

Guidance for Full and Limited Scope Community Reinvestment Act Assessment Areas

Introduction

The Interagency Community Reinvestment Act (CRA) Examination Procedures (interagency procedures) provide instructions for examiners to follow when determining which assessment areas(s) should receive a full scope review and provide guidance on how to address assessment areas not selected for full scope review within a CRA performance evaluation. Assessment areas that are not reviewed using the full examination procedures are referred to as limited scope assessment areas.

This document clarifies the guidance provided in the interagency procedures to improve consistency in FDIC CRA examinations. Although Large Institution CRA Examination Procedures were used to develop this guidance, examiners should use this guidance when evaluating small or intermediate small banks and adjust as appropriate. For example, if community development activities are not considered in a small bank evaluation, examiners should not consider such activities in their review.

Selection of Full Scope Assessment Areas

Minimum Requirements

In accordance with the interagency procedures, examiners identify assessment areas for a full scope review where the performance evaluation involves interstate and intrastate institutions with more than one assessment area. A full scope review is accomplished when examiners complete all of the steps outlined in the interagency 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 metropolitan statistical area/metropolitan division (MSA/MD), must be reviewed using the full scope examination procedures.

Consideration of Factors

Examiners review several sources of information when considering which assessment areas receive a full or limited scope review, including prior CRA performance evaluations; available community contact materials; Home Mortgage Disclosure Act (HMDA) and CRA data; the institution's lending, investment, and service activities, as applicable, by assessment area; the lending of other lenders in those markets; and demographic and economic information from those markets. The interagency procedures provide a list of factors for examiners to consider when selecting full scope assessment areas. It is expected that examiners consider each of these factors in the CRA scop-

ing process. Guidance for each factor from the Large Institution CRA Examination Procedures is provided below.

- a. The lending, investment, and service opportunities in the different assessment areas, particularly areas where the need for bank credit, investments and services is significant;

Examiners should consider readily-available information from sources such as discussions with bank management; a review of demographics and economic conditions; community contacts; other banks' CRA evaluations; and community groups in the area. For example, a review of local community group websites could yield important information on lending, investment, and service opportunities in the area. Assessment areas with greater needs and opportunities should receive greater consideration as full scope reviews.

- b. The level of the institution's lending, investment, and service activity in the different assessment areas, including in low- and moderate-income areas, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies¹ based on (a) rates of poverty, unemployment, and population loss; or (b) population size, density, and dispersion;²

In addition to the level of lending, investment, and service activity, examiners also should consider significant changes in the level of activity in the different assessment areas since the last performance evaluation. For example, if a particular assessment area has experienced a significant increase in lending since the previous evaluation due to the bank offering a new product that met an identified credit need, that assessment area may receive increased consideration for a full scope review. If the bank has conducted any CRA self-assessments, examiners should consider the results of the assessments and any actions taken by the bank.

- 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;

Areas where the bank has a high concentration of its activity or maintains high market share should be strongly considered for a full scope review. In evaluating the importance of the institution in the area, examiners are encouraged to consider

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 underserved nonmetropolitan middle-income geographies is available on the Federal Financial Institutions Examination Council (FFIEC) web site at www.ffiec.gov.

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summary of deposits, market share data, and CRA and HMDA data to determine the relative impact of the institution in its different assessment areas. The level of an institution's lending activity in a particular assessment area should be weighed against the overall level of lending activity in the area, not solely against the overall lending activity of the subject bank. For example, a relatively small institution may capture a significant share of the deposits or make a significant portion of the HMDA loans in the area. Similarly, a large institution may have a small share of its overall deposits or loans within a particular area but the relative level of deposits and loans in the area may cause it to be a market leader.

- d. Comments and feedback received from community groups and the public regarding the institution's CRA performance;

Comments and feedback received from community groups and the public regarding the institution's CRA performance are an essential factor to consider in the selection of full scope assessment areas. Special attention should be given to assessment area(s) that are the focus of non-frivolous CRA protests and comments about the institution, as well as the institution's response. In the event that affected assessment areas are not selected for a full scope review, examiners should document in the "Scope of Evaluation" section of the performance evaluation their reasons for not selecting the assessment areas for a full scope review. For example, "A CRA comment identified concerns with the bank's activities in seven assessment areas. Of the five assessment areas selected for full scope review, three were referenced in the CRA comment regarding the institution and will provide sufficient information to evaluate concerns raised."

- e. The size of the population;

When considering the size of the population, examiners should consider the number of potential customers within an assessment area relative to other assessment areas. However, examiners should not overlook assessment areas for full scope consideration solely due to small populations.

