ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

# FEDERAL RESERVE BANK
## OF DALLAS

July 17, 1992

DALLAS, TEXAS 75222

**Notice 92-57**

**TO:** The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

**SUBJECT**

**Guidance Regarding Recordkeeping and Documentation Under the Community Reinvestment Act of 1977**

**DETAILS**

In an effort to simplify and streamline compliance supervisory processes and pursue reduction in regulatory burden, 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 are issuing guidance regarding recordkeeping and documentation under the Community Reinvestment Act of 1977 (CRA).

This guidance clarifies the agencies' expectations regarding documentation that financial institutions should maintain to support their performance efforts under the CRA. It emphasizes that the agencies base their evaluation of CRA performance primarily on how well an institution helps meet the credit needs of its community or communities, not on the amount of documentation it maintains. It also indicates that a lack of documentation is not sufficient basis on which to grant a poor rating if an institution's performance can otherwise be determined to be satisfactory or better.

The CRA contains a congressional finding that regulated financial institutions are "required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered." It also directs the agencies to assess the institution's "...record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods."

In the March 21, 1989 Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act, the agencies stated that they expect depository institutions to have a well-managed program in place to address their responsibilities under the law. A well-managed CRA program involves (1) ascertaining community credit needs, (2) developing products and services responsive to those identified community credit needs, (3) affirmatively marketing those products to ensure that they are available equitably throughout the community served, including low- and moderate-income areas, and

(4) monitoring and evaluating the effectiveness of the program, including the geographic distribution of credit applications, extensions, and denials.

The documentation expected by the agencies is primarily that which is useful to the institution's own management needs. In a well-managed CRA program, a financial institution's board of directors and management use relevant documentation to make sure their programs are working as planned. The regulatory agencies can use this documentation in their assessment of the institution's CRA performance and to make sure that a proper level of management oversight of the institution's CRA program is in place.

In so doing, the agencies and their examiners are mindful that CRA-related documentation will generally be less formal and less extensive in small and rural institutions than in larger, urban institutions. Documents such as the minutes of board of directors' meetings, program plans, marketing plans, advertising scripts, geographic analyses and other information that the institution prepares and maintains for its own management use should demonstrate the level of CRA performance. The agencies do not expect detailed documentation of every contact or finding to effectively demonstrate performance.

Agency examiners will use this guidance, along with the attached updated Uniform Interagency Community Reinvestment Act Examination Procedures in assessing performance under the CRA. In addition, the agencies, working through the FFIEC Consumer Compliance Task Force and the interagency groups working on the Regulatory Burden Study prescribed by section 221 of Federal Deposit Insurance Corporation Improvement Act and the Regulatory Uniformity Project, will continue to review additional ways to simplify and clarify compliance expectations and requirements appropriately.

Although these examination procedures are being issued in final form at this time, interested parties may comment on these or other issues and aspects of the Community Reinvestment Act by writing to the Federal Financial Institutions Examination Council, Attention: Consumer Compliance Task Force, 2100 Pennsylvania, NW, Suite 200, Washington, D.C. 20037.

**ATTACHMENT**

A copy of the FFIEC's notice is attached.

**MORE INFORMATION**

For more information, please contact Marion White at (214) 744-7490. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.

# COMMUNITY REINVESTMENT ACT

## Requirements and History of the Act

The Community Reinvestment Act (CRA)(12 USC 2901 et. seq.) is intended to encourage certain regulated financial institutions to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. Each of the four supervisory agencies, (the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision) is required to:

- use its examination authority to encourage an institution to help meet the credit needs of its entire community, consistent with safe and sound operation of the institution;

- assess, in connection with its examination, an institution's record of helping to meet the credit needs of its entire community; and

- take that record into account in evaluating an application for a charter, deposit insurance, branch or other deposit facility, office relocation, merger, or holding company acquisition of a regulated financial institution.

Proponents of the CRA were concerned, among other things, with situations in which local lenders reportedly exported local deposits to other areas despite sound local lending opportunities. Such disinvestment was considered a threat to community and neighborhood vitality. The Act, therefore, encourages lenders to give particular attention to local housing and economic development needs in urban and rural areas. Increased lender sensitivity to such lending needs can help preserve, rehabilitate, and revitalize such neighborhoods. Moreover, even though the Act emphasizes credit for local housing and community development, it recognizes that other types of credit also provide for neighborhood vitality and, more generally, a healthy local community.

The CRA is not intended to inject hard and fast rules or ratios into the examination or application processes. Rather, the law contemplates an evaluation of each lender's record that can accommodate individual circumstances. The Act also does not require financial institutions to make high risk loans that jeopardize their safety. To the contrary, the law indicates that such lending should be done within the bounds of safety and soundness. Rebuilding and revitalizing communities through sound lending should benefit both the communities and financial institutions.

