Wholesale/Limited Purpose Institution

In order to be evaluated under the community development test, an institution must be designated as a wholesale or limited purpose institution following submission of a written request to and approval from its primary regulator. Once an institution has received a designation, it will not normally have to reapply for that designation. The designation will remain in effect until the institution requests that it be revoked or until one year after the agency determines that the institution no longer satisfies the criteria for designation and notifies the institution of this determination. As such, examiners should analyze the bank's operations to determine whether or not any significant changes result in the institution no longer satisfying the criteria for designation.

Wholesale or limited purpose institutions are evaluated on the basis of their:

- Community development lending, qualified investments, or community development services;
- Use of innovative or complex qualified investments, community development loans, or community development services and the extent to which investments are not routinely provided by private investors; and
- Responsiveness to community credit and development needs.

Examiners must be cognizant of the context within which a wholesale or limited purpose institution operates. Examiners should recognize that these institutions may tailor their community development activities based on their own circumstances and the community development opportunities available to them in their assessment areas or the broader statewide or regional areas that include the assessment areas.

Institutions need not engage in all three categories of community development activities to be considered satisfactory under the community development test. Community development loans, investments and services can be directed to a statewide or regional market that includes the institution's assessment area(s) and still qualify for consideration under the community development test as benefiting the assessment area(s). Moreover, if an institution has a satisfactory community development record in its assessment area(s), all community development activities regardless of their locations should be considered.

As with other performance tests, in applying the community development test, examiners should perform only those analyses that are necessary to reach an accurate conclusion about the institution's performance, use all available, reliable information, and avoid duplication of effort to reduce burden.

Examination Procedures for Limited Purpose and Wholesale Institutions

Examination Scope

1. For institutions with more than one assessment area, identify assessment areas for full scope review. In making those selections, review prior performance evaluations, available community contact materials, reported lending data and demographic data on each assessment area and consider factors such as:
   a. The lending, investment, and service activity in the different assessment areas, particularly community development activities;
   b. The lending, investment, and service opportunities available in the different assessment areas, particularly community development opportunities;
   c. The length of time since the assessment area(s) received a full scope review;
   d. The institution's prior CRA performance in different assessment areas;
   e. The number of other institutions in the assessment areas and the importance of the institution under examination in addressing community development needs in the different assessment areas, particularly in areas with a limited number of financial service providers;
   f. The existence of apparent anomalies in the reported HMDA data for any particular assessment area;
   g. Examiners' knowledge of the same or similar assessment areas; and
   h. Comments from the public regarding the institution's CRA performance.
2. For interstate institutions, a rating must be assigned for each state where the institution has a branch and for each multi-state metropolitan statistical areas/metropolitan divisions (MSA/MD) where the institution has branches in two or more of the states that comprise the multi-state MSA/MD. Select one or more assessment areas in each state for examination using the full scope procedures.

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. Consider, among other things, whether housing costs are particularly high in relation to area median income.
2. Consider any information the institution may provide on its local community and economy and its community development lending, qualified investment, and community development service capacity or that

otherwise assists in the evaluation of the institution's community development activities.

3. Review community contact forms prepared by the regulatory agencies to obtain information that assists in the evaluation of the institution's community development activities. Contact local community, government, or economic development representatives to update or supplement information about community development activities in the assessment area(s) or the broader statewide or regional areas of which the assessment area(s) is a part.
4. Identify barriers, if any, to participation by the institution in local community development activities. For example, evaluate the institution's ability and capacity to help meet the community development needs of its assessment area(s) through a review of the uniform bank performance report (UBPR), the consolidated report of condition (Call Report), annual reports, supervisory reports, prior CRA performance evaluations, and financial information for other wholesale/limited purpose institutions serving approximately the same assessment area(s).
5. Review the institution's public file and any comments received by the institution or the agency since the last CRA performance evaluation for information that assists in the evaluation of the institution.
6. Document the performance context information gathered for use in evaluating the institution's CRA record.