- f. The existence of apparent anomalies in the reported CRA or HMDA data for any particular assessment area(s);

Where applicable, examiners should consider apparent anomalies in reported CRA or HMDA data for any assessment area. Special attention should be given to assessment areas that are being evaluated for potential redlining or other fair lending risk factors. If a focal point review is under way for an assessment area(s) (e.g., redlining or marketing), examiners are strongly encouraged to select that same area for a full scope CRA review.

- g. The length of time since the assessment area(s) was last examined using a full scope review;

In considering this factor, examiners should give greater weight to selecting established assessment areas that were not recently evaluated with the full scope examination procedures. Conversely, new or recently added (in less than twelve months) assessment areas are typically not weighted as heavily.

- h. The institution's prior CRA performance in different assessment areas;

Examiners should consider the institution's prior CRA performance in different assessment areas. Assessment areas where the institution has shown weak performance in the past should receive greater consideration for full scope review relative to those assessment areas with reasonable performance at the previous evaluation.

- i. Examiners' knowledge of the same or similar assessment areas; and

Examiners should consider their knowledge of the same or similar assessment areas in the selection of full scope assessment areas. After considering all the other factors, an examiner's knowledge of an assessment area(s) may influence his/her decision whether to select that or a similar assessment area for full scope review. For example, if an examiner was aware of concerns (minimal mortgage lending) within a specific assessment area, an examiner might be more likely to select that assessment area for full scope consideration.

- j. Issues raised in CRA performance evaluations of other institutions and prior community contacts in the institution's assessment areas or similar assessment areas.

Examiners are encouraged to consider issues in CRA performance evaluations of other institutions and prior community contacts in the institution's assessment areas or similar assessment areas. Known concerns in particular assessment areas may be relevant to assessing the current institution's CRA performance. These assessment areas may receive greater consideration for full scope review.

Assessment Areas Infrequently Reviewed under Full Scope Examination Procedures

Due to resources, examiners may not be able to review all assessment areas using the full scope examination procedures at each examination. After considering the factors discussed above, it is possible that certain assessment areas will be infrequently selected for a full scope review. In an effort to ensure that an institution's CRA performance in these infrequently reviewed assessment areas is regularly evaluated, examiners must conduct one additional full scope assessment area review unless examiners already selected an assessment area that did not receive a full scope review during the previous two CRA evaluations based on the factors discussed above. If an addi-

tional full scope assessment area must be selected, it would be selected at random from the pool of assessment areas that have not received a full scope review during the previous two CRA evaluations.

For example, an institution has seven assessment areas which have not been evaluated using full scope procedures for the last two CRA evaluation periods. The examiner must randomly select one of these seven for full scope review unless one of the assessment areas already selected for review using the factors above had not been assessed using full scope procedures at the previous two CRA evaluations. Random selection ensures that any infrequently reviewed assessment area has an equal chance for full scope review. This encourages institutions to consider the needs of all their assessment areas, rather than concentrating on those most likely to be reviewed as full scope.

Documentation

Full Scope Assessment Areas

Justification for the selection of an assessment area for a full scope review should be documented in the “Scope of the Examination” section of the CRA performance evaluation. For example, “Bank of Anytown has 12 assessment areas within Anystate. Assessment areas A and B were chosen for full scope review due to the greatest level of lending, deposits, and branches in these assessment areas. Assessment area C was chosen due to a CRA comment that raised issues with the bank’s lending in this assessment area. During the scope of the examination, it was identified that some of Bank of Anytown’s assessment areas were not reviewed using the full scope examination procedures in the last two examinations. In an effort to ensure that an institution’s CRA performance in these infrequently reviewed assessment areas is regularly evaluated, assessment area D was selected at random from a list of those assessment areas infrequently reviewed under the full scope examination procedures.”

Limited Scope Assessment Areas

Examiners should follow the interagency procedures to document their conclusions regarding limited scope assessment areas. Specific templates are provided in the procedures, and examiners should use the prescribed language to present their conclusions. The relevant portion of the “Ratings” section from the Large Institution CRA Examination Procedures is summarized below:

1. Where one or more assessment areas were examined using full scope procedures within an MSA or nonmetropolitan portion of the state:

Examiners should ensure that performance in the assessment area(s) not examined using the full scope procedures is consistent with the conclusions based on the assessment area(s) examined using full scope procedures within that same MSA or nonmetropolitan portion of the state.

