NCRC

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ECONOMIC OPPORTUNITY

The Community Reinvestment Act and Geography:

How Well Do CRA Exams Cover the Geographical Areas that Banks Serve?

April 2017

About NCRC

NCRC and its grassroots member organizations create opportunities for people to build wealth. We work with community leaders, policymakers and financial institutions to champion fairness in banking, housing and business development.

Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority and women-owned business associations, and social service providers from across the nation.

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Introduction

Congress passed the Community Reinvestment Act (CRA) as a means of requiring banks to serve the communities in which they are chartered to do business. When CRA was enacted in 1977, banks financed their loans from deposits. They made loans locally to the populations served by their branches.

Today, the connection between lending, deposit-taking, and branches remains in many cases, but some notable banks have severed it. Lending is also financed by so-called secondary market institutions including Fannie Mae, Freddie Mac, and private sector investors. Therefore, banks are not as dependent on deposits as a source of financing and can make loans more easily in geographical areas where they do not have branches. In addition, banks utilize a wide variety of professionals for making loans. It is no longer only branch personnel that take applications and start the underwriting process. Bank employees with offices outside of branches play a significant role in the lending process. Moreover, several banks use independent brokers and/or affiliate mortgage companies to make loans.

What does all of this mean for CRA exams? CRA exams rate banks on their lending, investment, and service activities. CRA exams and regulation still act as if the lending marketplace is centered on the branch. The CRA regulation establishes assessment areas that are geographical areas where bank branches are located. Lending is examined in the vast majority of cases in assessment areas. However, if banks are making more of their loans in areas beyond their bank branches, this lending activity will not be captured on CRA exams. These banks will not be effectively rated and held accountable for their lending activity. Also, banks have the option of including or excluding their affiliates on CRA exams. If affiliates are major lenders on behalf of some banks and these banks have excluded their mortgage affiliates from the exams, the exams are not effectively holding the banks accountable to responsible lending.

In order to assess the impact of assessment area procedures on CRA exams, NCRC examined the exams of the largest 100 banks, by asset size, in the country. This sample is not scientific or random but it is likely nonetheless to be revealing in terms of scrutinizing the impacts of exam procedure on exam rigor. While the focus is on geographical areas, the study will also look at treatment of affiliates and summarize other attributes of the exams of the largest banks in the country.

The CRA regulations were last updated in the mid-1990s. Since then, the federal agencies have made changes to a document they call the "Interagency Question and Answer (Q&A)." These changes, however, have not addressed the issues associated with assessment areas or affiliates. Does the regulation impede exams from effectively scrutinizing bank lending wherever it is occurring? If so, what changes need to be made to the regulation or examination procedure?

Characteristics of the Sample

The largest 100 banks have assets that range from more than $2 trillion to just over $8 billion.[1] JPMorgan Chase has assets exceeding $2 trillion. The next three largest banks are Wells Fargo, Bank of America, and Citibank, each with assets in excess of $1 trillion. The next largest 14 banks, from U.S. Bank to BMO Harris, have assets between $500 billion to just above $100 billion. Twenty-four banks have assets between $100 billion and $25 billion. The remaining 58 have assets ranging from $24 billion to just above $8 billion.

Three agencies currently rate banks, depending on the bank charters and whether the banks are members of the Federal Reserve System. As shown in Table 1, The Office of the Comptroller of the Currency (OCC) rated 43 banks, or the plurality of banks in the sample. The Board of Governors of the Federal Reserve System (FRB) rated 18 banks and the Federal Deposit Insurance Corporation (FDIC) rated 34 banks. The former Office of Thrift Supervision (OTS) rated five institutions in the sample; these were the exams that were outliers in terms of their age and were quite old.

