

Federal Reserve Bank of Dallas

A Banker's Quick Reference Guide to CRA



This publication is a guide to the revised CRA regulation and examination procedures.

It is intended for bank CEOs, presidents, and CRA and compliance officers as a tool for accessing CRA information quickly. Regulation BB and agency examination procedures should be referred to for more detailed information.

Large Banks—Lending Test

Performance Standards

Number and amount of loans in the assessment area(s)

Geographic distribution of loans

- proportion of loans in assessment area(s)
- dispersion of lending in assessment area(s)
- number and amount of loans by geography classification (low-, moderate-, middle- and upper-income)

Distribution based on borrower characteristics

- number and amount of home mortgage loans to low-, moderate-, middle- and upper-income individuals
- number and amount of small business and small farm loans by loan amount at origination and to small businesses and small farms with gross annual revenues of \$1 million or less
- (optional) number and amount of consumer loans to low-, moderate-, middle- and upper-income individuals

Community development loans

- number and amount
- complexity and innovativeness

Innovative or flexible lending practices

(Optional) affiliate lending and lending by a consortium or third party will be considered

Examiner Review

Identify loans to be evaluated by reviewing

- HMDA and CRA disclosure statements
- interim HMDA and CRA data collected
- sample of consumer loans (if a substantial majority of business)
- other loan information provided by the bank

Verify accuracy of loan data collected and/or reported

- affiliate loans may be claimed by only one affiliate
- community development loans meet definition
- the amount of third party, consortia or affiliate lending may not account for more than the percentage share of the bank's participation or investment
- if reported, consumer loans must include all loans in a particular category (*i.e.*, motor vehicle)

Evaluate lending volume both in number and dollar amount of loans within the assessment area for each type of loan, giving consideration to the performance context

Analyze the geographic distribution of lending

- review information provided by the bank for insight into the reasonableness of its geographic distribution
- perform independent analysis as necessary. The analysis should consider number and dollar volume of loans:
 - made inside and outside assessment area
 - made in each geography and each income category of geography.
 - by number of geographies penetrated in each income category
 - for housing in each geography compared with the number of housing units in each geography
 - for small businesses or farms in each geography compared with the number of small businesses or farms in each geography
 - for any gaps in lending activity for each income category by identifying groups of contiguous geographies that have no or low loan penetration relative to the other geographies
- if contiguous geographies have abnormally low penetration, the examiner may compare the bank's performance with that of other area lenders. Note: Banks are not required to lend in every geography.

Analyze distribution of lending by borrower characteristics

- review information provided by the bank for insight into the reasonableness of its lending distribution
- supplement with independent analysis of lending distribution by borrower characteristics as necessary and applicable, giving consideration to the number and dollar volume of loans:
 - for home mortgages made to low-, moderate-, middle- and upper-income borrowers, and make a percentage comparison of total home mortgage loans with the population in each income category
 - made to small businesses or farms by loan size of \$100,000 or less, more than \$100,000 but less than or equal to \$250,000 and more than \$250,000
 - made to small businesses or farms having annual revenues of less than \$1 million and compare with total small business and farm lending
 - made outside the assessment area if borrowers within the assessment area are adequately served and it would enhance the assessment of the bank's performance

Review community development lending to determine the community development lending opportunities, the bank's responsiveness and the extent of its leadership

Determine whether lending performance is enhanced by offering innovative or more flexible loan products by considering:

- if LMI borrowers are served in new ways or the loans serve creditworthy borrowers not previously served
- the success of each product