An institution's capacity to help meet community credit needs is influenced by its financial condition and size, as well as by legal impediments and local economic conditions. An examiner must take these considerations into account when assessing the institution's performance and encouraging improved CRA performance. Larger institutions, for example, would generally be expected to be doing more than smaller ones, especially those in rural areas and small towns.

**Requirements of the Agencies' CRA Regulation**

CRA Statement

The CRA regulations of each agency require the board of directors of each institution to adopt, and at least annually review, a CRA Statement. The institution must provide a copy of its current CRA Statement to members of the public upon request. The institution may charge a fee, not to exceed actual costs, for reproduction and mailing, if applicable. The Statement must include:

1. A delineation, on a map, of each local community served by the institution.

Each institution must identify the local community or communities that it serves. For instance, a statewide branching institution would serve a number of "local communities." Further, more than one office of an institution may serve the same local community. An institution with offices throughout a city and its suburbs, for example, may consider the entire metropolitan area to be the local community for those offices. Each community must, of course, include the contiguous areas surrounding each office or group of offices.

Because many factors influence the size and shape of a lender's community, the regulation provides guidelines to help each institution define its local community or communities.

The overriding concern, however, is to ensure that low- and moderate-income neighborhoods are not arbitrarily excluded from the delineated area.

The first guideline suggests that institutions consider using widely recognized existing boundaries, such as those of Metropolitan Statistical Areas (MSA) or counties, as a basis for delineating their local community or communities. Such boundaries are frequently a reasonable approximation of an institution's local community.

Generally, a local community based on existing boundaries should be no larger than an entire MSA, or a county in a non-MSA area. If an institution has offices in more than one such area, it should generally have more than one local community. However, when an institution has an office near the boundary of a MSA or county, it should include those portions of adjacent counties that it serves. In rural areas, a local community may sometimes encompass more than one county, but generally institutions should not use states or regions of states to delineate local communities. A small institution that serves an area smaller than a MSA or county may define its community to be a part of the MSA or county. An institution may adjust the community delineation when areas are divided by state borders, significant geographic barriers, or areas that are extremely large or of unusual configuration.

The second guideline indicates that institutions could delineate their local community based on their effective lending territory -- the local area or areas around each office or group of offices where the lender makes a substantial portion of its loans -- and all other areas equally distant from each office. If an institution uses its effective lending territory to define its local community, it should follow existing boundaries as much as practical.

This guideline does not mean that each office necessarily serves a separate and distinct local community because they typically have different, though possibly overlapping, effective lending territories. An institution that is represented throughout a trade or market area may use that entire area as its local community.

The final guideline allows institutions to delineate their communities using any other reasonably defined area. An institution thus has substantial leeway to specify its local community as long as the definition is reasonable. That is to say, the institution must be able to provide a sensible rationale for the delineation and to show that it has not arbitrarily excluded any low- and moderate-income neighborhoods.

2. A list of specific types of credit that the institution is prepared to extend within each local community.

While an institution must prepare a separate CRA Statement for each local community it serves, including a delineation of the relevant local community, it does not necessarily follow that the list of available credits will be unique for each community. A lender that serves several local communities may elect to prepare Statements that contain lists of credits which are similar or identical for all the local communities served. Since some credit needs are common to many local communities, such an approach would be consistent with the intent of CRA. However, if the institution does offer different types of credit in different communities, the institution's CRA Statement for each community must reflect the types of credit offered in that particular community.

3. A copy of the CRA Notice.

An institution must provide in each office a CRA Notice, the exact wording of which is prescribed in the regulation. This includes:

- The availability of the CRA Statement;

- That written comments on the Statement and the institution's community lending performance may be submitted to the institution or its supervisory agency;

- That a file of such comments is publicly available;

- That the public may request announcements of the institution's applications covered by CRA from the supervisory agency; and

- The availability of the CRA Performance Evaluation.

4. Encouraged Additional Information

The regulations also encourage each institution to include the following information in its CRA Statement:

- A description of how its current efforts, including special credit-related programs, help to meet community credit needs;

- A periodic report on its record of helping to meet community credit needs; and

- a description of its efforts to ascertain the credit needs of its community, including efforts to communicate with members of its community regarding credit services.

Public File

Each institution must keep a file that is readily available for public inspection. That file must include:

- All CRA Statements in effect during the past two years;
- A copy of the institution's most recent CRA Performance Evaluation. At a minimum, the evaluation must be available at the home office and at a designated office in each local community; and
- All written comments received from the public within the last two years that relate to the CRA Statement, Performance Evaluation or the institution's record of helping to meet community credit needs.