Agency	Count	Percent
FDIC	34	34%
FRB	18	18%
OCC	43	43%
OTS	5	5%
	100	

Table 1: CRA Exams by Agency

The agencies strive to examine banks with assets above $250 million on a two- to three-year time cycle. Sixty-five percent of the exams in the sample were dated between 2013 and 2016, roughly within the two- to three-year time cycle. Most of these exams (50) occurred during 2013 and 2014 while 15 exams occurred during 2015 and 2016 (see Table 2 below). The agencies missed their two- to three-year cycle for 35 percent of the exams of the top 100 banks. Nineteen exams occurred during 2012, seven occurred during 2011, and one each occurred during 2010, 2009, 2008, and 2007. While about two-thirds of the exams were conducted within the exam cycle, improvements in frequency can be made since one-third of the exams are rather old.

Year	Frequency
2016	2
2015	13
2014	23
2013	27
2012	19
2011	7
2010	6
2009	1
2008	1
2007	1
	100

Table 2: Year of CRA Exams

1 This sample of banks by asset size was pulled from the FDIC webpage in the fall of 2016. Current asset sizes were those reported by the FDIC webpage during that time period. See https://www.fdic.gov/bank/statistical/

The agencies have four overall ratings for banks and thrifts: Outstanding, Satisfactory, Needs-to-Improve and Substantial Noncompliance. The first two ratings are considered passing and the last two are considered failing. For the top 100 banks, 27 percent, 69 percent, and four percent received Outstanding, Satisfactory, and Needs-to-Improve, respectively. None of the banks in the sample received Substantial Noncompliance (see Table 3).

Ratings for Banks in Sample	Count	Percent
Outstanding	27	27%
Satisfactory	69	69%
Needs to Improve	4	4%
Substantial Noncompliance		0%
Total	**100**	

Table 3: Overall Ratings for Sample Banks

Very large banks in the top 100 sample were more likely to receive Outstanding but also more likely to receive Needs-to-Improve when compared to all banks. The ratings in 2014 (a year with several exams in the top 100 sample) for all banks were the following: nine percent, 89 percent, two percent, and less than one percent received Outstanding, Satisfactory, Needs-to-Improve, and Substantial Noncompliance, respectively (see Table 4).

Ratings for 2014: All Banks	Count	Percent
Outstanding	147	9%
Satisfactory	1,500	89%
Needs to Improve	31	2%
Substantial Noncompliance	2	0%
Total	**1,680**	

Table 4: Ratings in 2014 for All Banks

CRA ratings inflation has been a hotly contested issue over the years. While it is difficult to assess what the actual distribution of bank CRA performance should be, it is also likely that the high percentages of banks with Outstanding and Satisfactory ratings overstate the level of good-to-exceptional performance. In particular, the high percentage of banks with Satisfactory ratings (almost 90 percent in Table 4) seems skewed and most likely masks differences of performance within the very large group judged to have Satisfactory CRA performance.

One way to judge the appropriateness of overall ratings is to compare the overall ratings to component test ratings. The large-bank CRA exam (all banks in the top 100 sample are large for CRA purposes)[2] have three component tests: Lending, Investment, and Services. The ratings are similar for the component tests as for the overall ratings, with one exception. A bank can receive a High or Low Satisfactory rating instead of a Satisfactory rating on the component tests. This study's sample suggests that performance on the lending test is better reflected by High and Low Satisfactory ratings than only a Satisfactory rating. For the lending test, 23 percent, 64 percent, and 13 percent of the banks received Outstanding, High Satisfactory, and Low Satisfactory ratings, respectively (see Table 5). Instead of the vast majority of banks in the Satisfactory category, two-thirds are considered High Satisfactory while 13 percent are barely passing their Lending Test with the Low Satisfactory rating. The more granular rating system provides valuable information for the regulatory agencies and community organizations in terms of being able to identify and target banks that need help in improving their CRA performance.