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 (i.e., counties, cities, or towns) where the institution has its main office, branches, and deposit-taking ATMs;
   b. Consists only of whole census tracts;
   c. 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;
   d. Does not reflect illegal discrimination; and
   e. Does not arbitrarily exclude any low- or moderate-income area(s) taking into account the institution's size and financial condition.
2. If the 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.

Community Development Test

1. Identify the number and amount of the institution's community development loans, (originations and purchases of loans and any other data the institution chooses to provide), qualified investments, and community development services. Obtain this information through discussions with management, HMDA data collected by the institution, as applicable; investment portfolios; any other relevant financial records; and materials available to the public. Include, at the institution's option:
   a. Community development loans, qualified investments, and community development services provided by affiliates, if they are not claimed by any other institution; 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 institution participates in community development lending by consortia or third parties, or claims activities provided by affiliates, review records provided to the institution by the consortia or third parties or affiliates to ensure that the community development loans claimed by the institution do not account for more than the institution's share (based on the level of its participation or investment) of the total loans originated by the consortium or third party.
4. Considering the institution's capacity and constraints and other information obtained through the performance context review, form conclusions about:
   a. The extent, by number and dollar amount of community development loans, services, and qualified investments;
   b. The degree of innovation in community development activities (e.g., serving low- or moderate-income borrowers in new ways or serving groups of creditworthy borrowers not previously served by the institution);
   c. The complexity of those community development activities, such as the use of enhancements or other features specifically designed to expand community development lending;

d. The responsiveness to the opportunities for community development lending, qualified investments, and community development services; and

e. The degree to which the institution's qualified investments serve needs not routinely provided by other private investors.

5. Summarize conclusions regarding the institution's community development performance and retain in the work papers.

Ratings

1. Review the analyses of the institution's performance in each assessment area examined, considering only those community development activities that benefit the assessment area(s) and the broader statewide or regional area(s) that include the assessment area(s).
2. Group the analyses of the assessment areas examined by MSA[1] and nonmetropolitan areas within each state where the institution has branches. If an institution has branches in two or more states of a multi-state MSA, group the assessment areas in that MSA.
3. Summarize conclusions about the institution's performance in each MSA and the nonmetropolitan portion of each state in which an assessment area was examined using these procedures. If two or more assessment areas in an MSA or in the nonmetropolitan portion of a state were examined using these procedures, determine the relative significance of the institution's performance in each assessment area by considering:
   a. The significance of the institution's activities in each compared to the institution's overall activities;
   b. The community development opportunities in each;
   c. The significance of the institution's activities for each, particularly in light of the number of other institutions and the extent of their activities in each; and
   d. Demographic and economic conditions in each.
4. For assessment areas in MSAs and nonmetropolitan areas that were not examined, consider facts and data related to the institution's community development lending, investment, and service activities to ensure that performance in those areas is not inconsistent with the conclusions based on the assessment areas examined.
5. Assign a preliminary rating for an institution with operations in one state only using the Community Development Ratings Matrix. For an institution with operations in more than one state or multi-state MSA, assign a preliminary rating for each state, using the Community Development Ratings Matrix. To determine the relative significance of each MSA and nonmetropolitan area to the institution's overall rating (institutions operating in only one state) or state-wide or multi-state MSA rating (institutions operating in more that one state), consider:
   a. The significance of the institution's activities in each compared to the institution's overall activities;
   b. The community development opportunities in each;
   c. The significance of the institution's activities for each, particularly in light of the number of other institutions and the extent of their activities in each; and
   d. Demographic and economic conditions in each.
6. For institutions with operations in more than one state or multi-state MSA, assign a preliminary rating for the institution as a whole. To determine the relative significance of each state or multi-state MSA consider:
   a. The significance of the institution's activities in each compared to the institution's overall activities;
   b. The community development opportunities in each;
   c. The significance of the institution's activities for each, particularly in light of the number of other institutions and the extent of their activities in each; and
   d. Demographic and economic conditions in each.
7. If the institution is adequately meeting the community development needs of each of its assessment area(s), consider those community development activities, if any, that benefit areas outside of the assessment area(s) or a broader statewide or regional area that includes the assessment area(s). Determine whether those activities enhance the preliminary rating. If so, adjust the rating(s) accordingly.
8. Consider an institution's past performance if the prior rating was "Needs to Improve." If the poor performance has continued, an institution could be considered for a "Substantial Noncompliance" rating.
9. Review the results of the most recent compliance examination and determine whether evidence of discrimination or other illegal credit practices that violate an applicable law, rule, or regulation should lower the institution's preliminary composite rating or the preliminary CRA rating for a state or multistate MSA.[2] If evidence of discrimination or other illegal credit practices by the institution in any geography, or in any assessment area by any affiliate whose loans have been considered as

