DEMYSTIFYING THE LENDING TEST

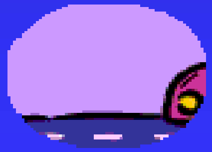
The Lending Test evaluates a bank's record of helping to meet the credit needs of its assessment areas

- Home mortgage lending

- Small business/farm lending

- Community development lending

- Consumer lending



Management should provide data for all lending they want considered

- Generally, should include all lending data since last exam through a “cut-off” or “as of” date
- This includes data on optional affiliate and consortia/third party lending
- Other loan data

Loan data should be in a format that is conducive to analysis

- HMDA, Small Business/Small Farm, and Consumer Loan data should be in prescribed formats
- Bank’s responsibility to ensure data is accurate
- Supplemental records may be needed to receive full consideration for community development loans

Lending Test Components

- Lending activity
- Assessment area concentration
- Geographic distribution
- Borrower distribution
- Community development lending
- Product innovation and flexible lending practices

Lending Activity

- Foundation of the lending test rating
- Market share and market rank primary way to put activity into context
- Contextual information considered, including credit needs and the competitive environment
- Be prepared to discuss anomalies in the data

Assessment Area Concentration

- Compares lending inside assessment area versus outside
- Performed at the state or bank level
- Does not include affiliate lending
- Business strategy and contextual data may affect this performance criteria
- Be prepared to tell “your story” to explain a low in/out ratio

Geographic Distribution

- Considers performance in lending to all geographies in an assessment area, particularly in low- and moderate-income geographies
- Lending distribution is compared to certain demographic information
- Other comparators might also be used
- Lending gap analysis used to identify conspicuous gaps
- Contextual information may affect conclusion
- Management should be prepared to explain any significant disparities

Example: Geographic Distribution Table – HMDA Loans

Geographic Distribution: **HOME PURCHASE** State: **ANYSTATE** Evaluation Period: **JAN 1, 2004 TO DEC 31, 2006**															
MSA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography *				
	#	% of Total**	% Owner Occ Units***	% Bank Loans	% Owner Occ Units***	% Bank Loans	% Owner Occ Units***	% Bank Loans	% Owner Occ Units***	% Bank Loans	Over -all	Low	Mod	Mid	Upp
Large City MSA #1	219	44.88	2.63	3.71	15.30	9.18	44.34	39.81	37.74	47.30	.86	.83	.83	.46	.90
Large City MSA #2	269	55.12	1.19	.75	16.35	16.00	36.63	39.30	45.84	43.95	1.09	0.00	0.81	0.95	1.51

- Based on 2006 Peer Mortgage Data

** Home purchase loans originated and purchased in the MA/AA as a percentage of all home loan originated and purchased in the rated area.

***Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

Focus on performance in low- and moderate-income geographies

Example: Geographic Distribution Table – Small Business Loans

Geographic Distribution: **SMALL LOANS TO BUSINESSES**															
State: **ANYSTATE**															
Evaluation Period: **JAN 1, 2004 TO DEC 31, 2006**															
MSA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography *				
	#	% of Total**	% of Bus***	% Bank Loans	% of Bus***	% Bank Loans	% of Bus***	% Bank Loans	% of Bus***	% Bank Loans	Over-all	Low	Mod	Mid	Upp
Large City MSA #1	879	76.04	4.45	6.03	32.06	38.57	34.76	32.65	28.73	22.75	1.94	4.23	2.64	1.95	1.34
Large City MSA #2	277	23.96	0.00	0.00	25.33	23.83	46.44	40.79	28.23	35.38	4.47	0.00	4.01	4.66	5.09