Lending Test Ratings	Count	Percent
Outstanding	23	23%
High Satisfactory	64	64%
Low Satisfactory	13	13%
Total	**100**	

Table 5: Lending Test Ratings

During the years of the financial crisis and in the immediate aftermath, the largest banks in the country had various levels of involvement with abusive practices. While non-CRA-covered mortgage companies made the vast majority of high cost and predatory loans, large banks helped finance high cost lending and also engaged in questionable servicing practices. Interestingly, the parts of the large banks involved in these practices were not covered by CRA. Investment bank affiliates, for example, were not covered by CRA and financed the high cost lending of non-CRA covered mortgage companies. Likewise, mortgage servicing activities are not routinely reviewed on CRA exams. The absence of regular CRA review of investment and servicing activities enabled abusive practices at the large banks. Nevertheless, the large banks did pay CRA penalties by receiving downgrades of ratings (CRA examiners can downgrade ratings based on widespread evidence of illegal practices).[3]

Twelve banks in the top 100 bank sample received downgrades due to discrimination or other illegal activities. Eight banks including JPMorgan Chase and Bank of America were downgraded from Outstanding to Satisfactory. Four banks, Fifth

2 This sample used banks that were retail banks and considered "large" banks for CRA purposes. Any specialty banks like credit card lenders that did not have the large bank exam were deleted from the sample. In other words, the sample consisted of the top banks by asset size that had the large bank exam.

3 See https://www.ffiec.gov/cra/regulation.htm for a copy of the CRA regulations. In the OCC's version, the rule regarding illegal practices can be found in §25.28(c).

Third, Regions, Associated Bank, and BancCorp South, were downgraded from the passing Satisfactory rating to the failing Needs-to-Improve rating. The illegal activities caught on the CRA exams included price discrimination, redlining, servicing violations, violations of consumer protection law in overdraft practices and credit card selling techniques. In six other cases, the CRA examiner cited discriminatory or illegal practices but did not downgrade the rating because the practices were not widespread. In one case, the mortgage company affiliate (Suntrust Mortgage affiliate of Suntrust Bank) was engaging in servicing abuses but it did not affect the bank's rating because the bank had chosen to exclude the mortgage company affiliate from the CRA exam.[4]

Assessment Area Coverage

As stated above, assessment areas are geographical areas where bank branches are located and where CRA examiners rate bank performance. Large banks have more extensive branch networks so they have more assessment areas. In this sample, the largest 10 banks have a median number of assessment areas of 105 (see Table 6). Often these assessment areas span over several states. The top 50 banks in this sample have a median number of assessment areas of 23 while the bottom 50 banks in the sample have a median number of areas of 11. It is rather remarkable how the number of areas for the bottom 50 drop significantly, considering the bottom 50 still have considerable assets of ranging from $21 billion to $8 billion.

Median Number of Assessment Areas	Count
All	13
Top 10 Banks	105
Top 50 Banks	23
Bottom 50 Banks	11

Table 6: Number of Assessment Areas

Overall, assessment areas capture the great majority of the lending activity of banks in this sample (see Table 7 below). However, as discussed below, this finding is diluted when considering affiliates and distinctions between full- and limited-scope assessment areas. The median percentage of home loans covered by CRA exams for the top 50 banks is 87 percent; for small business lending and all types of lending, the corresponding figures are 94 percent and 87 percent, respectively. In addition to the great majority of lending being covered, another significant finding is that the percentage of small business lending covered is larger than the percentage of home

4 See §25.22(c) for rule on affiliates.

lending covered. This is probably the case because small business lending tends to be the type of lending that is most often conducted from bank branches.[5]

Median Assessment Area Coverage	All Banks	Top 50	Bottom 50
Home Loans	89%	87%	91%
Small Business	93%	94%	93%
All Loans	91%	87%	92%

Table 7: Assessment Area Coverage of Lending

A larger percentage of the lending of the banks in the bottom 50 in this sample is covered by assessment areas (see Table 7). The median percentage of home loans covered is 91 percent. The median percentage of small business loans covered is 93 percent while the median percentage of all types of loans covered is 92 percent.[6]

Although the median percentages of assessment area coverage are high, there are a number of banks for which assessment area coverage is low. Less than 50 percent of the home loans are covered by assessment areas for 11 banks while less than 50 percent of the small business loans are covered by assessment areas for seven banks. Eleven banks also have between 51 to 75 percent of their home loans covered by assessment areas, which is lower than the median percentage. For a sizable portion of banks, approximately 20 percent, assessment area procedures are not capturing the great majority of home loans. For 11 percent of banks, the coverage is below 50 percent for home loans (data not shown in tables).