CRA Performance Evaluation

After a CRA examination, each institution will receive from its supervisory agency a written, public CRA evaluation. This evaluation must be placed in the Public File within 30 business days of receipt by the institution. The institution must provide a copy of this evaluation to the public upon request, and may charge a fee, not to exceed actual costs, for reproduction and mailing. While the institution may include a response to the CRA Performance Evaluation in its Public File or may otherwise make such response available to the public, the format and content of the evaluation, as transmitted by the supervisory agency, may not be altered or abridged in any manner.

Review and Retention of Records

Each institution's board of directors must review each CRA Statement at least annually and must amend the Statement at its first regular meeting after a change in any of the information presented in the Statement occurs. Such changes may be, but are not limited to, a revision in the institution's community delineation, or the introduction of a new credit product. All CRA Statements in effect over the past two years and all written, signed CRA public comments received during that period must be maintained. Each current CRA Statement must be readily available for public inspection at the head office and at each office of the institution in the local community delineated in the CRA Statement, except off-premises electronic deposit facilities.

**Examination Burden/Documentation**

Section 802 of the CRA statute conveys the Congress's finding that financial institutions are "required by law to demonstrate that they serve the convenience and needs of the communities in which they are chartered." It also directs the agencies to assess the institution's "...record of meeting the credit needs of its entire community, including low- and moderate-income areas."

The examination process gives institutions the opportunity to demonstrate how they are having a beneficial influence on the local community or communities. The documentation expected by the agencies is primarily that which is useful to the institution's own management needs. In a well-managed CRA program, a financial institution's board of directors and management use relevant documentation to make sure their programs are working as planned. The agencies can use this documentation in their assessment of the institution's CRA performance and to make sure that a proper level of management oversight of the institution's CRA program is in place.

The agencies are mindful that CRA-related documentation will generally be less formal and less extensive in small and rural institutions than in larger, urban institutions. Documents such as the minutes of board of directors meetings, program plans, marketing plans, advertising scripts, geographic analyses and other information that the institution prepares and maintains for its own management use should demonstrate the level of CRA performance. The agencies do not expect detailed documentation of every contact or finding to effectively demonstrate performance.

CRA ratings should be based on an institution's performance (primarily the granting of loans, but also technical support for community development efforts, and other activities that help make credit available to members of the community), not on the amount of documentation it maintains. The lack of documentation is not sufficient basis on which to grant a poor rating if performance can otherwise be determined to be satisfactory or better.

**Judgmental Process/Regulatory Flexibility**

In conducting a CRA examination, the examiner should adjust the CRA procedures on a case-by-case basis to accommodate institutions that vary in size, type, capabilities and locale. Community credit needs often differ based on the specific characteristics of a local community, and different institutions may serve these local credit needs in a variety of ways. Each institution should be evaluated based on its efforts to ascertain the credit needs of its community(ies), and on its performance in helping meet those needs.

There are a number of factors to be considered when assessing an institution's record of helping to meet community credit needs, including those of low- and moderate-income neighborhoods. Institutions are not required to undertake particular activities, because the regulation allows each institution considerable flexibility in determining how it can best help to meet the credit needs of its entire community in view of its resources and capabilities.

In essence, the regulation encourages institutions to become aware of the full range of credit needs of their communities and to offer the types of credit and credit-related services that will help meet those needs. However, the regulation does not require institutions to offer particular types or amounts of credit.

**Examiner Encouragement**

As part of the examination process, the examiner should discuss with management the various ways in which identified weaknesses in CRA performance may be addressed and aspects of an institution's performance may be strengthened. The examiner should not, however, interfere with the institution's responsibility for establishing its policies and programs by insisting on any specific lending programs that involve the making of certain types or amounts of loans.

**Balanced Viewpoint/Use of Outside Contact Information**

An examiner should maintain a balanced perspective in conducting a CRA examination and, whenever possible, should consult sources other than the institution being examined to better understand the credit needs of a particular community. Many city and local governments have extensive information on economic and community development activities that are being undertaken or planned. Regional planning units and major universities sometimes can provide examiners with information to help them understand economic conditions in a particular area. Such contacts can help the examiner gain a more comprehensive understanding of an institution's community. The agencies have agreed that outside information should be routinely shared with the other agencies by means of the uniform Community Contact Form.

**CRA Joint Policy Statement**

On March 21, 1989, the agencies adopted a Joint Policy Statement that was designed to guide institutions and the public regarding the agencies' expectations with respect to the CRA and the policies and procedures the agencies apply during the applications process. It strongly encourages institutions to expand their CRA Statements to include information regarding their record of meeting obligations under the CRA. The Joint Policy Statement also addresses a number of other CRA-related issues, including the need for institutions to have a well-managed process for meeting their responsibilities under the law, including a periodic review of their own CRA performance and the basic components of an effective CRA process. It also indicates some of the various types of activities the agencies have found to be consistent with an effective process for meeting CRA obligations.