In these situations, examiners should select one of the following options for inclusion in the performance evaluation:

- a. The institution's [lending, investment, service] performance in [the assessment area/these assessment areas] is consistent with the institution's [lending, investment, service] performance in the assessment areas within [the MSA/nonmetropolitan portion of the state] that were reviewed using the full scope examination procedures.
 - b. The institution's [lending/investment/service] performance in [the assessment area/these assessment areas] [exceeds/is below] the [lending/investment/service] performance in the assessment areas within [the MSA/nonmetropolitan portion of the state] that were reviewed using the full scope examination procedures; however, it does not change the conclusion for the [MSA/nonmetropolitan portion of the state].
2. Where no assessment area was examined using full scope procedures within an MSA or nonmetropolitan portion of the state

Examiners should form a conclusion regarding the institution's lending, investment, and service performance in the assessment area(s). When there are several assessment areas in the MSA, or the nonmetropolitan portion of the state, form a conclusion regarding the institution's performance in the MSA, or the nonmetropolitan portion of the state. Determine the relative significance of the institution's performance in each assessment area within the MSA, or the nonmetropolitan portion of the state, by considering:

- The significance of the institution's lending, qualified investments, and lending-related services in each compared to the institution's overall activities.
- Demographic and economic conditions in each.

Using this information, examiners should select one of the following options for inclusion in the performance evaluation:

- a. The institution's [lending, investment, service] performance in [the assessment area/these assessment areas] is consistent with the institution's [lending, investment, service] performance [overall/in the state].
- b. The institution's [lending/investment/service] performance in [the assessment area/these assessment areas] [exceeds/is below] the [lend-

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ing/investment/service] performance for the [institution/state], however, it does not change the [institution's/state] rating.

As discussed above, limited scope assessment areas that are inconsistent with lending/ investment/service performance in the applicable area should be documented in accordance with the interagency procedures. In cases where an examiner considers the performance in a limited scope reviewed assessment area to be materially inconsistent with the lending/investment/service performance in the applicable area, examiners should expand their review to full scope examination procedures for that assessment area. Materially inconsistent differences are those that are considered significant enough to affect the overall rating for a rated area (i.e., state) of the institution.

Assessment areas not examined under the full scope procedures are essential to the performance evaluation of an institution under the CRA. The primary difference between full scope and limited scope assessment area reviews is the inclusion of qualitative factors and presentation of full performance context in the performance evaluation for full scope assessment areas. As discussed in the interagency procedures, for limited scope assessment area(s), examiners should review sufficient information about each assessment area to ascertain whether performance is consistent with the institution's performance at the rated area level (state or multi-state MSA). In most cases, a review of the demographics and the quantitative information regarding the lending, investment, and service activity will be sufficient to make this evaluation. However, examiners should be aware of any significant differences pertaining to products, services, and investments along with any key or unique performance context information within the limited scope assessment area.

Additionally, according to the CRA, the FDIC is required to provide conclusions for each assessment factor identified in the regulation. Each conclusion must be supported by facts and data and, in turn, support overall conclusions for each

assessment area. The FDIC must also provide a rating for each state or multistate MSA area and a description of the basis for the rating.

Examiners should document the facts and data supporting conclusions within the CRA performance evaluation (CRA PE) for limited scope assessment area reviews. In some cases, the information provided for limited scope assessment areas may be brief. For example, quantitative analysis could be presented in a brief narrative in the performance evaluation (for example, a few sentences) versus a full table. At a minimum, the following should be included either in a table format or in narrative under the appropriate heading in the CRA PE:

- Lending:
 - Volume/activity
 - Borrower & Geographic Distribution
 - Community development lending (numbers & dollars only)
 - The products used for evaluation in the assessment area if different than those reviewed in full scope areas.
- Investments
 - Volume/activity (including trends)
- Services
 - Branch and ATM distribution
 - Branch openings and closings
 - Community development services (quantitative)
- Any key or unique performance context information (if applicable)

An example of how to document a limited scope assessment area within the CRA PE is attached to this guidance. Additional facts and data should be presented in tables or in narrative, as needed.

For reference, below is a chart that highlights the differences between a full and limited scope review in the CRA Performance Evaluation for a large institution.

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ATTACHMENT 1: Differences between Full and Limited Scope Reviews in the CRA Performance Evaluation