Lending Test Ratings	Count	Percent
Outstanding	4	36%
High Satisfactory	6	55%
Low Satisfactory	1	9%
Total	**11**	

Table 8: 11 Banks with < 50 % of Home Loans in Assessment Area

The sample provides evidence that low coverage of loans inflates the lending test rating (the lending test rating is 50 percent of the overall rating). The 11 banks in which the percent of home loans covered by assessment areas is less than 50 percent were more likely to be rated Outstanding on the lending test than all banks in the sample (the difference favoring the 11 banks was 13 percentage points; compare Table 8 with Table 5). Likewise, these 11 banks were less likely to be rated as Low Satisfactory on the lending test.

5 For more on small business lending and branches, see NCRC's study for the Appalachian Regional Commission via http://www.ncrc.org/images/accesstocapitalandcreditInappalachia.pdf

6 All types of loans usually includes home and small business loans but occasionally also includes consumer loans.

Inflation on the lending test might be of most concern when assessment areas cover 50 percent or less of the loans. When banks whose assessment areas cover between 50 to 75 percent of the loans are combined with banks whose assessment areas cover less than 50 percent of their loans, the differences in ratings between banks with less than 75 percent of their loans covered and all banks in this sample narrows. However, the group of banks whose assessment areas cover less than 75 percent of their loans are still more likely to be rated Outstanding and less likely to be rated Low Satisfactory (compare Table 9 and 5).

Lending Test Ratings	Count	Percent
Outstanding	6	27%
High Satisfactory	14	64%
Low Satisfactory	2	9%
Total	**22**	

Table 9: 22 Banks with Less than 75% of Home Loans in Assessment Area

Another complicating factor in assessment area coverage is the treatment of affiliates on the CRA exams. When a bank chooses to include an affiliate, the affiliate's loans are considered when evaluating the percentage of loans in the bank's assessment area that are issued to low- and moderate-income borrowers and census tracts. However, the affiliate's loans outside of assessment areas are not considered when examiners calculate the percentage of a bank's loans that are inside assessment areas.[7] Thus, inclusion of an affiliate on an exam can make it appear that the bank and its affiliate are making a greater percentage of loans in assessment areas than is the case. In a number of cases, a bank's affiliate is a mortgage company that does a considerable amount of home lending. When a bank is including a mortgage company affiliate, some exams are nevertheless still missing much of the mortgage company affiliate's loans in cases where the affiliate is making considerable amount of loans outside of exam assessment areas.

In this sample, 19 mortgage company affiliates are included on bank CRA exams. Without additional Home Mortgage Disclosure Act (HMDA) data analysis, it is not possible to say whether the assessment area coverage for these 19 mortgage companies and their affiliated banks is accurate or is an over-estimate of the percentage of loans covered by the assessment areas. Thus, the finding above of a great majority of loans overall covered by assessment areas must be tempered by the treatment of affiliates. In addition, four bank affiliates doing small business loans are included by banks in this sample as are two bank affiliates doing home lending.

7 See https://www.ffiec.gov/cra/regulation.htm for a copy of the CRA regulations. In the OCC's version, the rule regarding affiliates and assessment area lending is contained in **§25.22**(c)(3).

Examples of Assessment Areas Covering Small Percentages of Lending

Case examples of assessment areas covering small percentages of bank lending are instructive for identifying the types of institutions for which the current procedures of determining assessment areas are not sufficient. In addition, this exercise can help determine whether the banks with atypical assessment area coverage are niche banks or whether their lending model is likely to become more prevalent in the future. If their lending model is likely to become more widespread, the need to develop additional assessment area procedures becomes more immediate. Here are some examples of these non-traditional lenders:

- State Farm Bank, FSB is an affiliate of the insurance company. Insurance agents nationwide sell products including mortgage loans. About three percent of State Farm's home loans are in the thrift's one assessment area, Bloomington, Illinois, which is where the headquarters is located. State Farm does not have branches.[8]