**Policy Statement on Geographic Distribution Analysis**

On November 22, 1991, the FFIEC approved a Policy Statement that stresses the need for institutions to analyze the geographic distribution of their lending patterns as part of their CRA planning process, indicates what the agencies expect of the institutions they supervise, and gives them guidance on how to meet these expectations. Examiners should consider the Policy Statement when they assess the extent of board participation and the geographic distribution of lending activity (assessment factors (c) and (e)). Analyses by institution management or agency examiners also should help assess the reasonableness of an institution's community delineation(s) and help form hypotheses to test during the fair housing and fair lending phase of the examination.

As indicated in the Policy Statement, the extent and sophistication of such analyses expected by the agencies will depend on the size and location of the institution. Obviously, institutions in small towns and rural areas, especially small institutions, can perform this analysis in relatively simple, unsophisticated ways. However, if an institution's management does not know where its loans are going, it is unlikely to be carrying out its responsibilities under the CRA.

**Communication, Community Development and Low- and Moderate-Income Neighborhoods**

In assessing an institutions's record of performance, the examiner should remember the emphasis placed on effective communication and community development activities. Communication is important because community needs that can be met on a safe and sound basis are more likely to be met when the community is aware of the types of credit available and the lender is well informed about community credit needs. The agencies encourage all efforts by institutions to ascertain community credit needs and to publicize available credit services. Those efforts include measures to identify the credit needs of low- and moderate-income neighborhoods, and targeted advertising in such neighborhoods.

The CRA also is concerned with activities that foster development in the entire community, including low- and moderate-income neighborhoods. Consequently, the agencies look favorably on housing-related loans and investments, participation in community development programs, and small business financing, including loans to small farms. The examiner should also give positive consideration to the donation, sale on favorable terms, or making available on a rent-free basis any branch located in a predominately minority neighborhood to any minority or women's depository institution.

**Low- and Moderate-Income Neighborhoods**

In determining whether a community delineation is reasonable, the examiner must be alert to situations where low- and moderate-income neighborhoods are arbitrarily excluded.

In most cases institutions and examiners can identify low- and moderate-income neighborhoods by the same approach HUD takes in administering the Community Development Block Grant Program. That program uses census tracts in a MSA where median family income is less than 80 percent of median family income for the entire MSA to approximate such neighborhoods.

Non-MSA areas, especially rural ones, present a particular problem in identifying low- and moderate-income neighborhoods. Beginning with the 1990 census, all counties of the United States are composed of either census tracts or block numbering areas (BNAs). For the BNAs of small, rural counties, the Census Bureau has demographic information similar to that available for the census tracts of MSAs. Even with that information, however, identifying low- and moderate-income neighborhoods in small, rural counties may still present a problem.

In assessing an institution's record, the examiner should focus particular attention on the lender's performance with respect to typical customers in low- and moderate-income neighborhoods within a local community. Examiners should supplement that information with knowledge gained from community contacts, physical inspection as necessary, and discussion with institution personnel.

**Small Business Lending**

The agencies believe small business lending is directly related to the purposes of the CRA. In considering small business lending the examiner should not be concerned with any hard and fast or precise definition of what constitutes a small business. Instead, the examiner should, in particular, consider any loans to local firms whose access to credit is limited to local sources. Loans guaranteed by the Small Business Administration are only one type of small business lending that an examiner should consider in assessing an institution's performance in this area.

EXAMINATION OBJECTIVES

1. To encourage the institution to help meet the credit needs of its local communities, consistent with safe and sound operations.

2. To determine if the institution has established and implemented policies and procedures to ensure that it serves the credit needs of the communities in which it is chartered to do business.

3. To determine if the institution is in compliance with the requirements of the Community Reinvestment Act's implementing regulation.

4. To assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

5. To assess, organize, and prepare information on the institution's CRA record to facilitate the assignment of a CRA rating and the preparation of examination report comments and the public Performance Evaluation.

EXAMINATION PROCEDURES

The procedures below should be used together with the Uniform Interagency Community Reinvestment Act Assessment Rating System. They should enable the examiner to gather the information necessary to form conclusions under the twelve CRA assessment factors that are grouped by five Performance Categories. In formulating conclusions, the examiner must weigh the information gathered in light of the institution's unique ability to serve credit needs.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

1. Determine the extent to which the institution has included credit ascertainment efforts in a formal, written CRA program.

2. Determine the type and extent of contact the institution has with:

   a. Individuals and groups representing civic, religious, minority, small business, commercial and residential development, and neighborhood and fair housing interests, especially those based in or representing low- and moderate-income areas;

   b. Officials from city, county, state and federal governments;

   c. Public programs;

   d. Private, nonprofit developers or financial intermediaries that facilitate public/private partnership activities; and

   e. Trade associations and other business-related organizations.

