. 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).

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24. 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.

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25. 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).

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26. Identify categories of borrowers by income or business revenue for which there is little or no loan penetration.

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27. 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

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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.

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28. If there are categories of low penetration, form conclusions about the reasons for that low penetration. Consider available information from the performance context, including:
- information about the institution's size, branch network, financial condition, supervisory restrictions (if any) and prior CRA record;
  - information from discussions with management, loan officers, and members of the community;
  - information about economic conditions, particularly in the assessment area(s);
  - information about demographic or other characteristics of particular geographies that could affect loan demand, such as the existence of a prison or college; and
  - information about other lenders serving the same or similar assessment area(s).
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29. Summarize in work papers conclusions concerning the geographic distribution of loans and the distribution of loans by borrower characteristics in the institution's assessment area(s).
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## **Review of Complaints**

30. 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.
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31. If there were any complaints, evaluate the institution's record of taking action, if warranted, in response to written complaints about its CRA performance.

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

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33. If there were any complaints, summarize in work papers 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.

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34. Discuss the preliminary findings in the lending test section with management.

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## **Community Development Test**

An institution should appropriately assess the needs in its community, engage in different types of community development activities based on those needs and the institution's capacities, and take reasonable steps to apply its community development resources strategically to meet those needs. The flexibility inherent in the community development test allows intermediate small institutions to focus on meeting the substance of community needs through these activities. You will consider the results of any assessment by the institution of community needs along with information from community, government, civic, and other sources to gain a working knowledge of community needs.

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35. Identify the number and dollar amount of the institution’s community development loans, qualified investments, and community development services. Obtain this information through discussions with management, HMDA data collected by the institution, as applicable; investment portfolios; any other relevant financial records; and materials available to the public. Include, at the institution’s option:

- Community development loans, qualified investments, and community development services provided by affiliates, if they are not claimed by any other institution; and
  - Community development lending by consortia or third parties.
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36. Review community development loans, qualified investments, and community development services to verify that they qualify as community development.

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37. If the institution participates in community development lending by consortia or third parties, or claims activities provided by affiliates, review records provided to the institution by the consortia or third parties or affiliates to ensure that the community development loans claimed by the institution do not account for more than the institution’s share (based on the level of its participation or investment) of the total loans originated by the consortium or third party.

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38. Considering the institution’s capacity and constraints and other information obtained through the performance context review, form conclusions about:

- The number and dollar amount of community development loans and qualified investments;

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- The extent to which the institution provides community development services, including the provision and availability of services to low- and moderate-income people, including through branches and other facilities in low- and moderate-income areas.
- The responsiveness to the opportunities for community development lending, qualified investments, and community development services, considering:
  - The results of any assessment of community development needs and opportunities provided by the institution;
  - Your review of performance context information from community, government, civic, and other sources; and
  - Whether the amount and combination of community development loans, qualified investments, and community development services, along with their qualitative aspects, are responsive to community needs and opportunities.

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39. Summarize conclusions regarding the institution’s community development performance and retain in the work papers.

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### **Ratings**

40. Group the analyses of the assessment areas examined by MSA<sup>3</sup> and nonmetropolitan areas within each state where the institution has branches. If an institution has branches in two or more states of a multistate MSA, group the assessment areas that are in that MSA.

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<sup>3</sup> The reference to MSA may also reference MD.

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41. Summarize conclusions about the institution’s performance in each MSA and the non-MSA 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 non-MSA portion of a state received full scope reviews , weigh the different assessment areas considering such factors as:

- the significance of the institution’s activities in each compared to the institution’s overall activities;
- the retail lending and community development opportunities in each;
- the importance of the institution in providing loans and community development activities to each, particularly in light of the number of other institutions and the extent of their activities in each; and
- demographic and economic conditions in each.

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42. For assessment areas in MSAs and non-MSA areas that were not examined using the full scope procedures, consider facts and data related to the institution’s lending and community development activities to ensure that performance in those assessment areas is not inconsistent with the conclusions based on the assessment areas that received full scope examinations.

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43. For institutions operating in only one multistate MSA or one state, assign one of the four preliminary ratings – “Satisfactory,” “Outstanding,” “Needs to Improve,” or “Substantial Noncompliance” – in accordance with step 45 below. To determine the relative significance of each MSA and non-MSA area to the institution’s preliminary rating, consider:

- the significance of the institution’s activities in each compared to the institution’s overall activities;
- the retail lending and community development opportunities in each;

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- 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
  - demographic and economic conditions in each.
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44. For other institutions, assign one of the four preliminary ratings – “Satisfactory,” “Outstanding,” “Needs to Improve,” or “Substantial Noncompliance” – for each state in which the institution has at least one branch and for each multistate MSA in which the institution has branches in two or more states in accordance with step 45 below. To determine the relative significance of each MSA and the non-MSA area on the institution’s preliminary state rating, consider:

- the significance of the institution’s activities in each compared to the institution’s overall activities;
  - the retail lending and community development opportunities in each;
  - 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
  - demographic and economic conditions in each.
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45. Consult the Intermediate Small Savings Associations Ratings Matrix (lending and community development) and information in work papers to assign a preliminary rating of:

- “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;
- “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

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- “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.”
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46. For an institution with branches in more than one state or multistate MSA, assign a preliminary rating to the institution as a whole taking into account the institution’s record in different states or multistate MSAs by considering:

- the significance of the institution’s activities in each compared to the institution’s overall activities;
  - the retail lending and community development opportunities in each;
  - 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
  - demographic and economic conditions in each.
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47. 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 multistate MSA<sup>4</sup>. If evidence of discrimination or other illegal credit practices in any geography by the institution, or

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<sup>4</sup> “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.

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in any assessment area by any affiliate whose loans have been considered as part of the institution's lending performance, was found, consider:

- the nature, extent, and strength of the evidence of the practices;
  - the policies and procedures that the institution (or affiliate, as applicable) has in place to prevent the practices;
  - 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
  - Any other relevant information.
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48. 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 multistate MSA in which it has branches in two or more states, considering:

- the institution's preliminary rating; and
  - Any evidence of discrimination or other illegal credit practices (see #8 above).
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49. Discuss conclusions with management.

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50. Write an evaluation of the institution's performance for the examination report and the public evaluation.

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51. Prepare recommendations for a supervisory strategy and for matters that require attention or follow-up activities.

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## ***Public File Checklist***

52. 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.
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53. 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:
- 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);
  - the institution's most recent CRA Public Performance Evaluation;
  - 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;
  - 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;
  - the HMDA Disclosure Statement for the prior two calendar years for the institution and for each nondepository affiliate the institution has elected to include in assessment of its CRA record, if applicable;
  - the institution's loan-to-deposit ratio for each quarter of the prior calendar year;
  - 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

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- 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.
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54. In any branch review undertaken, determine whether the branch provides the most recent public evaluation and a list of services generally available at the branch and a description of any material differences in the availability or cost of services at the branch (or a list of services available at the branches).
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## EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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