- Everbank, headquarted in Jacksonville, Florida, has 15 branches located in Florida. However, it focuses on gathering deposits via the internet and has a national network of brokers and correspondents with whom it does business. Just seven percent of its home loans are in its Florida assessment areas. The OCC 2012 exam does not attempt to conduct examination of lending outside of the assessment areas.[9]

- Raymond James Bank, headquarted in Florida, has affiliates that are financial advisors and that manage customers' investment accounts. The approximately 6,200 financial advisors located throughout the country collect deposits and arrange for loans by Raymond James Bank. As a result, just nine percent of the bank's home loans were in the Florida assessment areas.[10]

- Citizens Bank of Pennsylvania, according to a 2015 FDIC exam, has 42 percent of its home loans in its assessment area. A significant reason for this is that the bank purchased a considerable number of loans outside of its assessment area. The bank also has an affiliate that makes mortgage loans. The exam did not indicate how much of the affiliate lending is outside of the assessment areas. Finally, the bank ceased its home equity lending operations, which reduced

8 State Farm's 2010 CRA exam conducted by the former Office of Thrift Supervision, available via https://occ.gov/static/cra/craeval/OTS/CRAE_14640_20100907_64.pdf

9 OCC 2012 CRA exam of Everbank, see https://www.occ.gov/static/cra/craeval/jan13/715115.pdf.

10 OCC 2014 CRA exam of Raymond James Bank, see https://occ.gov/static/cra/craeval/jun14/24914.pdf

assessment area lending, according to the exam. The exam just states these facts plainly without making judgments such as whether purchasing loans outside of assessment areas meaningfully responds to credit needs.[11] NCRC has maintained that purchases of loans should count less than originations (originating loans is a more difficult task and responds immediately to credit needs).

- Signature Bank, a New York-based bank, had only 24 percent of its small business loans in its assessment area according to its 2016 FDIC exam. The bank pursued an aggressive strategy of purchasing and securitizing Small Business Administration (SBA) loans, purchasing more than 2,400 loans in a two year time period. The exam did not perform any critical analysis to assess whether the purchasing activity substantially provided liquidity for SBA loans. In the absence of this analysis, the reader is left wondering whether this perfunctory and neutral treatment of purchasing SBA loans is warranted.[12]

In these cases, some internet operations exist but these do not appear to drive large amounts of lending outside assessment areas as much as networks of brokers or other financial professionals. In other cases, a strategy of purchasing loans is responsible for the low percentage of loans in the assessment areas. Since these practices affect a minority of banks in the sample, it is clearly possible for the regulators to keep pace with the banks' lending outside of assessment areas and adopt examination procedures that scrutinize this lending.

If a bank makes a significant portion, such as 25 percent, of its retail loans outside of its assessment areas, restricting evaluation of retail lending to only assessment areas is not sufficiently holding banks accountable for meeting credit needs. In these cases, examiners must evaluate retail lending outside of assessment areas to assess whether the retail lending is consistent or inconsistent with retail lending performance to low- and moderate-income borrowers and communities in the assessment area(s). If the lending outside of the assessment areas is inconsistent in that the performance is worse than inside the assessment areas, the rating on the lending test should be downgraded. In addition, if a bank seeks favorable consideration for community development financing in a broader state or regional area outside of its assessment area, then an evaluation of retail lending activities in the broader state or regional area must also occur in conjunction.

