

# Intermediate Small Bank Examination Procedures

## Examination Scope

For banks (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 banks, 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:
  - a. 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;
  - b. The level of the bank's activity in the different assessment areas, including in low- and moderate-income areas, designated disaster areas, or distressed or underserved non-metropolitan 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>
  - c. The number of other financial institutions in the different assessment areas and the importance of the bank under examination in serving the different areas, particularly any areas with relatively few other providers of financial services;
  - d. The existence of apparent anomalies in the reported data for any particular assessment area(s);
  - e. The length of time since the assessment area(s) was last examined using a full scope review;
  - f. The bank's prior CRA performance in different assessment areas;
  - g. Examiners' knowledge of the same or similar assessment areas; and

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

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

- h. Comments from the public regarding the bank's CRA performance.
2. Select one or more assessment areas in each state, and one or more assessment areas in any multi-state MSA, for examination using these procedures. This is required because for interstate banks, a rating must be assigned for each state where the bank has a branch and for each multi-state MSA/MD where the bank has branches in two or more states that comprise that MSA/MD.

## Performance Context

1. Review standardized worksheets and other agency information sources to obtain relevant demographic, economic, and loan data, to the extent available, for each assessment area under review.
2. Obtain for review the Consolidated Reports of Condition (Call Reports), Uniform Bank Performance Reports (UBPRs), annual reports, supervisory reports, and prior CRA evaluations of the bank under examination to help understand the bank'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.
3. Discuss with the bank, and consider, any information the bank 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 bank.
4. Review community contact forms prepared by the regulatory agencies to obtain information that assists in the evaluation of the bank. Contact local community, governmental or economic development representatives to update or supplement this information. Refer to the Community Contact Procedures for more detail.
5. Review any comments received by the bank or the agency since the last CRA examination.
6. By reviewing the public evaluations and other financial data, determine whether any similarly situated financial 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 bank's CRA performance. Consider, for example, whether the information could help identify:

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

## Assessment Area

1. Review the bank's stated assessment area(s) to ensure that it:
  - a. Consists of one or more MSAs/MDs or contiguous political subdivisions (e.g., counties, cities, or towns);
  - b. Includes the geographies where the bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the bank originated or purchased a substantial portion of its loans;
  - c. Consists only of whole census tracts;
  - d. Consists of separate delineations for areas that extend substantially across MSA/MD or state boundaries unless the assessment area is located in a multistate MSA/MD;
  - e. Does not reflect illegal discrimination; and
  - f. Does not arbitrarily exclude any low- or moderate-income area(s), taking into account the bank's size, branching structure, and financial condition.
2. If a bank'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 bank to reasonably serve, have an unusual configuration, or include significant geographic barriers.

3. If the assessment area(s) fails to comply with the applicable criteria described above, develop, based on discussions with management, a revised assessment area(s) that complies with the criteria. Use this assessment area(s) to evaluate the bank's performance, but do not otherwise consider the revision in determining the bank's rating.

## Intermediate Small Bank Lending Test Performance Criteria

### Loan-to-Deposit Analysis

1. From data contained in Call Reports or UBPRs, calculate the average loan-to-deposit ratio since the last examination by adding the quarterly loan-to-deposit ratios and dividing by the number of quarters.
2. Evaluate whether the bank's average loan-to-deposit ratio is reasonable in light of information from the performance context including, as applicable, the bank's capacity to lend, the capacity of other similarly situated financial 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 bank's assessment area(s).
3. If the loan-to-deposit ratio does not appear reasonable in light of the performance context, consider whether the number and the dollar amount of loans sold to the secondary market compensate for a low loan-to-deposit ratio or supplement the bank's lending performance.
4. Summarize in work papers conclusions regarding the bank's loan-to-deposit ratio.