Full Scope Review	Limited Scope Review
<p>Performance Context</p> <ul style="list-style-type: none"> ▸ Analysis considering full performance context 	<p>Performance Context</p> <ul style="list-style-type: none"> ▸ Analysis of performance in light of relevant comparable demographics ▸ Key and unique performance context information
<p>Lending Test</p> <ul style="list-style-type: none"> ▸ Volume/activity ▸ Borrower & geographic distribution ▸ Community development lending ▸ Conspicuous gaps ▸ Qualitative factors (innovation, complexity, leadership, flexibility) 	<p>Lending Test</p> <ul style="list-style-type: none"> ▸ Volume/activity ▸ Borrower & geographic distribution ▸ Community development lending (numbers & dollars only)
<p>Investment Test</p> <ul style="list-style-type: none"> ▸ Level and trend ▸ Qualitative factors (innovation, complexity) 	<p>Investment Test</p> <ul style="list-style-type: none"> ▸ Level and trend only
<p>Service Test</p> <ul style="list-style-type: none"> ▸ Branch distribution ▸ Branch openings and closings ▸ Hours of operations ▸ Gaps in operations and services ▸ Community development services ▸ Qualitative factors (responsiveness) 	<p>Service Test</p> <ul style="list-style-type: none"> ▸ Branch distribution ▸ Branch openings and closings ▸ Community development services (volume only)
<p>Narrative in PE</p> <ul style="list-style-type: none"> ▸ Analyze numerical data – evaluate anomalies ▸ Discuss qualitative factors 	<p>Narrative in PE</p> <ul style="list-style-type: none"> ▸ Analyze numerical data – evaluate anomalies ▸ State whether performance is “consistent with”, “stronger than”, or “weaker than” the rated area

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ATTACHMENT 2: EXAMPLE OF A LIMITED SCOPE ASSESSMENT AREA

METROPOLITAN AREA USING LIMITED SCOPE EXAMINATION PROCEDURES

DESCRIPTION OF INSTITUTION'S OPERATIONS IN ASSESSMENT AREA

The assessment area contains 4 of the bank's 28 branch offices and 7 of the bank's 35 ATMs. This assessment area accounted for 11.8 percent of total loans, 12.6 percent of total deposits, and 14.0 percent of the bank's branches.

The below table shows demographic information for the assessment area:

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	151	4.0	31.1	31.1	31.1	2.7
Population by Geography	839,631	3.4	32.6	28.8	33.1	2.1
Housing Units by Geography	278,239	3.6	30.1	30.5	35.8	0.0
Owner-Occupied Units by Geography	152,284	2.0	23.2	30.8	44.0	0.0
Occupied Rental Units by Geography	95,773	6.2	40.7	28.5	24.6	0.0
Vacant Units by Geography	30,182	3.8	31.3	35.7	29.2	0.0
Businesses by Geography	42,134	3.7	20.6	30.4	45.3	0.0
Farms by Geography	1,837	1.3	28.7	30.4	39.6	0.0
Family Distribution by Income Level	185,559	23.0	17.2	18.0	41.8	0.0
Household Distribution by Income Level	248,057	24.5	16.0	17.4	42.1	0.0
Median Family Income		\$56,571	Median Housing Value			\$212,638
FFIEC-Estimated Median Family Income for 2014		\$51,700	Median Gross Rent			\$842
			Families Below Poverty Level			17.7%
<i>Source: 2010 U.S. Census, 2014 D&B Data, and FFIEC-Estimated Median Family Income; (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The assessment area's median housing value is \$212,638 and the median family income is \$56,571, which makes housing affordability a challenge in this assessment area. The unemployment rate for the county encompassing this assessment area (Any County) for the 3rd quarter of 2015 is 8.4 percent, which is above the state average of 5.9 percent. The assessment area's largest employers include Air Force Base, Someone's Farms, Whose Farms, ABC Production Company, ARB Incorporated, State Farm Insurance Company, Sun World Incorporated, and Chevron Texaco Corporation.

CONCLUSIONS ON PERFORMANCE CRITERIA IN ASSESSMENT AREA

LENDING TEST

The institution's Lending Test performance in the assessment area is consistent with the performance in the full scope assessment area. For 2013, 2014, and YTD 2015, AnyBank originated 165 small business loans totaling approximately \$51.6 million, 24 home mortgage loans totaling approximately \$6.3 million, and 15 small farm loans totaling approximately \$4.1 million. Tables demonstrating the bank's geographic and borrower distribution performance for this lending are in Appendix D.

AnyBank's community development lending (CDL) performance in the assessment area is consistent with its performance in the full scope assessment area. During the review period, the institution originated five CDLs totaling \$10.5 million within the assessment area.

INVESTMENT TEST

AnyBank's Investment Test performance in the assessment area is below the bank's performance in the full scope assessment area. While the performance was considered, it does not change the conclusions for the state. During the review period, the institution purchased two qualified investments totaling \$100,000 within the assessment area, and made \$5,000 in qualified donations.

SERVICE TEST

AnyBank's Service Test performance in the assessment area is consistent with its performance in the full scope assessment area. Products, services, and business hours are similar to those offered within the full scope assessment area. Employees provided 230 hours of financial and technical assistance to various qualified community development organizations in this assessment area.