Precedents exist for this procedure. The former OTS supervised several lenders without traditional branch networks. The OTS examined retail lending in geographical areas beyond branch networks. It relied upon the existing interagency Q&A document

11 FDIC 2015 CRA exam of Citizens Bank, see https://www5.fdic.gov/crapes/2015/57282_150630.PDF

12 FDIC 2016 CRA exam of Signature Bank, see https://www5.fdic.gov/crapes/2016/57053_160208.PDF

allowing examination of retail lending outside of assessment areas provided the retail lending inside the assessment areas has adequately responded to needs. However, good lending performance to low- and moderate-income borrowers outside of the assessment areas would not compensate for poor lending performance in the assessment areas according to the Q&A.[13]

The OTS 2009 CRA exam of Citicorp (not part of this sample), a non-traditional thrift located in Wilmington, DE that made loans through 77,000 agents located throughout the country, included analyses of 10 metropolitan areas and three non-metropolitan areas with the largest percentage of lending outside of the Wilmington assessment area. Likewise the OTS examined Capital One's lending in 20 areas beyond its one assessment area. These 20 areas comprised 25 percent of the thrift's lending (an earlier Capital One exam is not in this study's sample).[14]

An examiner with the OCC likewise examined retail lending in six states outside the San Diego assessment area of BofI Federal Bank, a $2.9 billion-asset internet bank (not in this study's sample), after determining that lending in the assessment area was just 12 percent of total lending.[15] The exam also scrutinized investments in the six states outside of the San Diego assessment area where lending and deposits were of high volumes. The retail lending and investment activity outside of the assessment area was factored into the overall rating.

The banks and thrifts in these examples benefited from an examination outside assessment areas because the low percentage of loans inside of the assessment areas probably would have been viewed unfavorably by the examiner. Yet, the communities also benefit because the examiners were ensuring that low- and moderate-income borrowers and communities were receiving responsible loans. The other attractive aspect of this procedure for retail lending is that it is quite similar to the procedure for considering community development lending and investing outside of assessment areas. It also relies on an existing interagency Q&A.

The approach recommended here avoids for now the thorny issue of whether new assessment areas should be created in order to capture the great majority of lending (NCRC has and continues to favor the creation of new assessment areas beyond branches where lending levels are significant). Instead, this procedure asks regulatory agencies to adopt an approach for retail lending similar to its approach for considering community development lending and investing outside of assessment areas.

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13 Interagency Question and Answer document, §_.22(b)(2) & 3-4, p. 11656, http://www.ffiec.gov/cra/pdf/2010-4903.pdf

14 OTS 2009 Citicorp CRA exam, see http://www.occ.gov/static/cra/craeval/OTS/CRAE_14470_20091109_64.pdf; OTS 2005 Capital One CRA exam, see http://www.occ.gov/static/cra/craeval/OTS/CRAE_13181_20050718_64.pdf.

15 OCC 2013 CRA exams of BofI Federal Bank, see http://www.occ.gov/static/cra/craeval/oct13/716456.pdf

For banks with non-traditional delivery mechanisms, NCRC has long recommended that lending analysis be conducted in geographical areas in which the bank's market share exceeds one half of one percent. While this may seem small, it corresponds to typical market shares in metropolitan areas of large banks. Regardless of the exact threshold adopted, the principle is that examination of retail lending should occur where a bank has a significant number of loans exceeding a sensible threshold. Examination of lending in separate geographical areas is imperative because credit needs will vary across geographical areas and banks need to be assessed regarding the extent to which they are responding to these different needs.

In cases in which a nontraditional bank has small numbers of loans in various states and lending is dispersed across the country, the agencies can use the regulatory procedure for military banks in which the country as a whole effectively serves as an assessment area. In this sample, the CRA exam of USAA Federal Savings Bank employs the procedure used for military banks.[16]

Full Scope and Limited Scope Assessment Areas

Even when assessment areas in CRA exams appear to cover the great majority of lending activity, assessment area procedures may still not be sufficient if CRA exams do not apply uniformly rigorous scrutiny of lending, investment, and service activity in the assessment areas. In fact, CRA exam procedure provides discretion to examiners to designate "full scope" and "limited scope" assessment areas. Full scope assessment areas receive a comprehensive review employing all exam criteria in detail. Limited scope assessment areas, in contrast, experience cursory examination. The CRA exams have short narrative on limited scope areas that mostly report whether performance was consistent or inconsistent with performance in full scope areas. Moreover, limited scope areas do not significantly impact the bank's overall rating or rating for individual states.

