

**Decision of the  
Supervision Appeals Review Committee  
In the Matter of \* \* \*Case No. 2024-09**

***I. Summary***

In this appeal, \* \* \* (Bank) appeals its “Needs to Improve” rating under the Community Reinvestment Act (CRA) for the Bank’s [State] assessment area.

After consideration of the timely filed written submissions of the parties and the record of this case, and following the deliberative meeting of this Committee, the Committee finds in favor of the Bank.

***II. Procedural History***

This appeal concerns a determination made by the FDIC’s \* \* \* Regional Office during a [Date], 2024 Compliance and CRA examination of the Bank. Examiners assigned an overall “Satisfactory” rating for the Bank under the CRA, but assigned a “Needs to Improve” rating for the [State] Assessment area.

On July 5, 2024, the Bank filed a request for review of the “Needs to Improve” rating with the Director of the Division of Depositor and Consumer Protection (DCP). In a decision dated August 19, 2024, the Director upheld the rating.

The Bank timely filed an appeal with this Committee, which met to hear oral presentation from the parties and consider the appeal on October 24, 2025.

In accordance with the FDIC’s Guidelines for Appeals of Material Supervisory Determinations (Guidelines),<sup>1</sup> the Committee reviewed the appeal for consistency with the policies, practices, and mission of the FDIC, and the reasonableness of, and the support offered for, the positions of the parties. Under the Guidelines, the burden of proof rests with the Bank.

***III. Community Reinvestment Act***

The CRA is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound banking operations. The federal banking agencies have each

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<sup>1</sup> 87 FR 77112 (Dec. 16, 2022) (available at <https://www.fdic.gov/resources/regulations/appeals-of-material-supervisory-determination>).

adopted implementing regulations and have issued, through the Federal Financial Institutions Examination Council (FFIEC), CRA examination procedures.

Under the CRA examination procedures, institutions are evaluated in one or more assessment areas. Institutions identify the geographic borders of their proposed assessment area, which must meet certain regulatory requirements.<sup>2</sup>

CRA examination procedures vary based upon the asset size of the institution. The Bank, which had assets of \* \* \* million at the time of the examination, is evaluated as an intermediate small institution. For such institutions, the FDIC applies a *lending test* and a *community development test*.<sup>3</sup> To receive a “Satisfactory” overall rating, an intermediate small institution must have a rating of at least “Satisfactory” on both the lending test and the community development test.

#### *Lending Test*

The lending test evaluates a bank’s record of helping to meet the credit needs of its assessment area through its lending activities, considering five criteria: the bank’s loan-to-deposit ratio; the percentage of loans located in the bank’s assessment area; the bank’s record of lending to borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of the bank’s loans; and the bank’s record of taking action in response to written complaints about its performance in meeting credit needs in the assessment area.<sup>4</sup>

#### *Community Development Test*

The community development test evaluates a bank’s record of engaging in community development activities, considering four factors: the number and amount of community development loans; the number and amount of qualified investments; the extent to which the bank provides community development services; and the bank’s responsiveness through such activities to community development lending, investment, and service needs.<sup>5</sup>

### ***IV. Examination Findings***

The Bank’s [State] Assessment Area consists of three neighboring counties, one of which includes [town] with \* \* \* residents as of the 2020 census, where the Bank maintains a branch.<sup>6</sup> The same county also includes [city], the county seat with \* \* \* residents as of the 2020 census, approximately \* \* \* miles from the Bank’s branch location.

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<sup>2</sup> For example, the assessment area must consist only of whole geographies, must not arbitrarily exclude any LMI areas, and must include the geographies where the institution has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originates or purchases a substantial portion of its loans. See 12 C.F.R. 345.41 (2024).

<sup>3</sup> 12 C.F.R. 345.22, 345.25.

<sup>4</sup> 12 C.F.R. 345.26(b).

<sup>5</sup> 12 C.F.R. 345.26(c).

<sup>6</sup> The Bank has operations in multiple states, but the examiners’ findings with respect to those assessment areas are not discussed here because they were not disputed.

Examiners assigned a “Needs to Improve” rating under the lending test, noting that the Bank originated low levels of small farm and small business loans during the review period. The geographic distribution and borrower penetration also demonstrated, in examiners’ view, poor dispersion and penetration throughout the assessment area. The overall volume of lending was found to be “not commensurate” with the opportunities available in the assessment area. This conclusion was based on, among other things, examiners’ comparison of the Bank with a similarly situated institution in the region, discussions with a community contact, and a review of statistics that captured levels of business formation in the assessment area in the years preceding the review period.

Examiners also assigned a “Needs to Improve” rating under the community development test. This conclusion was based on the Bank’s failure to originate any community development loans in the assessment area and the Bank’s volume of qualified investments and community development services.

#### ***V. Parties’ Positions***

The Bank’s overarching argument is that the evaluation of the Bank in the assessment area reflects a much broader geography than where the Bank’s branch operates, and that the evaluation was skewed by the much larger population and set of lending opportunities in [city]. The Bank points to a relatively high number of competing financial institutions in [city] that absorb lending demand from local businesses. The Bank argues that competition and the Bank’s distance from [city] should have been taken into consideration when evaluating the performance context.