   Such contacts should be readily described either verbally by the institution's management or through documentation maintained by the institution.

3. For 2a through 2e above, identify the steps or methods the institution undertook to determine community credit needs, including those of low- to moderate-income neighborhoods. Consideration should be given to:

a. Whether the institution uses a written and/or oral survey, a "call" program, or similar approach. If so, identify the members who undertook these efforts;

   b. The regularity and frequency of the effort or activities conducted;

   c. Whether specific community credit needs were identified through these contacts. If so, determine to what extent the institution responded and/or developed credit products to meet those needs. Review these credit products and the frequency of their use, particularly those designed for low- to moderate-income areas;

   d. The adequacy of management's data collection and credit needs ascertainment activities for purposes of CRA planning and management;

   e. The use of available demographic data; and

   f. The extent of participation by appropriate levels of management and staff in credit needs ascertainment.

4. Determine the extent to which the institution systematically and regularly reviews its own credit services in conjunction with community credit needs.

5. Form a conclusion as to the effectiveness of the institution's record in this area.

**Note:** Avoid considering social participation that results in no identification of credit needs or which is unrelated to CRA. Consider only those organizations and contacts that have actually provided information about community credit needs.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

1. Determine how the board of directors and senior management use information obtained from outreach activities to review and reformulate CRA policies and performance.

2. Determine whether the board of directors has a plan for addressing its CRA responsibilities that contains measureable goals and objectives.

3. Determine whether the institution regularly analyzes the geographic distribution of its lending patterns, using available demographic information, and whether such

analyses are reviewed and considered by the board of directors and management, as part of the CRA planning process.

4. Determine the general role that the institution's CRA goals and objectives play in its overall business strategy.

5. Analyze how and the degree to which the board of directors and senior management are involved in the institution's CRA processes including:

   a. Exercising CRA policy oversight;

   b. Reviewing CRA activities and performance related to the institution's own lending goals and objectives;

   c. Performing periodic (at least annual) comprehensive review and analysis of the disposition of credit applications, extensions, and denials to ensure that potential borrowers are treated in a fair and nondiscriminatory manner and that all segments of the delineated community are appropriately served;

   d. Participating in activities designed to develop, improve, and enhance the local community;

   e. Developing prudent but innovative underwriting criteria that help address community credit needs;

   f. Supporting the CRA program by providing adequate, ongoing CRA-related training for institution personnel;

   g. Ensuring that the institution satisfactorily meets the supervisory agency's regulatory requirements, both technical and substantive; and

   h. Expanding the CRA Statement as suggested by the CRA Joint Policy Statement.

7. Form a conclusion as to the effectiveness of the board of director's role in CRA planning and performance.

## II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

1. Determine how the institution makes members of its delineated community aware of the types of loans it offers:

a. Identify each type of loan the institution offers and how it makes the community aware of that type of loan;

b. Identify, if possible, market penetration from the various methods the institution uses (radio-listener profile, newspaper circulation, direct mail penetration, word-of-mouth or officer call programs);

c. Identify efforts to direct credit products to low- and moderate-income neighborhoods;

d. Identify any segments of the community that the institution's marketing methods have not reached; and

e. Identify how the institution's staff helps individuals and groups understand the credit application process (educational activities, special financial analysis workshops, homebuyer workshops, one-on-one counseling and meetings) and apply for credit (help complete applications, referral to other financial sources, interpreters).

2. Review any geographic distribution analysis performed for purposes of Assessment Factor E. If it identified any unreasonable patterns in the distribution of the institution's credit products, determine the degree to which the institution's marketing practices contributed to the unreasonable distribution.

3. Determine the extent of the board's and management's involvement in the marketing activities of the institution as indicated by:

   a. Whether the board has approved the marketing program;

   b. Whether the board is adequately informed and aware of the institution's marketing activities and results; and

   c. Whether the board has taken appropriate follow-up action when deficiencies with the marketing are identified.

4. Form a conclusion regarding the quality and effectiveness of the institution's marketing activities and methods of making the community aware of the credit services the institution offers.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

1. Identify the volume, both in dollars and number, of each type of loan the institution has made or purchased within its delineated community.

2. Identify the volume, both in dollars and number, of each type of loan the institution has made or purchased outside its delineated community.

3. Determine if the institution's CRA Statement is accurate:

   a. Whether the institution actually makes or purchases the types of loans it lists; and

   b. Whether the institution makes or purchases loans it does not list. If so, determine why they are not listed on the CRA Statement.

4. Form a conclusion regarding the volume and types of loans the institution has made or purchased, both within and outside its delineated community, considering its resources, the market demand for these types of loans, and the identified and most pressing credit needs of its community.