Within the first few pages of a CRA exam, the section regarding the exam's scope will often provide a description of which areas are full scope and limited scope assessment areas. Typically, full scope areas are those in which the bulk of a bank's deposits are located and where a substantial amount of the bank's lending occurs.[17] While this appears to make sense, geographical areas that represent the minority of deposits and/or loans can be reliant on a large bank. A small number of a large bank's loans can

16 OTS 2011 CRA Exam of USAA Federal Savings Bank, https://www.occ.gov/static/cra/craeval/OTS/CRAE_07975_20110207_64.pdf

17 JPMorgan Chase's CRA exam says that full scope areas are those in which 60 percent of the deposits were gathered. Capital One's exam says that full scope areas are those in each state or multi-state metropolitan areas in which the bank made the largest percentage of its loans or deposits received.

translate into a substantial number of loans since large banks are high volume lenders. If a particular area is a smaller city or rural area, it may not have received a high volume of loans in total, meaning that a small number of a large bank's loans may be important for that geographical area. Examiners can designate such areas as full scope areas if relatively small numbers of a bank's loans are important to the areas.[18] However, this does not happen often.

Full Scope Assessment Areas	Percent
All Banks	40%
Top 10 Banks	24%
Top 50 Banks	32%
Bottom 50 Banks	50%

Table 10: Full Scope Assessment Areas by Bank Size

Fewer than half the assessment areas of the top 100 banks in this sample are full scope areas. The median for this sample is 40 percent of assessment areas being full scope areas (see Table 10). For the very largest banks, the percentage of full scope areas is considerably less. For the top 10 banks in the sample, the median percentage of assessment areas being full scope areas is 24 percent. For the top 50 and bottom 50 banks, the medians are 32 percent and 50 percent, respectively.

A strong case can be made that the percentage of assessment areas that are full scope must be higher for all banks. Simply put, limited scope examination is quite limited, resulting in weak accountability for banks and weak incentives to engage in CRA-related activities. In some cases, the banks themselves may perceive needs in limited scope areas and desire to respond to those needs, but know that their responses will not count for much on their exams. Thus, limited scope areas are likely to receive less attention and fewer loans and investments from the bank.

Part of the reason why the majority of areas tend to be limited scope may be the resources of examiners. Changes in exam presentation can make the exam more efficient and facilitate more areas being designated as full scope. CRA exams spend considerable pages developing narrative on various criteria of the component tests. Yet, much of the narrative is redundant and often consists of very similar paragraphs with a few words changed depending on whether banks lead or lag their peers. A good amount of this narrative could be replaced with well-developed and easy-to-understand tables displaying whether bank performance on various criteria is better or worse than peers and considered to be excellent, good, or poor.

It is more understandable why lower percentages of assessment areas for the very largest banks are full scope areas than limited scope areas. As reported above, the top

18 Large Institution CRA Examination Procedures, OCC, FRB, FDIC, April 2014, p. 2, see https://www.federalreserve.gov/bankinforeg/caletters/CA_14-2_attachment_1_Revised_Large_Institution_CRA_Examination_Procedures.pdf

10 banks have a median number of 105 assessment areas (see Table 6). The top 50 banks have a median number of 23 assessment areas and one-third of them are full scope (see Table 10). Clearly, designating one-third of the assessment areas as full scope for the top 10 banks entails much more work than designating one-third of the areas as full scope for the other banks in the top 50. It would seem that the percentages for full scope areas should be much higher for banks outside of the top 10, particularly for the bottom 50 banks that have a median number of assessment areas of 11. The median percentage for full scope areas (50 percent in Table 10) for the bottom 50 banks means that only about six assessment areas are full scope for the typical bank in this group.

A convincing case could also be made for increasing the percentage of areas that are full scope for the 10 largest banks. These banks have hundreds of billions of dollars in assets, with the top four having more than $1 trillion each in assets. They have more capacity than their peers to devote to CRA responsibilities. The agencies could establish goals such as making 50 percent of the assessment areas full scope for the largest banks. Since the banks outside of the top 10 have significantly fewer assessment areas, the goals for full scope coverage should be greater than 50 percent for those banks.