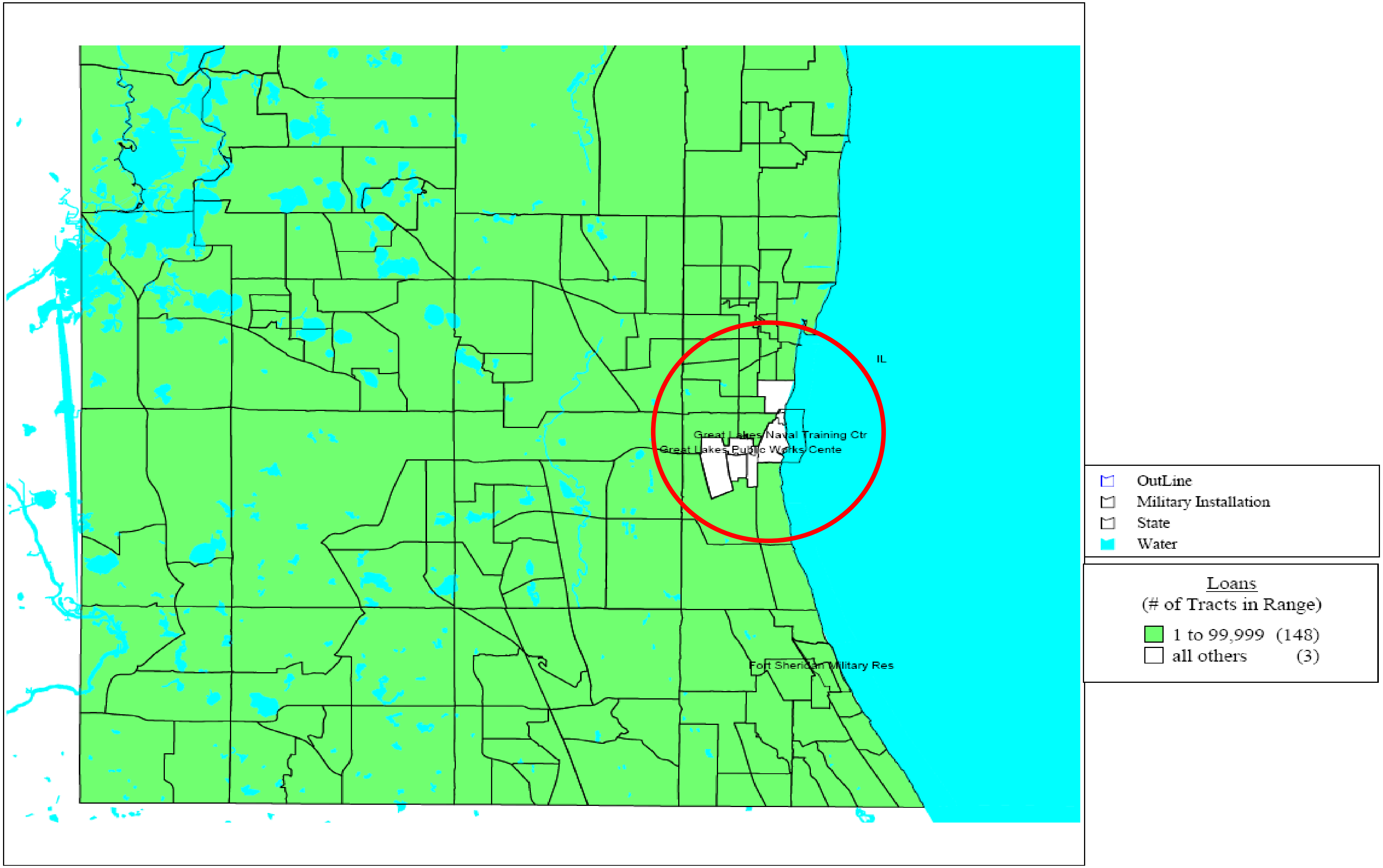
- Based on 2006 Peer Mortgage Data.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Source Data – Dun and Bradstreet (2006).

Focus on performance in low- and moderate-income geographies

Lending Gap Analysis



Best Practices

- Perform self assessment
- Generate tables
- Identify areas of poor performance and take action
- Perform the analysis frequently
- Understand your performance context

Geographic Distribution
Exercise - 1

Distribution of Home Purchase Loans By Income Level of the Geography							
Geography Income Level	**% of Owner Occupied Housing Units**	**2006**		**2007**		**Total**	
		#	%	#	%	#	%
Low	3%	5	5%	1	1%	6	4%
Moderate	23%	16	17%	26	33%	42	25%
Middle	31%	40	44%	30	38%	70	41%
Upper	43%	31	34%	22	28%	53	31%
Total	100%	92	100%	79	100%	171	100%

Borrower Distribution

- Considers distribution among borrowers based on income and business size, especially LMI borrowers & small businesses
- Regulators consider different measurements
- Contextual data may affect conclusion
- Management should be prepared to discuss any disparities

Borrower Profile – Small Business Loans

Table X – Lending Distribution of Commercial Loans Based on Gross Annual Revenues of the Business						
Gross Annual Revenue	**Less than $50,000**	**$50,000 to $99,999**	**$100,000 to $249,999**	**$250,000 to $499,999**	**$500,000 to $999,999**	**$1,000,000 and Greater**
Percentage of Businesses by Gross Annual Revenues	**11%**	**25%**	**31%**	**13%**	**8%**	**12%**
Number of Loans	**3**	**4**	**2**	**2**	**1**	**6**
Percentage by Number	**17%**	**22%**	**11%**	**11%**	**6%**	**33%**
Dollar Amount of Loans	**$353,025**	**$308,344**	**$185,025**	**$30,050**	**$50,025**	**$1,091,154**
Percentage by Dollar Amount	**18%**	**15%**	**9%**	**1%**	**2%**	**54%**

