Evaluating a Large or Intermediate Bank's Retail Lending Test Performance

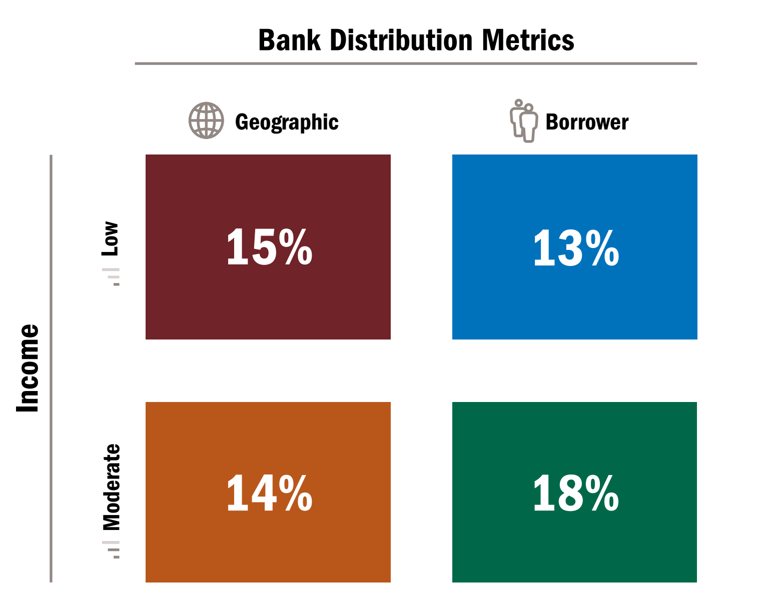
Proposed Approach for Distribution Metrics in an Assessment Area
Interagency Notice of Proposed Rulemaking for Community Reinvestment Act Regulations

Step 1: Retail Lending Test for Large and Intermediate Banks

The agencies would calculate the geographic and borrower distribution metrics for each major product line in each assessment area. The geographic distribution metrics are the percentages of bank lending in low-income census tracts and moderate-income census tracts. The borrower distribution metrics are the percentages of bank lending to low-income and moderate-income borrowers.*

A major product line can include the following: open-end home mortgage, closed-end home mortgage, multifamily mortgage, small business, small farm, and automobile lending.

Example in an Illustrative Assessment Area:
Metrics for ABC Bank Performance for Closed-End Home Mortgage Loans



*For small business and small farm loans, the borrower distribution metrics would be the percentage of loans to businesses or farms with gross annual revenues of $250,000 or less, and the percentage of loans to businesses or farms with gross annual revenues of greater than $250,000 and up to $1 million.

Step 2: Retail Lending Test for Large and Intermediate Banks

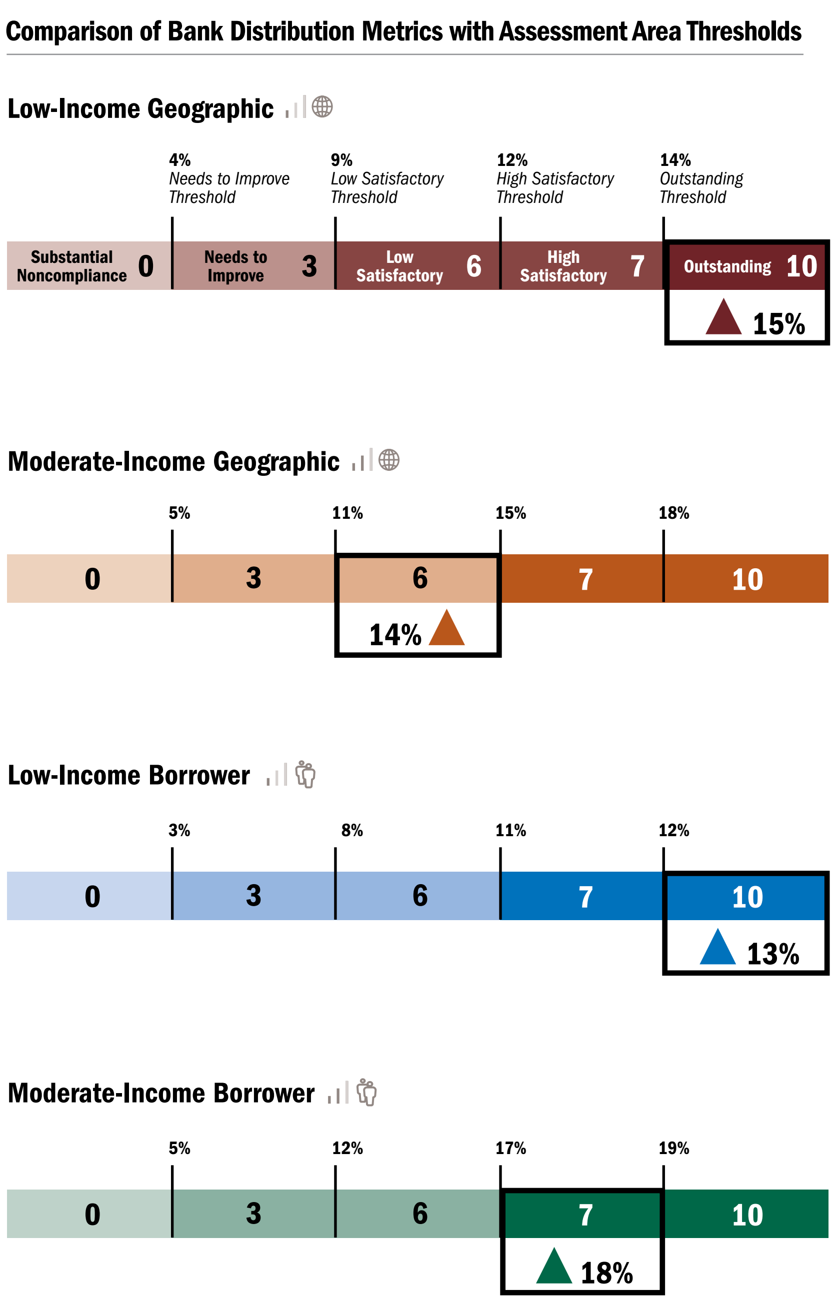
The agencies would assign a performance score for each distribution metric. This would be done by comparing each distribution metric to performance thresholds tailored to each assessment area and product line.