Large Banks—Investment Test

Performance Standards	Examiner Review
<p>Dollar amount of qualified investments</p> <p>Innovativeness and complexity of qualified investments</p> <p>Responsiveness of qualified investments to credit and community development needs</p> <p>Degree to which qualified investments are not routinely provided by private investors</p> <p>Qualified investments must benefit the assessment area(s) or a broader statewide or regional area that includes the assessment area(s)</p> <p>(Optional) qualified investments made by an affiliate bank will be considered if not claimed by any other institution</p>	<p>Identify qualified investments</p> <ul style="list-style-type: none"> – review investment portfolio – at bank's option, review affiliate's investment portfolio – include qualified investments made since previous examination and may consider qualified investments made prior to last exam still outstanding – include qualifying grants, donations or in-kind contributions of property made since last examination that are for community development purposes <p>Evaluate investment performance</p> <ul style="list-style-type: none"> – benefit to assessment area or broader area that includes assessment area – has not been considered under lending or service test – if reported, that affiliate investments have not been claimed by another institution – dollar volume of investments made considering performance context – use of innovative or complex investments, particularly those not routinely provided by other investors – responsiveness to available opportunities and degree to which they serve LMI areas or individuals

Large Banks—Service Test

Performance Standards	Examiner Review
<p style="text-align: center;">Retail Banking Services</p> <p>Distribution of branches among each geography classification</p> <p>Record of opening and closing branches, particularly those located in LMI geographies or primarily serving LMI individuals</p> <p>Availability and effectiveness of alternative systems for delivering retail banking services in LMI geographies and to LMI individuals</p> <p>Range of services provided in each geography classification and the degree the services are tailored to meet the needs of those geographies</p> <p style="text-align: center;">Community Development Services</p> <p>Extent of community development services provided</p> <p>Innovativeness and responsiveness of community development services</p>	<p style="text-align: center;">Retail Banking Services</p> <p>Determine from the bank's public file the distribution of branches among each geography classification in the assessment area(s) and the banking services provided, including hours and available products</p> <p>Identify any material differences in hours or services available at each branch</p> <p>Evaluate the record of opening and closing branch offices and its effect, particularly on LMI geographies or individuals</p> <p>Evaluate the accessibility and use of alternative systems for delivering retail banking services in LMI areas and to LMI individuals</p> <p>Assess the quantity, quality and accessibility of service-delivery systems provided in each geography classification</p> <ul style="list-style-type: none"> – consider the degree to which services are tailored to the convenience and needs of each geography <p style="text-align: center;">Community Development Services</p> <p>Identify community development services of the bank and, at its option, services through affiliates</p> <p>Ensure community development services meet definition</p> <p>Evaluate community development services using performance context information and consider:</p> <ul style="list-style-type: none"> – innovativeness and whether they serve LMI customers in new ways or serve groups of customers not previously served – the degree to which they serve LMI areas or individuals and their responsiveness to available service opportunities

Large Banks—Data Collection

General

Collect and maintain data on loans to small businesses or farms captured in Schedule RC-C of the Call Report (loans originated or purchased)

- unique loan number or alpha-numeric symbol
- amount of the loan
- location of the loan
- indicate whether the gross annual revenues of the business or farm are \$1 million or less

Submit annually by March 1 the following data:

- for each geography, loans to small businesses and farms (loans originated or purchased), including
 - aggregate number and amount of loans at origination in loan size categories of \$100,000 or less, more than \$100,000 but less than or equal to \$250,000 and more than \$250,000
 - aggregate number and amount of loans to businesses and farms with gross revenues of \$1 million or less
- aggregate number and amount of community development loans (originated or purchased)
- home mortgage loans as required under Regulation C (Home Mortgage Disclosure Act)
- a list for each assessment area showing the geographies within the area
- affiliate lending if affiliate lending is being considered
- consortium or third-party lending if consortium or third-party lending is being considered

Optional

Collect and maintain data for consumer loans (originated and purchased)

- unique loan number or alpha-numeric symbol
- amount of the loan
- location of the loan
- gross annual income of the borrower that is considered in making the credit decision

Collect and maintain any other information concerning lending performance the bank may choose

Public File

General

Written comments (prior two calendar years)

- received from the public that specifically relate to bank's CRA performance
- any response to the comments by the bank