The Bank acknowledges that its total volume of CRA-eligible loans has declined since the last CRA examination, but attributes this to factors beyond its control, including a trend of population decline in the assessment area and a decline in the price of [agricultural commodity] that reduced credit demand among local farms. Interest rates also rose significantly during the review period, further reducing loan demand. The Bank claims that the business climate in the assessment area was unfavorable and emphasizes that it did not reject a single loan request in the assessment area during the review period.

The Bank notes that a lending officer departed the [town] branch in 2022 and a replacement was being onboarded and trained during the review period. In the Bank’s view, this explains the decreased loan volume during the review period while also demonstrating the Bank’s continuing commitment to lending in the community. The Bank believes its presence as the last operating business in [town] (other than [seasonal employer]) demonstrates a commitment to the community.

The Bank also asserts that outreach to a community contact in another area may have created a mistaken impression of the demand for credit in the assessment area generally, and in and around [town] specifically. The Bank acknowledges a higher volume of community development

lending in prior CRA review periods, but attributes this to an increase in opportunities driven by government programs created in response to the COVID-19 pandemic. These opportunities were, in the Bank's view, not available during the present review period.

DCP argues that the overall "Needs to Improve" rating for the assessment area, as well as the ratings under the lending and community development tests that it is based upon, are supported by the record and consistent with the examination procedures. DCP notes that institutions are tasked with selecting their CRA assessment area, and DCP's role is limited to ensuring that the proposed area is consistent with applicable law. Further, DCP highlights that the assessment area's borders are unchanged from previous CRA examinations.

DCP maintains that there were lending opportunities, including community development lending opportunities, available to the Bank in the assessment area during the review period. DCP points to D&B data showing significant increases in the number of businesses and farms in the area during the years that preceded the review period. DCP also considered a comparator institution that engaged in greater lending than the Bank, despite facing similar economic conditions.

DCP also references interagency guidance indicating that institutions "may not simply ignore one or more of these categories of community development,"<sup>7</sup> and argues that the Bank's failure to originate a single community development loan during the review period nearly requires a rating no greater than "Needs to Improve."

## ***VI. Committee's Findings***

### **Lending Test**

The Bank's lending performance, properly contextualized with certain atypical facts, supports an improved rating. The Bank's loan-to-deposit ratio in its [State] Assessment area was very high, at \* \* \*. This exceeded both the Bank's loan-to-deposit ratio in its other Assessment areas, as well as the ratios of competing [State] institutions discussed in the Performance Evaluation, providing a strong signal of the Bank's willingness to serve the credit needs of its community. Moreover, the Bank did not decline a single loan request during the review period and did not receive any CRA-related complaints. Although the Bank's lending to small farms and businesses declined since its last CRA examination, this appears to be generally consistent with a higher-interest rate environment and local economic conditions, which reflected stable-to-declining levels of activity attributable to agricultural commodity prices. On balance, the Bank's record of lending to small businesses and small farms in the [State] Assessment area warrants a "Satisfactory" rating under the Lending Test.

### **Community Development Test**

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<sup>7</sup> Community Reinvestment Act — Interagency Questions and Answers 26(c), available at: <https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/11/xi-12-1.pdf>.

The Bank’s qualified investments were similar to its qualified investments during the prior review period, when the Bank was rated “Satisfactory” under the Community Development Test, and its community development services increased modestly over the same timeframe. Although the Bank did not originate any community development loans in the [State] Assessment area during the review period,<sup>8</sup> given the higher-interest rate environment and the Bank’s local economic conditions, a lack of community development loans does not necessarily reflect a neglect of broader community development activities. Overall, the Committee believes that the record demonstrates a level of engagement in community development activities in the [State] Assessment area consistent with a “Satisfactory” rating under the Community Development Test.<sup>9</sup>

#### Overall Rating

An overall “Satisfactory” rating is warranted where an institution’s performance is rated as “Satisfactory” on both the Lending Test and the Community Development Test.<sup>10</sup> Because the Committee has concluded that the Bank’s performance was “Satisfactory” under both tests, the Bank’s overall CRA rating for the [State] Assessment Area should be revised to “Satisfactory.”

#### ***VII. Conclusion***

For the reasons stated above, the Committee grants the Bank’s appeal.

By direction of the Supervision Appeals Review Committee of the FDIC, dated December 8, 2025.

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<sup>8</sup> Many of the Bank’s community development loans during the prior review period were made under temporary lending programs established in response to the extraordinary circumstances of the COVID-19 pandemic.

<sup>9</sup> The Interagency Questions and Answers also explain that the CRA regulations do not “prescribe a required threshold for community development loans, qualified investments, and community development services.” Community Reinvestment Act — Interagency Questions and Answers 26(c), available at: <https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/11/xi-12-1.pdf>.

<sup>10</sup> FDIC Consumer Compliance Examination Manual, Community Reinvestment Act — Intermediate Small Bank, available at <https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/11/xi-3-1.pdf>.