Each performance threshold would be set using a proposed methodology leveraging a community benchmark, which would reflect community-level data, and a market benchmark, which would reflect aggregate lending data by all reporting lenders.

The agencies would assign a performance score that corresponds to one of the following conclusions:

- Substantial Noncompliance – 0
- Needs to Improve – 3
- Low Satisfactory – 6
- High Satisfactory – 7
- Outstanding – 10

Example in an Illustrative Assessment Area:
Thresholds Applied to ABC Bank for Closed-End Home Mortgage Loans



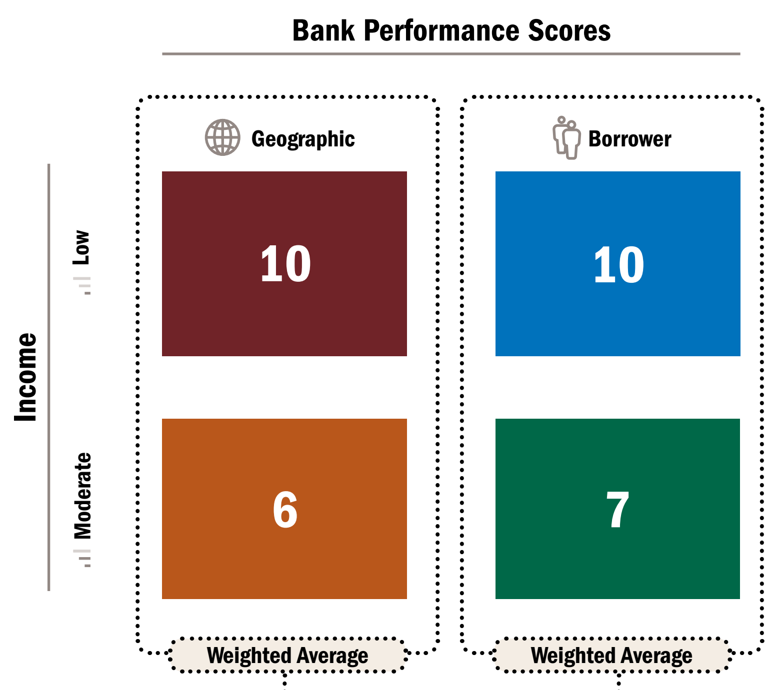
Step 3: Retail Lending Test for Large and Intermediate Banks

The agencies would calculate a weighted average of the bank's performance scores assigned in Step 2. This would involve averaging the bank's lending to low-income borrowers and moderate-income borrowers for a borrower performance score, and the bank's lending in low-income census tracts and moderate-income census tracts for a geographic performance score.

The weights for each of these averages would be specific to each assessment area and product line.

For example, if there are twice as many moderate-income families in the assessment area as there are low-income families, the moderate-income score would receive twice as much weight as the low-income score in determining the overall borrower distribution score for closed-end home mortgage loans.

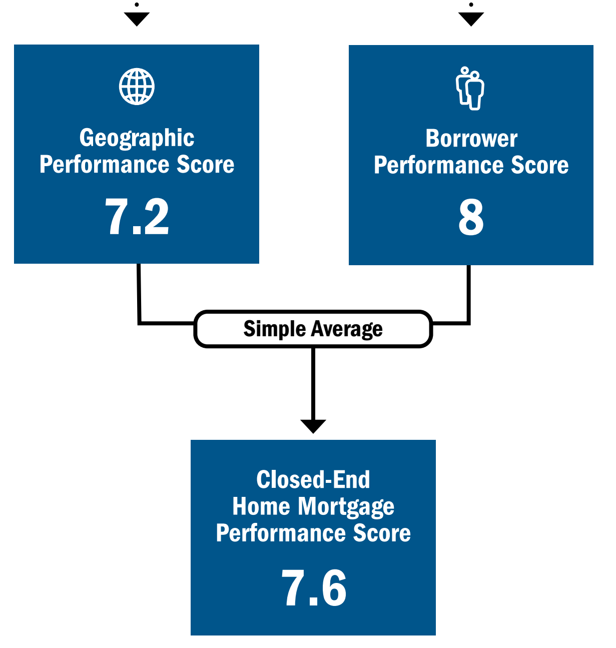
Example in an Illustrative Assessment Area:
Performance Scores for ABC Bank for Closed-End Home Mortgage Loans



Repeat steps 1–4 for each major product line.