<u>Assessment Factor J</u> - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses and small farms.

1. Determine the extent of the board's and management's awareness of government-sponsored loan programs.

2. Identify the volume, both in dollars and number, for each type of loan program in which the institution participates that is within its delineated community.

3. Identify the volume, both in dollars and number, of participation in loan programs outside its delineated community.

4. Form a conclusion regarding the volume and the types of government-sponsored loan programs in which the institution participates, both within and outside its delineated community, considering its resources, the market demand for these types of loans and the identified and most pressing credit needs of its community.

## III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

1. Determine the institution's current community delineation(s), and review any changes since the previous examination. Note any problems that may be evident from an inspection of the maps, such as management's identification of an extremely large or small area as its community for CRA purposes.

2. Determine the method used to prepare and portray the delineation(s). Determine the extent and frequency of management's and the board's review of the delineation(s).

3. Determine whether the institution's community delineation is considered in the institution's planning process.

4. Determine the extent to which, in defining its community, the institution has considered the presence or absence of other providers of financial services, and the specific services that they provide.

5. Analyze the local community delineation(s) that comprise the institution's entire community.

    a. If the institution used the "existing boundaries" method, determine whether the area is of reasonable size for the institution, and whether significant political borders or geographic barriers used to adjust the boundaries improperly exclude adjacent low- or moderate-income areas. Analyze borders and barriers cited by the institution as reasons for adjustment and exclusion.

    Determine whether the board requested and/or management performed any other analyses to support the delineation(s).

    b. If the institution used the "effective lending territory" method, review the geographic distribution analysis performed by management, and determine whether that analysis is sufficient to identify an effective lending territory. Perform necessary validation and testing of management's analysis, and review any adjustments. Determine whether any adjacent low- or moderate-income areas have been excluded. Evaluate the reasons for such exclusion to determine whether the exclusions were proper. Determine whether any other analyses support the delineation(s).

c. If the institution used "any other reasonable" method, determine whether the analysis performed by the institution supports its reasonableness.

d. If the institution conducted "existing boundaries" or "effective lending territory" analyses before arriving at some other delineation, pay particular attention to a resulting delineation(s) that differs significantly from the results indicated by the other analyses. Analyze boundaries and excluded areas for the presence of low- or moderate-income areas.

6. Form a conclusion as to whether the community delineation is reasonable.

<u>Assessment Factor E</u> - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

If the institution performs its own analysis, complete steps 1 - 6; if not, or if the institution's analysis is inadequate, complete steps 7 - 9.

1. Review management's analysis or monitoring of the geographic distribution of credit extensions, applications, and denials.

2. Determine whether management's analysis includes all major product lines, but not necessarily each type of credit offered. Confirm that HMDA data (if HMDA is applicable) are used in performing the analysis.

3. Determine whether any geographic units selected other than census tracts (i.e., minor civil divisions, nine-digit Zip Code areas, etc.) are the most appropriate units available to allow meaningful analysis of loan penetration levels. Determine the adequacy of demographic information for those individual geographic units used in the analysis.

4. Determine whether management has sought explanations for any disparities and/or gaps in distribution, and whether these factors are consistent with the results of the fair housing and fair lending review and the outside contact interviews conducted.

5. Determine the extent to which the information obtained from management's analysis or monitoring is incorporated into the institution's planning process and marketing efforts.

6. Determine the extent to which the board of directors reviews the results of management's analyses and any action plan into which these results are incorporated.

7. If the institution is subject to HMDA or otherwise maintains a mortgage loan application log, review the distribution of home lending activity. For HMDA reporters, reports generated using the agencies' HMDA Analysis System should be utilized for this purpose. If home lending activity does not represent a major product line and the institution does not identify this activity as being particularly responsive to local credit needs, review the distribution of at least one major product line intended by management to address CRA responsibilities. These may include small business, small farm, multifamily housing purchase or rehabilitation, home equity, or other geographically significant loan programs. The use of limited judgmental samples of lending activity may be appropriate for the product line(s) selected, and the review should focus on low-and moderate-income areas.

8. Use available demographic information to identify low- and moderate-income areas. In small towns and rural areas, such identifications may be based upon information obtained from outside contacts, personal knowledge, or physical inspection.

9. Determine whether the distribution demonstrates reasonable penetration of all segments of the community. If the distribution demonstrates an unjustified, disproportionate pattern determine, to the extent possible, the causes of this pattern.

10. Form a conclusion about the appropriateness of the geographic distribution of credit, including applications and denials.

<u>Assessment Factor G</u> - The institution's record of opening and closing offices and providing services at offices.

1. Determine whether the institution has adopted a written policy concerning branch closings. Verify that the policy has been followed in closing any branches since the last examination.