Related to the issues of how many areas are full scope is their distribution across metropolitan and rural geographies. A casual perusal of CRA exams usually leads a reader to conclude that the largest metropolitan areas tend to be full scope areas while smaller metropolitan areas and rural areas are limited scope. If this is the case, inequalities over geographical space will be intensified as larger, more populous, and more economically vibrant areas receive more CRA-related loans and investments than smaller and more rural areas.

Rural Limited Areas - Rural Full Scope Areas	# of Banks	Percent
More than 10 Areas in Favor of Limited	9	9%
5 to 10 Areas in Favor of Limited	8	8%
2 to 4 Areas in Favor of Limited	17	17%
1 More Limited Scope Area than Full	19	19%
No Difference	33	33%
More Rural Full Scope than Limited Areas	14	14%
Total	**100**	

Table 11: Limited and Full Scope Rural Assessment Areas

The analysis of the sample reveals that rural areas are more likely to be limited scope than full scope areas. Rural full scope areas were small in number; 57 banks had no full scope rural areas and 24 banks had just one rural area that was full scope (data not shown in tables). For nine banks in the sample, at least 10 more rural areas were limited scope than full scope (see Table 11). For eight banks, between five to 10 more rural areas were limited scope than full scope. In the case of 17 banks, between two to four more rural areas were limited scope than full scope. In sum, the exams for 34 banks, or about one-third of the sample, had two or more rural areas as limited rather than full scope areas.

In the case of 14 banks, more rural areas were full scope than limited scope. However, for 10 of these banks, full scope rural areas outnumbered limited scope areas by just one or two areas (data not shown in tables).

Overall, it is the case that rural areas are more likely to be limited scope than full scope. When looking at the polar extremes, the disparity becomes evident. For 17 of the banks, five or more rural areas were limited scope than full scope. For 14 of the banks, rural full scope areas outnumbered limited scope, but the difference was smaller. Moreover, 53 banks had more limited scope rural areas than full scope while the reverse was the case for just 14 banks.

The tendency for the largest banks to have limited scope rural areas reinforces the finding that rural areas are more likely to be limited scope. Of the 10 banks with the largest difference between rural limited scope and full scope areas, five of them were in the top 10 of the largest banks in terms of asset sizes. Three of these were the three largest banks in terms of asset size in the United States: JPMorgan Chase, Wells Fargo, and Bank of America. Moreover, all of the 10 with the most rural limited scope areas relative to full scope areas were within the largest 20 banks in the country. If the agencies decide to make more assessment areas full scope for the largest banks, a good place to start would be with rural assessment areas.

Conclusion and Recommendations

CRA is a vital law. It improves the efficiency and equity of the marketplace by directing banks to focus more on underserved communities than they would in the absence of the law. CRA, however, will ultimately only be as good as the examination regime that oversees banks. If significant amounts of bank activity are overlooked by exams because of crimped assessment area procedures, the full potential of the law to direct lending, investment, and services to areas most in need of it will not be realized. This study finds evidence of ineffective and outdated examination procedure and practice. This study also finds evidence that assessment area procedures covering small percentages of loans inflate ratings on the lending test for a subset of banks in the sample, which could also inflate overall ratings since the lending test counts for half the grade on large bank exams.

The good news, however, is that corrections can be made that do not entail an exhaustive regulatory rulemaking exercise. Examination practice and procedure can be readily improved. Precedents (that is, examples of previous exams) exist for examining large volumes of retail lending beyond assessment areas. Likewise, it is possible to expand the number of full scope assessment areas and make sure these areas include smaller metropolitan and rural areas as well as large metropolitan areas.

CRA is about making capitalism work better in all communities by increasing access to responsible loans, investments, and bank services. There is nothing more American than expanding the dream of homeownership, small business ownership, and thriving neighborhoods via responsible lending and investing for all who work hard and play by the rules. This must be a bipartisan objective. Some sensible and straightforward changes to CRA exam practice and procedure can indeed expand access to the American dream.

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