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

1. If available, review HMDA data, automated loan reports, and any other reports that may have been generated by the bank to analyze the extent of lending inside and outside of the assessment area(s). If a report generated by the bank is used, test the accuracy of the output.
2. If loan reports or data analyzing lending inside and outside of the assessment area(s) are not available or comprehensive, or if their accuracy cannot be verified, use sampling guidelines to select a sample of loans originated, purchased or committed to calculate the percentage (by number and dollar volume) located within the assessment area(s).
3. If the percentage of loans or other lending related activities in the assessment area is less than a majority, then the bank 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 bank'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 bank.

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

#### Distribution of Credit within the Assessment Area(s)

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

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

#### Review of Complaints

1. Review all complaints relating to the bank's CRA performance received by the bank (these should all be contained in the bank's public file) and those that were received by its supervisory agency.
2. If there were any complaints, evaluate the bank's record of taking action, if warranted, in response to written complaints about its CRA performance.
3. If there were any complaints, discuss the preliminary findings in this section with management.
4. If there were any complaints, summarize in work papers conclusions regarding the bank'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.
5. Discuss the preliminary findings in the lending test section with management.

**INTERMEDIATE SMALL BANK LENDING TEST RATINGS MATRIX**

CHARACTERISTIC	OUTSTANDING	SATISFACTORY	NEEDS TO IMPROVE	SUBSTANTIAL NONCOMPLIANCE
Loan-to-deposit ratio	The loan-to-deposit ratio is more than reasonable (considering seasonal variations and taking into account lending-related activities) given the bank's size, financial condition, and assessment area credit needs.	The loan-to-deposit ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the bank's size, financial condition, and assessment area credit needs.	The loan-to-deposit ratio is less than reasonable (considering seasonal variations and taking into account lending-related activities) given the bank's size, financial condition, and assessment area credit needs.	The loan-to-deposit ratio is unreasonable (considering seasonal variations and taking into account lending-related activities) given the bank's size, financial condition, and assessment area credit needs.
Assessment area(s) concentration	A substantial majority of loans and other lending related activities are in the bank's assessment area(s).	A majority of loans and other lending related activities are in the bank's assessment area(s).	A majority of loans and other lending related activities are outside the bank's assessment area(s).	A substantial majority of loans and other lending related activities are outside the bank's assessment area(s).
Geographic distribution of loans	The geographic distribution of loans reflects excellent dispersion throughout the assessment area(s).	The geographic distribution of loans reflects reasonable dispersion throughout the assessment area(s).	The geographic distribution of loans reflects poor dispersion throughout the assessment area(s).	The geographic distribution of loans reflects very poor dispersion throughout the assessment area(s).
Borrower's profile	The distribution of borrowers reflects, given the demographics of the assessment area(s), excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.	The distribution of borrowers reflects, given the demographics of the assessment area(s), reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.	The distribution of borrowers reflects, given the demographics of the assessment area(s), poor penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.	The distribution of borrowers reflects, given the demographics of the assessment area(s), very poor penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
Response to substantiated complaints	The bank has taken noteworthy, creative action in response to substantiated complaints about its performance in meeting assessment area credit needs.	The bank has taken appropriate action in response to substantiated complaints about its performance in meeting assessment area credit needs.	The bank has taken inadequate action in response to substantiated complaints about its performance in meeting assessment area credit needs.	The bank is unresponsive to substantiated complaints about its performance in meeting assessment area credit needs.

## Intermediate Small Bank Community Development Test

An bank should appropriately assess the needs in its community, engage in different types of community development activities based on those needs and the bank'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 banks to focus on meeting the substance of community needs through these activities. Examiners will consider the results of any assessment by the bank of community needs along with information from community, government, civic, and other sources to gain a working knowledge of community needs.

