

Appendix A: Step-by-Step Summary of Proposed Ratings Mechanics

Step 1: Designation of Assessment Area(s)

The scope of a bank's assessment area(s) is determined through two tests:

Facility-Based Assessment Area: Every bank must delineate an assessment area encompassing each location where it maintains its main office, a branch, or a non-branch deposit-taking facility, as well as the surrounding locations in which the bank has originated or purchased a substantial portion of its qualifying retail loans.

Deposit-Based Assessment Area: A bank that receives 50 percent or more of its retail domestic deposits from outside of its facility-based assessment area must delineate separate, non-overlapping assessment areas in the smallest geographic area where it receives 5 percent or more of its retail domestic deposits.

Step 2: Determination of Assessment Area-Level Presumptive Rating

The bank's presumptive assessment area-level rating is determined by its CRA Evaluation Measure, and a Satisfactory or better rating also requires passing the Retail Lending Distribution Measure and satisfying the CD Minimum.

CRA Evaluation Measure: The bank's assessment area-level CRA Evaluation Measure is the sum of: (1) the dollar value of qualifying activities, divided by the average quarterly value of the bank's assessment area retail domestic deposits; and (2) the percentage of branches in the assessment area that are located in LMI census tracts, multiplied by 0.01. The value of certain CD activities is multiplied by two for the purposes of this measure. This measure must meet or exceed 11 percent for an Outstanding rating, 6 percent for a Satisfactory rating, and 3 percent for a Needs to Improve rating in the assessment area.

Retail Lending Distribution Measure: The bank must (1) pass a borrower distribution test for each major retail lending product line for which a bank has originated 20 or more loans in the assessment area during the evaluation period, and (2) when making small loans to businesses or farms is a major retail lending product line and the bank has originated 20 or more such loans in the assessment area during the evaluation period, pass the geographic distribution test for such loans. These tests measure the number of loans that the bank has made, rather than the dollar value of those loans.

- Under the **borrower distribution test**, the percentage of the bank's loans in a given category in the assessment area that the bank has made to LMI individuals, small businesses, or small farms (as applicable) must exceed either (a) 55 percent of the percentage of individuals in the assessment area who are LMI, or percentage of businesses or farms in the assessment area that are small businesses or small farms (as applicable), or (b) 65 percent of the percentage of peer banks' loans in the category in the assessment area that peer banks have made to LMI individuals, small businesses, or small farms (as applicable).
- Under the **geographic distribution test**, the percentage of the bank's small loans to businesses or farms in the assessment area that the bank has made in LMI census tracts must meet or exceed either (a) 55 percent of the percentage of businesses or farms in the assessment area that are in LMI census tracts, or (b) 65 percent of the percentage of peer banks' loans to businesses or farms in the assessment area that peer banks have made in LMI census tracts.

CD Minimum: The value of the bank's CD loans and investments in the assessment area divided by the average quarterly value of the bank's assessment area retail domestic deposits must meet or exceed 2 percent.

Step 3: Determination of Bank-Level Presumptive Rating

The bank's presumptive bank-level rating is determined by its bank-level CRA Evaluation Measure and its assessment area ratings, and a Satisfactory or better bank-level rating also requires satisfying the bank-level CD Minimum.

CRA Evaluation Measure: The CRA Evaluation Measure described in Step 2 is also used to evaluate the bank's total qualifying activities both within *and* outside of its assessment areas to calculate the bank-level CRA Evaluation Measure. The average of the annual bank-level CRA Evaluation Measures during the evaluation period must meet or exceed 11 percent for an Outstanding rating, 6 percent for a Satisfactory rating, and 3 percent for a Needs to Improve rating.

Assessment Area Ratings: The bank must receive a given rating in a "significant portion" of its assessment areas (which the preamble suggests is 50 percent or more) to receive that same rating at the bank level.

CD Minimum: The value of the bank's total CD loans and investments (both within *and* outside its assessment areas) divided by the average quarterly value of the bank's retail domestic deposits must meet or exceed 2 percent.

Step 4: Application of Performance Context Factors

The bank's primary federal regulator may adjust its presumptive assessment area-level and bank-level ratings based on a series of performance context factors. These factors include the bank's explanation of its product offerings, business strategy, financial constraints, economic factors, and assessment area needs.

Evidence that the bank has engaged in discriminatory or other illegal credit practices may also provide grounds for a downward ratings adjustment.