1 The reference to MSA may also reference MD.

2 "Evidence of discriminatory or other illegal credit practices" includes, but is not limited to: (a) Discrimination against applicants on a prohibited basis in violation, for example, of the Equal Credit Opportunity Act or the Fair Housing Act; (b) Violations of the Home Ownership and Equity Protection Act; (c) Violations of section 5 of the Federal Trade Commission Act; (d) Violations of section 8 of the Real Estate Settlement Procedures Act; and (e) Violations of the Truth in Lending Act regarding a consumer's right of rescission.

part of the bank's lending performance, was found, consider the following:

a. The nature, extent, and strength of the evidence of the practices;

b. The policies and procedures that the institution (or affiliate, as applicable) has in place to prevent the practices;

c. Any corrective action the institution (or affiliate, as applicable) has taken, or has committed to take, including voluntary corrective action resulting from self-assessment; and

d. Any other relevant information.

10. Assign a final composite rating to the institution, considering the preliminary rating and any evidence of discriminatory or other illegal credit practices, and discuss conclusions with management.

11. Write comments for the public evaluation and examination report.

12. Prepare recommendations for supervisory strategy and matters that require attention for 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 institution's public files should be reviewed, consider the institution's record of compliance with the public file requirements in previous examinations, its branching structure and changes to it since its last examination, complaints about the institution's compliance with the public file requirements, and any other relevant information.

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 institution'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 institution'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 institution);

   b. The institution'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 institution'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 institution's branches), including a description of any material differences in the availability or cost of services between those locations;

   f. The institution's CRA Disclosure Statement(s) for the prior two calendar years;

   g. A quarterly report of the institution's efforts to improve its record if it received a less than satisfactory rating during its most recent CRA examination;

   h. HMDA Disclosure Statements for the prior two calendar years and those of each non-depository affiliate the institution has elected to include in assessment of its CRA record, if applicable; and

   i. If applicable, the number and dollar amount of consumer loans made to the four income categories of borrowers and geographies (low-, moderate-, middle-, and upper-income), located inside and outside of the assessment area(s).

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).

Public Notice

Determine that the appropriate CRA public notice is displayed as required by § 345.44 and Appendix B.

Community Development Ratings Matrix — Wholesale/Limited Purpose Institutions				
Community Development Test Characteristic	**Outstanding**	**Satisfactory**	**Needs to Improve**	**Substantial Noncompliance**
Investment, Loan, and Service Activity	The institution has a high level of community development services, or qualified investments, particularly investments that are not routinely provided by private investors	The institution has an adequate level of community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors.	The institution has a poor level of community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors.	The institution has few, if any, community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors.
Investment, Loan, and Service Initiatives	The institution extensively uses innovative or complex qualified investments, community development loans, or community development services.	The institution occasionally uses innovative or complex qualified investments, community development loans, or community development services.	The institution rarely uses innovative or complex qualified investments, community development loans, or community development services.	The institution does not use innovative or complex qualified investments, community development loans, or community development services.
Responsiveness to Community Development Needs	The institution exhibits excellent responsiveness to credit and community economic development needs in its assessment area(s).	The institution exhibits adequate responsiveness to credit and community economic development needs in its assessment area(s).	The institution exhibits poor responsiveness to credit and community economic needs in its assessment area(s).	The institution exhibits very poor responsiveness to credit and community economic development needs in its assessment area(s).