1. Identify the number and amount of the bank's community development loans, qualified investments, and community development services. Obtain this information through discussions with management, HMDA data collected by the bank, as applicable; investment portfolios; any other relevant financial records; and materials available to the public. Include, at the bank's option:
  - a. Community development loans, qualified investments, and community development services provided by affiliates, if they are not claimed by any other bank; and
  - b. Community development lending by consortia or third parties.
2. Review community development loans, qualified investments, and community development services to verify that they qualify as community development.
3. If the bank participates in community development lending by consortia or third parties, or claims activities provided by affiliates, review records provided to the bank by the consortia or third parties or affiliates to ensure that the community development loans claimed by the bank do not account for more than the bank's share (based on the level of its participation or investment) of the total loans originated by the consortium or third party.
4. Considering the bank's capacity and constraints and other information obtained through the performance context review, form conclusions about:
  - a. The number and amount of community development loans and qualified investments;
  - b. The extent to which the bank 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.
  - c. The responsiveness to the opportunities for community development lending, qualified investments, and community development services, considering:



- 1) The results of any assessment of community development needs and opportunities provided by the bank;
  - 2) The examiner’s review of performance context information from community, government, civic, and other sources; and
  - 3) 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.
5. Summarize conclusions regarding the bank’s community development performance and retain in the work papers.

**INTERMEDIATE SMALL BANK COMMUNITY DEVELOPMENT TEST RATING MATRIX**

OUTSTANDING	SATISFACTORY	NEEDS TO IMPROVE	SUBSTANTIAL NONCOMPLIANCE
<p>The bank’s community development performance demonstrates excellent responsiveness to community development needs in its assessment area(s) through community development loans, qualified investments, and community development services, as appropriate, considering the bank’s capacity and the need and availability of such opportunities for community development in the bank’s assessment area(s).</p>	<p>The bank’s community development performance demonstrates adequate responsiveness to the community development needs of its assessment area(s) through community development loans, qualified investments, and community development services, as appropriate, considering the bank’s capacity and the need and availability of such opportunities for community development in the bank’s assessment area(s).</p>	<p>The bank’s community development performance demonstrates poor responsiveness to the community development needs of its assessment area(s) through community development loans, qualified investments, and community development services, as appropriate, considering the bank’s capacity and the need and availability of such opportunities for community development in the bank’s assessment area(s).</p>	<p>The bank’s community development performance demonstrates very poor responsiveness to the community development needs of its assessment area(s) through community development loans, qualified investments, and community development services, as appropriate, considering the bank’s capacity and the need and availability of such opportunities for community development in the bank’s assessment area(s).</p>

## Overall Intermediate Small Bank CRA Rating

1. Group the analyses of the assessment areas examined by MSA<sup>3</sup> and non-MSA areas within each state where the bank has branches. If a bank has branches in two or more states of a multi-state MSA, group the assessment areas that are in that MSA.
2. Summarize conclusions about the bank'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:
  - a. The significance of the bank's activities in each compared to the bank's overall activities;
  - b. The retail lending and community development opportunities in each;
  - c. The importance of the bank in providing loans and community development activities to each, particularly in light of the number of other banks and the extent of their activities in each; and
  - d. Demographic and economic conditions in each.
3. For assessment areas in MSAs and non-MSA areas that were not examined using these procedures, consider facts and data related to the bank'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 which received full scope reviews.
4. For banks operating in only one multi-state MSA or one state, assign one of the four preliminary ratings – "Satisfactory," "Outstanding," "Needs to Improve," or "Substantial Noncompliance" – in accordance with step 6 below. To determine the relative significance of each MSA and non-MSA area to the bank's preliminary rating, consider:
  - a. The significance of the bank's activities in each compared to the bank's overall activities;
  - b. The retail lending and community development opportunities in each;
  - c. The importance of the bank to each, particularly in light of the number of other banks and the extent of their activities in each; and
  - d. Demographic and economic conditions in each.