Borrower Profile – HMDA Loans

Table X - Distribution of HMDA Loans by Borrower Income

Borrower Income Level	% of Aggregate Lending (% of #)	% of Families	2003		2004		Total	
			#	%	#	%	#	%
Low	9%	25%	19	21%	18	23%	37	22%
Moderate	16%	18%	24	26%	14	18%	38	22%
Middle	17%	17%	22	24%	20	25%	42	25%
Upper	42%	40%	21	23%	21	26%	42	25%
NA	17%	NA	6	6%	6	8%	12	7%
Total	100%	100%	92	100%	79	100%	171	100%

Borrower Profile
Exercise 1

Table X – Distribution of Consumer Loans By Borrower Income Level							
Borrower Income Level	**% of Households**	**2006**		**2007**		**Total**	
		#	**%**	#	**%**	#	**%**
Low	6%	12	7%	25	19%	37	12%
Moderate	25%	42	26%	61	46%	103	35%
Middle	36%	72	44%	43	32%	115	39%
Upper	33%	39	23%	4	3%	43	14%
Total	100%	165	100%	133	100%	298	100%

Borrower Profile
Exercise 2

Gross Annual Revenue (000s)	Area Businesses (D&B)	Bank Loans %
< $100	44%	22%
$100 to $249	35%	18%
$250 to $499	12%	20%
$500 to $999	5%	21%
≥ $1,000	4%	19%

Responsiveness

- Measures Bank's responsiveness to low-income areas and borrowers, and to very small businesses
- Reviewed similar to Geographic and Borrower elements
- Multiple measures typically used
- Contextual data may affect conclusions
- Management should be prepared to discuss any disparities

Community Development

- Measures the Bank's responsiveness and leadership in community development lending
  - Number and amount
  - Complexity and innovativeness

- A community development loan must have a primary purpose of community development
  - An understanding of community development is critical, and this is an evolving area

Community Development

- Affordable housing
- Community services targeted to LMI residents
- Activities that promote economic development by financing small businesses or farms
- Activities that revitalize or stabilize LMI geographies

Community Development

- For non-OTS institutions, revitalizing or stabilizing LMI geographies has been expanded to include:
  - Revitalizing designated disaster areas
  - “Distressed or underserved” middle-income nonmetropolitan areas

Designated Disaster Area

- Areas designated by the federal government(for example, major disaster declarations by FEMA)
- Eligible for 36 months following the date of designation
- Refer to FEMA website (http:/www.fema.gov) for disaster designations

Distressed or Underserved Area

- Includes middle-income tracts in nonmetropolitan areas
- “Nonmetropolitan” means outside an MSA
- The agencies will publish a list of covered tracts
- Refer to FFIEC website (http://www.ffiec.gov) for listing

Criteria

Distressed

- Unemployment rate of at least 1.5 times the national average
- Poverty rate of 20% or more
- Population loss of 10% or more between the previous and most recent decennial census
- Net migration loss of 5% or more over the five-year period preceding the most recent census.

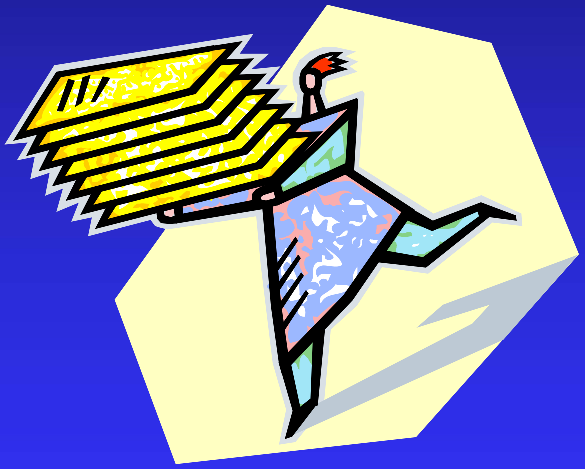
* A community is considered distressed if it meets one or more of the above criteria

Underserved

- Small population
- Distant from a population center
- Identified by USDA Urban Influence Codes 7, 10, 11, or 12

Document Your Activities

- Make sure you document the elements that qualify the loan(s) under the regulation
  - Community development primary purpose
  - Area benefited
  - Impact



Be prepared to explain why it’s a community development loan

- Management should be prepared to explain how a loan meets community development purposes
- Time invested in making these loans and tracking the activity helps distinguish an institution’s level of performance
- Contextual data again is reviewed in evaluating performance

Product Innovation

- Looks at the number and complexity of various specialized loan programs the institution offers
  - Be prepared to provide number and $ amount of lending under such programs

Common Issues/Problems

For Bankers

- Data collection
- Community development lending opportunities
- Resource constraints

For Examiners

- Activities not sufficiently documented
- Data integrity
- Data dump w/o analysis

Illegal lending practices

- CRA evaluation adversely affected by discriminatory or other illegal lending practices
- Applies to the bank and its affiliates
- Regulators will consider extent of evidence, bank policies and procedures, and any corrective action taken
- Includes
  - ECOA
  - FHA
  - FTC Act
  - RESPA
  - TILA