Step 4: Retail Lending Test for Large and Intermediate Banks

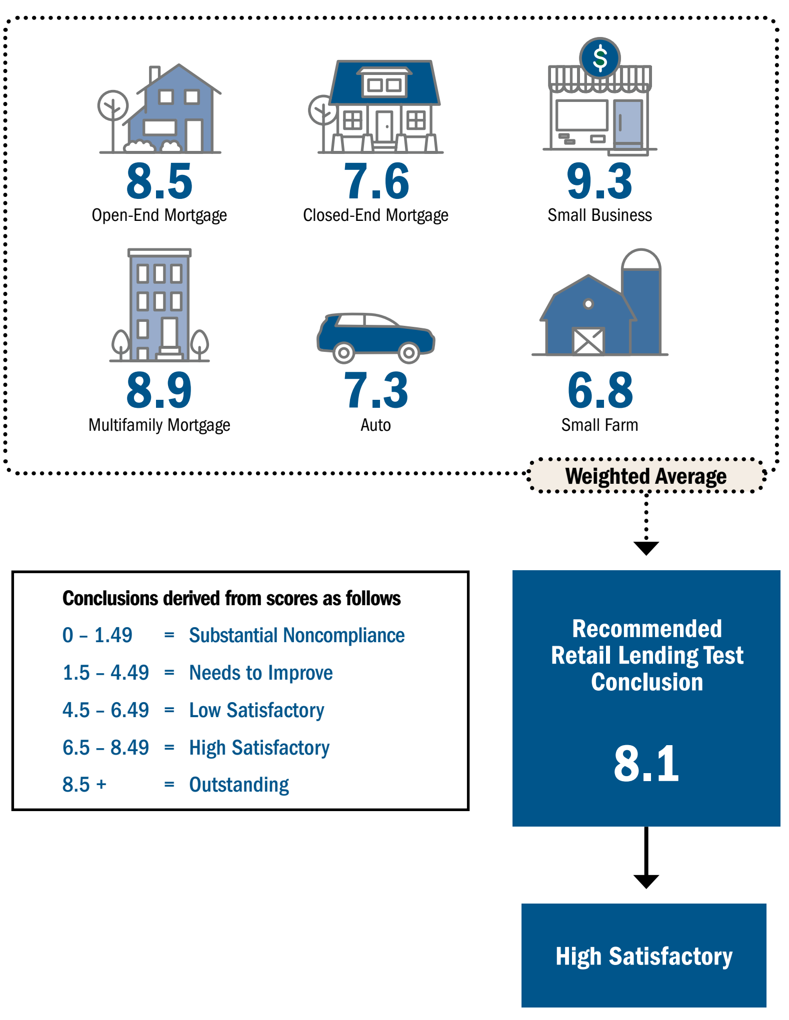
The agencies would average the geographic performance score and borrower performance score to arrive at a single performance score for each major product line.



Step 5: Retail Lending Test for Large and Intermediate Banks

To arrive at a single performance score for each assessment area, the agencies would calculate a weighted average of a bank's performance scores on all of its major product lines. Each product would be weighted by its share of the bank's total retail lending dollar volume in the assessment area. The performance score would correspond to a recommended conclusion for the bank's Retail Lending Test performance in the assessment area.

Example in an Illustrative Assessment Area:
Recommended Retail Lending Test Conclusion for ABC Bank



Conclusions derived from scores as follows		
0 – 1.49	=	Substantial Noncompliance
1.5 – 4.49	=	Needs to Improve
4.5 – 6.49	=	Low Satisfactory
6.5 – 8.49	=	High Satisfactory
8.5 +	=	Outstanding

Note: This example assumes that, in the case of a facility-based assessment area, the bank has passed the proposed Retail Lending Volume Screen. This screen measures the total dollar volume of a bank's retail lending relative to its presence and capacity to lend in a facility-based assessment area compared to peer lenders. Large banks that underperform on the Retail Lending Volume Screen would receive, as applicable, a "Needs to Improve" or "Substantial Noncompliance" Retail Lending Test conclusion in a facility-based assessment area, subject to review of performance context information, such as institutional capacity and constraints. The example includes six major product lines; however, a bank may have less than six major product lines in any given assessment area. Large banks with assets of $10 billion or less and intermediate banks would not be required to collect and report automobile lending data. Small banks would be evaluated under the current small bank lending test by default, with the ability to opt into the proposed Retail Lending Test. For the full text of the interagency Notice of Proposed Rulemaking for the CRA regulations, see 87 Fed. Reg. 33,884 (June 3, 2022) at https://www.govinfo.gov/content/pkg/FR-2022-06-03/pdf/2022-10111.pdf.