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<sup>3</sup> MSA may include MD

5. For other banks, assign one of the four preliminary ratings -- "Satisfactory," "Outstanding," "Needs to Improve," or "Substantial Noncompliance" -- for each state in which the bank has at least one branch and for each multi-state MSA in which the bank has branches in two or more states in accordance with step #6 below. To determine the relative significance of each MSA and the non-MSA area on the bank's preliminary state rating, consider:
  - a. The significance of the bank's activities in each compared to the bank's overall activities;
  - b. The retail lending and community development opportunities in each;
  - c. The importance of the bank in each, particularly in light of the number of other banks and the extent of their activities in each; and
  - d. Demographic and economic conditions in each.
6. Consult the intermediate small bank ratings matrices (lending and community development) and information in work papers to assign a preliminary rating of:
  - a. "Satisfactory" if the bank's performance is rated as "Satisfactory" in each test.
  - b. "Needs to Improve" or "Substantial Noncompliance," depending upon the degree to which the bank's performance has failed to meet the standards for a "Satisfactory" rating on a test; or
  - c. "Outstanding" if the bank is rated an "Outstanding" on both tests; or "Outstanding" on one test and the extent to which the bank meets or exceeds the "Satisfactory" criteria on the other test.
7. For an bank with branches in more than one state or multi-state MSA, assign a preliminary rating to the bank as a whole taking into account the bank's record in different states or multi-state MSAs by considering:
  - a. The significance of the bank's activities in each compared to the bank's overall activities;
  - b. The retail lending and community development opportunities in each;
  - c. The importance of the bank in providing loans to each, particularly in light of the number of other financial institutions and the extent of their activities in each; and
  - d. Demographic and economic conditions in each.

8. Review the results of the most recent compliance examination and determine whether evidence of discriminatory or other illegal credit practices should lower the bank's overall CRA rating or, if applicable, its CRA rating in any state or multi-state MSA. If evidence of discrimination or other illegal credit practices in any geography by the bank, or in any assessment area by any affiliate whose loans were considered as part of the bank's lending performance, was found, consider:
  - a. The nature, extent, and strength of the evidence of the practices;
  - b. The policies and procedures that the bank (or affiliate, as applicable) has in place to prevent the practices;
  - c. Any corrective action that the bank (or affiliate, as applicable) has taken, or has committed to take, including voluntary corrective action resulting from self-assessment; and
  - d. Any other relevant information.
9. Assign a final rating for the bank as a whole and, if applicable, each state in which the bank has at least one branch and each multi-state MSA in which it has branches in two or more states, considering:
  - a. The bank's preliminary rating; and
  - b. Any evidence of discriminatory or other illegal credit practices.
10. Discuss conclusions with management.
11. Write an evaluation of the bank's performance for the examination report and the public evaluation.
12. Prepare recommendations for a supervisory strategy and for matters that require attention or follow-up activities.

## Public File Checklist

1. There is no need to review each branch or each complete public file during every examination. In determining the extent to which the bank's public files should be reviewed, consider the bank'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 bank's compliance with the public file requirements, and any other relevant information.

2. In any review of the public file undertaken, determine whether branches display an accurate public notice in their lobbies, a complete public file is available in the bank's main office and at least one branch in each state, and the public file(s) in the main office and in each state contain:
  - a. All written comments from the public relating to the bank's CRA performance and any 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 bank);
  - b. The bank's most recent CRA Performance Evaluation;
  - c. A map of each assessment area showing its boundaries and, on the map or in a separate list, the geographies contained within the assessment area;
  - d. A list of the bank's branches, branches opened and closed during the current and each of the prior two calendar years, their street addresses and geographies;
  - e. A list of services (loan and deposit products and transaction fees generally offered, and hours of operation at the bank's branches), including a description of any material differences in the availability or cost of services between those locations;
  - f. The bank's loan-to-deposit ratio for each quarter of the prior calendar year;
  - g. A quarterly report of the bank's efforts to improve its record if it received a less than satisfactory rating during its most recent CRA examination; and
  - h. HMDA Disclosure Statements for the prior two calendar years for the bank and for each non-depository affiliate the bank has elected to include in assessment of its CRA record, if applicable.
3. In any branch review undertaken, determine whether the branch provides the most recent public evaluation and a list of services generally available at its branches 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 branch).