Intermediate Small Bank

On July 19, 2005, the FDIC, FRB, and OCC jointly approved amendments to the CRA regulations which took effect on September 1, 2005. Among the revisions to the regulations, "intermediate small banks" are defined under §345.12 (u) as small banks with assets of at least $250 million as of December 31 of both of the prior two calendar years and less than $1 billion as of December 31 of either of the prior two calendar years (these asset figures may be adjusted annually). These banks are evaluated under two tests: the small bank lending test and a community development test.

Intermediate small institutions are not required to collect and report CRA loan data for small business, small farm, and community development loans. Nevertheless, the CRA regulations continue to allow small institutions, including intermediate small institutions, to opt for an evaluation under the (large bank) lending, investment, and service tests, provided the data is collected and reported.

To evaluate the distribution of loans under intermediate small bank procedures, examiners should review loan files, bank reports, or any other information or analyses a bank may provide. To evaluate community development loans, investments, and services under the intermediate small bank community development test, examiners will review (1) any information a bank may provide, including the results of any assessment of community development needs or opportunities if conducted by the bank, and (2) performance context information obtained by examiners from community, government, civic or other sources.

Intermediate Small Institution Examination Procedures

Examination Scope

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

1. To identify assessment areas for full scope review, review prior CRA performance evaluations, available community contact materials, and reported lending data and demographic data on each assessment area. Consider factors such as:
    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 institution'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[1] based on (a) rates of poverty, unemployment, and population loss or (b) population size, density, and dispersion;[2]
    c. The number of other institutions in the different assessment areas and the importance of the institution under examination in serving the different areas, particularly any areas with relatively few other providers of financial services;
    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 institution's prior CRA performance in different assessment areas;
    g. Examiners' knowledge of the same or similar assessment areas; and
    h. Comments from the public regarding the institution'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 institutions, a rating must be assigned for each state where the institution has a branch and for each multi-state MSA/MD where the institution 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 institution under examination to help understand the institution's ability and capacity, including any limitations imposed by size, financial condition, or statutory, regulatory, economic or other constraints, to respond to safe and sound opportunities in the assessment area(s) for retail loans, and community

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

2 A list of distressed or undeserved non-metropolitan middle-income geographies will be made available on the FFIEC web site at www.ffiec.gov.

development loans, qualified investments and community development services.

3. Discuss with the institution, and consider, any information the institution may provide about its local community and economy, including community development needs and opportunities, its business strategy, its lending capacity, or information that otherwise assists in the evaluation of the institution.
4. Review community contact forms prepared by the regulatory agencies to obtain information that assists in the evaluation of the institution. Contact local community, governmental or economic development representatives to update or supplement this information. Refer to the Community Contact Procedures for more detail.
5. Review any comments received by the institution or the agency since the last CRA examination.
6. By reviewing the public evaluations and other financial data, determine whether any similarly situated institutions (in terms of size, financial condition, product offerings, and business strategy) serve the same or similar assessment area(s) and would provide relevant and accurate information for evaluating the institution's CRA performance. Consider, for example, whether the information could help identify:
    a. Lending and community development opportunities available in the institution's assessment area(s) that are compatible with the institution's business strategy and consistent with safe and sound banking practices;
    b. Constraints affecting the opportunities to make safe and sound retail loans, community development loans, qualified investments, and community development services compatible with the institution's business strategy in the assessment area(s); and
    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 institution's performance.

Assessment Area

1. Review the institution'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 institution has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originated or purchased a substantial portion of its loans;
    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 institution's size, branching structure, and financial condition.
2. If an institution's assessment area(s) does not coincide with the boundaries of an MSA/MD or political subdivision(s), assess whether the adjustments to the boundaries were made because the assessment area would otherwise be too large for the institution to reasonably serve, have an unusual configuration, or include significant geographic barriers.
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 institution's performance, but do not otherwise consider the revision in determining the institution's rating.

Intermediate Small Institution 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 institution's average loan-to-deposit ratio is reasonable in light of information from the performance context including, as applicable, the institution's capacity to lend, the capacity of other similarly situated institutions to lend in the assessment area(s), demographic and economic factors present in the assessment area(s), and the lending opportunities available in the institution's assessment area(s).
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 institution's lending performance.
4. Summarize in work papers conclusions regarding the institution'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 institution to analyze the extent of lending inside and

outside of the assessment area(s). If a report generated by the institution is used, test the accuracy of the output.

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 institution does not meet the standards for "Satisfactory" under this performance criterion. In this case, consider information from the performance context, such as information about economic conditions, loan demand, the institution's size, financial condition, branching network, and business strategies when determining the effect of not meeting the standards for satisfactory for this criterion on the overall rating for the institution.
4. Summarize in work papers conclusions regarding the institution's level of lending or other lending related activities inside and outside of its assessment area(s).

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 institution's loans in its assessment area(s).
2. If a geographic distribution analysis of the institution's loans would be meaningful and the necessary geographic information (street address or census tract number) is collected by the institution in the ordinary course of its business, determine the distribution of the institution's loans in its assessment area(s) among low-, moderate-, middle-, and upper-income geographies. Where possible, use the same loan reports, loan data, or sample used to compare credit extended inside and outside the assessment area(s).
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 institutions are not expected to lend in every geography.
4. To the extent information about borrower income (individuals) or revenues (businesses) is collected by the institution in the ordinary course of its business, determine the distribution of loans in the assessment area(s) by borrower income and by business revenues. Where possible, use the same loan reports, loan data, or sample used to compare credit extended inside and outside the assessment area(s).
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 institution'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 institution'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 institution's assessment area(s).

Review of Complaints

1. Review all complaints relating to the institution's CRA performance received by the institution (these should all be contained in the institution's public file) and those that were received by its supervisory agency.
2. If there were any complaints, evaluate the institution'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 institution's record of taking action, if warranted, in response to written complaints about its CRA performance. Include the total number of complaints and resolutions with examples that illustrate the nature, responsiveness to, and resolution of, the complaints.
5. Discuss the preliminary findings in the lending test section with management.