2. Determine whether the institution evaluates the potential impact on its community of any opening and closing of offices, particularly the effect of any reduction in services provided to low- and moderate-income segments of the community.

3. Determine the nature and the extent to which representatives of the community, including the low- and moderate-income areas, have been consulted regarding proposed office closures, and the nature and extent of efforts by the institution to mitigate any adverse impact of such closings on community residents.

4. Determine whether the institution has provided timely advance notification of branch closures to customers (through a lobby notice posted at least 30 days before the proposed closure, and with a regular account statement or in a separate mailing at least 90 days before the proposed closure).

5. Determine whether the institution has provided at least 90 days advance notice to the appropriate supervisory agency of any proposed branch closures, stating the reasons and statistical or other information supporting the decision.

6. Evaluate the accessibility of the institution's offices, including its full service business hours to all segments of the community.

7. Evaluate the appropriateness of services provided at institution offices, and of any mechanism the institution uses to evaluate their effectiveness.

8. Form a conclusion regarding the institution's record under this assessment factor addressing office opening and closings and the provision of services.

## IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Conclusions reached under factors D and F draw upon examination findings pertaining to compliance with the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, Fair Housing Act, the Home Mortgage Disclosure Act, and any agency regulations that address nondiscrimination in credit or housing transactions. Information obtained from outside contact interviews may provide additional insight regarding performance under these factors.

These CRA examination procedures do not substitute for the agency's fair lending examination procedures.

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

1. Based on work performed under the fair lending examination procedures and under the CRA examination procedures for other Assessment Factors:

a. Assess the effectiveness of the institution's efforts to solicit credit applications from all segments of its community. Particular consideration should be given to any practices and activities that discourage or prescreen applicants or potential applicants on a prohibited basis;

b. Assess the adequacy of written policies, procedures, and training programs that address illegal discouragement and prescreening;

c. Determine the effectiveness of internal review systems and/or audit coverage with respect to the policies, procedures and training mentioned above;

d. Determine the effectiveness of management reporting systems with respect to the policies, procedures and training mentioned above; and

e. Form a conclusion regarding the effectiveness of all these efforts, as indicated by a review of consumer complaints received by the institution and the agency, advertisements, discussions with management and staff, and loan application patterns observed in HMDA disclosure statements or analysis reports, loan application registers and other lending records, and the results of outside contact interviews.

<u>Assessment Factor F</u> - Evidence of prohibited discriminatory or other illegal credit practices.

1. Based on work performed under the fair lending examination procedures and under the CRA examination procedures for other Assessment Factors:

    a. Determine the institution's level of compliance with the antidiscrimination laws and regulations, including the ECOA, the FHA, the HMDA and any agency regulations pertaining to nondiscriminatory treatment of credit applicants. Attention should focus on the presence of violations of the substantive provisions of the laws or regulations, and any violations that have been repeated;

    b. Evaluate the adequacy of action taken by management to avoid or correct any deficiencies and/or violations discovered, such as programs to ensure that potential denials of housing-related loans to minorities and low- and moderate-income applicants are reconsidered by a second party before denial; and

c. Determine whether corrective actions were prompt, voluntary and comprehensive in scope.

2. Form a conclusion regarding performance under this assessment factor.

**Note:** Findings presented in the Performance Evaluation should convey the level of supervisory concern that an institution poses, as a result of its compliance (or noncompliance) with the fair lending laws. The write-up should indicate the substance and extent of any deficiencies noted that affect CRA performance, and the adequacy and timeliness of corrective action taken by management.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

1. Determine the level of management awareness of opportunities for involvement in community development and redevelopment projects or programs.

2. Determine the nature of the working relationships the institution has established with government and private sector representatives to identify such opportunities, such as the frequency of contacts and the results obtained.

3. Identify the specific development and redevelopment projects or programs the institution has been involved with including:

   a. The community or communities they affect;

   b. The form of participation (direct loans or loans through intermediaries, technical advice or assistance, investment, financial or in-kind contributions);

   c. The duration of such involvement (whether ongoing or one-time);

   d. The amount of such support or participation; and

   e. Whether the institution has been a leader or follower in these projects/programs.

4. Evaluate the institution's use of nontraditional activities, such as those listed in the answer to Questions 29, 30 and 31 of the interagency question and answer document on CRA. This may be particularly applicable to limited purpose/limited service institutions.

5. Consider information provided by outside community contacts regarding the institution's involvement in development and redevelopment projects or programs.

6. Evaluate the extent to which these activities address the community credit needs identified through the ascertainment process.

7. Form a conclusion about the institution's awareness, and the role and scope of its involvement in community development projects and programs.

<u>Assessment Factor K</u> - The institution's ability to meet various credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

1. Develop a brief profile of the institution and its community including, as appropriate, but not necessarily limited to, asset size, number of branches, business focus during the period under review (retail or wholesale, agricultural, housing, etc.), population, principal industries, and demographic information.