CRA performance evaluation

Branch information

- list of branches with their street addresses and geographies
- list of branches opened or closed
- list of services generally offered and any material differences in availability or cost of services at particular branches
- (optional) information regarding availability of alternative systems for delivering retail banking services

Map of each assessment area

- showing boundaries of the area
- identifying the geographies contained within the area (either on the map or in a separate list)

Any other information the bank chooses

If applicable

- HMDA disclosure statement (prior two calendar years)
- strategic plan
- efforts to improve performance if bank received a less than satisfactory rating

Specific

Large Banks

CRA disclosure statement (prior two calendar years)

(Optional) number and amount of consumer loans (prior two calendar years)

- to low-, moderate-, middle- and upper-income individuals
- located in each geography classification
- located inside/outside the assessment area(s)

Small Banks

Loan-to-deposit ratio

- for each quarter of the prior calendar year
- (optional) additional data on its loan-to-deposit ratio

Small Banks

Performance Standards

Loan-to-deposit ratio

- given the bank's size and financial condition
- credit needs of the assessment area(s)
- other lending-related activities
- considering seasonal variations

Percentage of loans and other lending-related activities in the bank's assessment area(s)

- ### Record of lending and other lending-related activities to
- borrowers of different income levels
 - businesses and farms of different sizes

Geographic distribution of loans

- ### Action taken in response to written complaints with respect to CRA

Examiner Review

Loan-to-deposit analysis

- using Call Reports, TFRs or UBPR/UTPRs data, calculate an average loan-to-deposit (LTD) ratio using quarterly LTDs since the last exam
- determine the reasonableness of the average LTD ratio in light of the performance context
- if the LTD ratio does not appear reasonable, additional consideration will be given to
 - number and dollar volume of loans sold to the secondary market
 - innovativeness or complexity of community development loans and qualified investments

Compare credit extended inside and outside assessment area(s)

- if available, use HMDA data, bank loan and other reports to analyze the extent of lending inside and outside assessment area(s), after testing the reports for accuracy
- if loan data are not available, accurate or comprehensive, sample loans originated, purchased or committed to, and calculate the percentage of loan volume within the assessment area(s)
- if majority of the loans are not in the assessment area, thus not meeting the standards for satisfactory, give additional consideration to the performance context

Geographic distribution of credit

- determine if there is a sufficient number and income distribution of geographies to provide meaningful analysis. If yes,
 - determine distribution of loans among low-, moderate-, middle- and upper-income geographies using available bank loan data or sample. Identify groups of geographies, by income categories, where there is little or no loan penetration

Income and revenue distribution of credit

- if available, use data about borrower income (individuals) or revenues (businesses) to determine the distribution of loans by borrower income and by business revenues. Identify categories of borrowers by income or business revenues that have little or no loan penetration

If sufficient geographic or income/revenue data are not available to do an analysis of the distribution of credit, consider alternatives such as analyzing geographic distribution by street address rather than geography

If there are geographies or income categories of low penetration, form conclusions about the reasons in light of the performance context

Review complaints relating to the bank's CRA performance

- evaluate the bank's record of taking action, if warranted, in response to written complaints about its CRA performance

If the bank chooses, review its performance in making qualified investments and providing services. Note: Performance with respect to qualified investments and services may be used to enhance a satisfactory rating but may not be used to lower a rating

- consider dollar volume, impact and innovativeness or complexity of qualified investments
- consider number of branches and ATMs and the services they provide, accessibility to LMI geographies, alternative service delivery systems and record of opening and closing branches

The Strategic Plan Option

Performance Standards

A strategic plan assessment may be chosen as an alternative assessment method by any bank if the plan has been submitted and approved by the bank's supervisory agency. The plan must be in effect, and the bank must have been operating under the approved plan for at least one year.

In general, a plan must meet the following criteria:

- maximum term is five years, and multiyear plans must have annual interim goals
- banks with multiple assessment areas may prepare a single strategic plan or multiple plans and may have assessment areas not covered by a plan
- affiliated institutions may submit a joint plan if the plan provides measurable goals for each institution

Bank must seek public participation in plan development by

- informally seeking suggestions from the public in the assessment area(s) covered by the plan during its development
- formally soliciting public comment for at least 30 days by
 - publishing notice in a general circulation newspaper in each assessment area covered by plan
 - making copies of plan available for review

Requirements for submission of the plan include

- submitting to supervisory agency at least three months prior to proposed effective date
- providing a description of efforts to seek suggestions from the public
- providing any written public comments received
- if initial plan was revised based on public comment, submitting initial plan

The plan must contain the following:

- measurable goals for helping to meet credit needs, particularly of LMI areas and individuals
- address lending, investment and service performance categories with an emphasis on lending and lending-related activities
- specify measurable goals that constitute a satisfactory rating
- for consideration of an outstanding rating, must specify outstanding goals

Examiner Review

Review the following:

- the approved plan and any approved amendments
- the agency's approval process files
- written comments from the public since the effective date of the plan

Determine if the bank achieved goals for each assessment area by

- reviewing plan's measurable goals
- identifying the bank's actual performance
- comparing goals with actual performance

Evaluate any unmet goals and identify if they were "substantially met" based on

- number of goals not met
- degree to which goals were not met
- relative importance of unmet goals to the overall plan
- why the goals were not met

CRA Ratings

Large Banks

Component test ratings that reflect the bank's lending, investments and services are assigned.

Component Test Ratings	Lending	Investment	Service
Outstanding	12	6	6
High Satisfactory	9	4	4
Low Satisfactory	6	3	3
Needs to Improve	3	1	1
Substantial Noncompliance	0	0	0

Preliminary composite rating is assigned by summing the component test ratings for lending, investment and service tests and referring to the chart below.

Points	Composite Assigned Rating
20 +	Outstanding
11 – 19	Satisfactory
5 – 10	Needs to Improve
0 – 4	Substantial Noncompliance

Adjustments to preliminary composite rating:

- no bank may receive a composite assigned rating of satisfactory or higher unless it receives at least low satisfactory on the lending test.
- evidence of discriminatory or other illegal credit practices adversely affects the evaluation of a bank's CRA performance.

A final overall CRA rating is assigned.*

Small Banks

Satisfactory

- if the bank 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

Outstanding

- if the bank meets each of the standards for a satisfactory rating and materially exceeds the standards in some or all of the criteria or
- if the bank generally exceeds the standards for a satisfactory rating and its performance in making qualified investments and providing branches and other services and delivery systems supplements its performance sufficiently to warrant an outstanding rating

Evidence of discriminatory or other illegal credit practices adversely affects the evaluation of a bank's CRA performance.

A final overall CRA rating is assigned.*

Strategic Plan

Bank must identify satisfactory measurable goals and, to be considered for an outstanding rating, must identify a separate group of outstanding measurable goals that substantially exceed the satisfactory level.

A satisfactory rating will be assigned if the bank substantially achieves its plan goals for a satisfactory rating.

An outstanding rating will be assigned if the bank exceeds its plan goals for a satisfactory rating and substantially achieves its plan goals for an outstanding rating.

A needs to improve or substantial noncompliance rating will be assigned if the bank fails to substantially meet its plan goals for a satisfactory rating, unless the bank elects in its plan to be evaluated under the appropriate alternative large or small bank assessment method.

Evidence of discriminatory or other illegal credit practices adversely affects the evaluation of a bank's CRA performance.

A final overall CRA rating is assigned.*

* Banks with branches in just one state will receive one set of component ratings. Banks with branches in two or more states and banks with branches in multistate MSAs will be assigned component ratings for each state or multistate MSA reviewed.