2. Identify any contraints on CRA performance posed by the institution's financial condition and size, legal impediments, local economic conditions and other factors.

3. Evaluate the role the institution has played in promoting economic revitalization and growth.

**Note:** The profile should be carried forward to the public Performance Evaluation under this factor. The Performance Evaluation may mention any formal enforcement action to which the institution is subject, if it has already been made public by the agency and is necessary to support a conclusion under this factor.

<u>Assessment Factor L</u> - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

1. Identify other activities which management believes have contributed to community development. Determine the extent to which such activities have a bearing on CRA performance.

2. Consider information provided by outside community contacts regarding any other CRA-related activities.

3. Determine the extent to which the institution has donated, sold on favorable terms, or made available on a rent-free

basis any branch of such institution which is located in any predominately minority neighborhood to any minority or women's depository institution. For purposes of this procedure "sold on favorable terms" indicates a sale at less than market value. The term "branch" indicates the physical premises and may include the assets and liabilities connected to the premises, as well. A "predominately minority neighborhood" is one that is greater than 50 percent minority.

4. Form a conclusion about the extent to which such activities have helped the institution address community credit needs.

EXAMINATION CHECKLIST

Yes/No

1. Has the board of directors:

   a. Adopted a CRA Statement for each local community?

   b. Approved any material change in each Statement at the first regular meeting after such change occured?

   c. Reviewed each Statement at least annually?

2. Does the institution maintain a "public file" as required?

3. Do the CRA public files contain:

   a. Signed public comments received in the past two years on the institution's CRA Statement or its community lending performance?

   b. Any responses to the comments that the institution elected to make?

   c. CRA Statement(s) in effect during the past two years?

   d. The current evaluation prepared by the supervisory agency?

4. Are public files readily available for public inspection?

5. Are all file materials maintained at the head office, and are file materials relating to each local community maintained at a designated office in that community?

6. Does the CRA Notice contain the required information and a disclosure of the availability of the evaluations to the public?

7. Is a notice provided in the public lobby of institution offices either as a part of the CRA Statement or separately?

8. Does each CRA Statement contain:

   a. A delineation of the institution's entire community, including local communities, if any?

   b. A list of specific types of credit that the institution is prepared to extend within the local community?

Yes/No

c. The required notice including a disclosure of the availability to the public of the evaluation and ratings, either as a part of the Statement or as an attachment?

9. Is the CRA Statement(s) readily available at the head office and at each office of the institution in the local community?

10. If a charge is made for copies of the CRA Statement or the CRA performance evaluation, do records indicate this charge does not exceed the cost of reproduction and any applicable mailing fees?

11. Does the CRA Statement contain the following additional information:

    a. A description of how the institution's current efforts, including special credit-related programs, help to meet local credit needs?

    b. A periodic report on the institution's record of helping to meet community credit needs?

    c. A description of the institution's efforts to ascertain local credit needs, including efforts to communicate with members regarding credit services?

    (Note: Inclusion of these items in the CRA Statement is not required, but is encouraged by regulation.)

12. Was the method used by the institution to define its community reasonable?

13. Does the institution's delineation of community include all low- and moderate-income neighborhoods?

14. Do the types of credit made by the institution correspond to the types of credit listed in the CRA Statement?

15. Do the types of credit the institution has made and is currently making appear reasonable?

16. Do any material changes in the types of credit the institution has made and is currently making appear reasonable?

17. Do the institution's procedures ensure that applications for listed credits are accepted?

Yes/No

18. Are credit and credit-related services at any offices in low- and moderate-income neighborhoods comparable to such services at other similar offices?

19. Does the institution originate or purchase residential mortgage loans, housing rehabilitation loans, and home improvement loans in the local community?

20. Does the institution originate or purchase small business loans or loans to small farms in the local community?

21. Does the institution's financial condition allow it to fully help meet community credit needs?

22. Is the institution aware of unmet credit needs in the community?

23. Does the institution consult with members of its local community about its plans and policies on available credit services?

24. Is the Board of Directors supportive of and involved in the CRA process?

25. Is the Board of Directors involved in approval, review and monitoring of marketing and advertising programs?

26. Are the institution's marketing strategies and advertising responsive to identified community credit needs?

27. Does the institution regularly perform and document analyses of the geographic distribution of its lending?

28. Are the results of geographic distribution analyses considered in establishing and evaluating the CRA program and lending policies?

29. Has the institution taken action to minimize the impact of branch closings?

30. Does the institution have policies in place regarding the closing of branches, and does it follow them?

31. Does the institution give adequate and timely advance notification to customers of any planned branch closures?

32. Does the institution participate in investment in local community development and redevelopment projects or programs?

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