Large Bank—Lending Test

Characteristic	Outstanding	High Satisfactory	Low Satisfactory	Needs to Improve	Substantial Noncompliance
Lending Activity	Lending levels reflect EXCELLENT responsiveness to assessment area credit needs.	GOOD	ADEQUATE	POOR	VERY POOR
Assessment Area(s) Concentration	A SUBSTANTIAL MAJORITY of loans are made in the bank's assessment area(s).	HIGH PERCENTAGE	ADEQUATE PERCENTAGE	SMALL PERCENTAGE	VERY SMALL PERCENTAGE
Geographic Distribution of Loans	The geographic distribution of loans reflects EXCELLENT penetration throughout the assessment area(s).	GOOD	ADEQUATE	POOR	VERY POOR
Borrower's Profile	The distribution of borrowers reflects, given the product lines offered, EXCELLENT penetration among customers of different income levels and businesses of different sizes.	GOOD	ADEQUATE	POOR	VERY POOR
Responsiveness to Credit Needs of Low-Income Individuals and Geographies and Very Small Businesses	Exhibits an EXCELLENT record of serving the credit needs of low-income individuals and areas and very small businesses.	GOOD	ADEQUATE	POOR	VERY POOR
Community Development Lending Activities	A LEADER IN MAKING community development loans.	MAKES A RELATIVELY HIGH LEVEL	MAKES AN ADEQUATE LEVEL	MAKES A LOW LEVEL	MAKES FEW, IF ANY
Product Innovation	Makes EXTENSIVE USE of innovative and/or flexible lending practices in serving assessment area credit needs.	USE	LIMITED USE	LITTLE USE	NO USE

Large Bank—Investment Test

Characteristic	Outstanding	High Satisfactory	Low Satisfactory	Needs to Improve	Substantial Noncompliance
Investment and Grant Activity	An EXCELLENT level of qualified community development investments and grants, OFTEN in a leadership position, particularly those not routinely provided by private investors.	SIGNIFICANT OCCASIONALLY	ADEQUATE RARELY	POOR NOT	FEW, IF ANY NEVER
Responsiveness to Credit and Community Developments Needs	Exhibits EXCELLENT responsiveness to credit and community development needs.	GOOD	ADEQUATE	POOR	VERY POOR
Community Development Initiatives	Makes EXTENSIVE USE of innovative and/or complex investments to support community development initiatives.	SIGNIFICANT USE	OCCASIONALLY USES	RARELY USES	DOES NOT USE

Large Bank—Service Test

Characteristic	Outstanding	High Satisfactory	Low Satisfactory	Needs to Improve	Substantial Noncompliance
Accessibility of Delivery Systems	Delivery systems are READILY ACCESSIBLE to ALL portions of the bank's assessment area(s).	ACCESSIBLE ESSENTIALLY ALL	REASONABLY ACCESSIBLE ESSENTIALLY ALL	ACCESSIBLE LIMITED	INACCESSIBLE SIGNIFICANT (particularly LMI geographies and/or LMI individuals)
Changes in Branch Locations	Record of opening and closing of branches has IMPROVED the accessibility of its delivery systems, particularly to LMI geographies and/or LMI individuals.	NOT ADVERSELY AFFECTED	GENERALLY NOT ADVERSELY AFFECTED	ADVERSELY AFFECTED	SIGNIFICANTLY ADVERSELY AFFECTED
Reasonableness of Business Hours and Services in Meeting Assessment Area(s) Needs	Services ARE TAILORED TO CONVENIENCE AND NEEDS of the assessment area(s), particularly LMI geographies and/or LMI individuals.	DO NOT VARY IN A WAY THAT INCONVENIENCES CERTAIN PORTIONS	DO NOT VARY IN A WAY THAT INCONVENIENCES PORTIONS	VARY IN A WAY THAT INCONVENIENCES CERTAIN PORTIONS	VARY IN A WAY THAT SIGNIFICANTLY INCONVENIENCES MANY PORTIONS
Community Development Services	A LEADER IN PROVIDING community development services.	PROVIDES A RELATIVELY HIGH LEVEL OF	PROVIDES AN ADEQUATE LEVEL OF	PROVIDES A LIMITED LEVEL OF	PROVIDES FEW, IF ANY

Small Bank

Characteristic	Outstanding	Satisfactory	Needs to Improve	Substantial Noncompliance
Loan-to-Deposit Ratio (considering seasonal variations and taking into account lending-related activities)	MORE THAN REASONABLE given the bank's size, financial condition and assessment area(s)' credit needs.	REASONABLE	LESS THAN REASONABLE	UNREASONABLE
Assessment Area(s) Concentration	A SUBSTANTIAL MAJORITY of loans and other lending-related activities are IN the assessment area(s).	MAJORITY IN	MAJORITY OUTSIDE	SUBSTANTIAL MAJORITY OUTSIDE
Borrower's Profile	EXCELLENT penetration among individuals of different income (including low- and moderate-income) levels and businesses and farms of different sizes.	REASONABLE	POOR	VERY POOR
Geographic Distribution of Loans	The geographic distribution of loans reflects EXCELLENT dispersion throughout the assessment area(s).	REASONABLE	POOR	VERY POOR
Response to Substantiated Complaints	The bank has taken NOTE-WORTHY, CREATIVE action in response to substantiated CRA complaints.	APPROPRIATE	INADEQUATE	UNRESPONSIVE
Investments	The investment record ENHANCES credit availability in assessment area(s).	N/A	N/A	N/A
Services	Record of providing branches and/or other services ENHANCES credit availability in assessment area(s).	N/A	N/A	N/A

Definitions

Assessment Area(s) — One or more of the geographic area(s) that is delineated by the bank and used by the regulatory agency in evaluating the bank's record of helping to meet the credit needs of its community. It must, in general, consist of one or more MSAs or one or more contiguous political subdivisions, such as counties, cities or towns. It must include geographies in which the bank has its main office, branches and deposit-taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. A bank may adjust the boundaries of its assessment area(s) to include only the portion of a political subdivision that it reasonably can be expected to serve. An assessment area must consist only of whole geographies, may not reflect illegal discrimination, may not arbitrarily exclude LMI geographies and may not extend substantially beyond a CMSA boundary or beyond a state boundary, unless the assessment area is located in a multistate MSA.

Community Development — Encompasses affordable housing (including multifamily rental housing) for LMI individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize LMI geographies.

Community Development Loan — A loan that has as its primary purpose community development; (except for wholesale or limited purpose banks) has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm or consumer loan, unless it is a multifamily dwelling loan; *and* benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area.

Community Development Service — A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area and has not been claimed by other affiliated institutions.

Geography — A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Income Level – Geography

Low-Income — Median family income is less than 50 percent of the area median income

Moderate-Income — Median family income at least 50 percent and less than 80 percent of the area median income

Middle-Income — Median family income is at least 80 percent and less than 120 percent of the area median income

Upper-Income — Median family income is 120 percent or more of the area median income

Income Level – Individual

Low-Income — Less than 50 percent of the area median income

Moderate-Income — At least 50 percent and less than 80 percent of the area median income

Middle-Income — At least 80 percent and less than 120 percent of the area median income

Upper-Income — At least 120 percent or more of area median income

Limited Purpose Bank* — A bank that offers only a narrow product line, such as credit card or motor vehicle loans, to a regional or broader market and has received designation as a limited purpose bank from its supervisory agency.

Performance Context — A bank's performance is judged in the context of information about the bank and its assessment area(s), including

- demographic data on median income levels, distribution of household income, nature of housing stock, housing costs and other relevant data
- lending, investment and service opportunities
- the bank's product offerings and business strategy, capacity and constraints, past performance and the performance of similarly situated lenders
- the bank's public file and any written comments about the bank's CRA performance
- any other relevant information

Qualified Investment — A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small Bank — A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of either of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.

Wholesale Bank* — A bank that is not in the business of extending home mortgage, small business, farm or consumer loans to retail customers and has received designation as a wholesale bank from its supervisory agency.

* Additional information regarding wholesale and limited purpose banks is available upon request.

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