**Section 345.APPENDIX A Ratings**

a) Ratings in general.

1) In assigning a rating, the Secretary evaluates a bank's performance under the applicable performance criteria in this part, in accordance with Sections 345.210 and 345.280. This includes consideration of low-cost education loans provided to low-income borrowers activities in cooperation with minority- or women-owned financial institutions and low-income credit unions, and the offering of Special Credit Programs, as well as adjustments on the basis of evidence of discriminatory or other illegal credit practices.

2) A bank's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The bank's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile as follows.

b) Banks evaluated under the lending, investment, and service tests.

1) Lending performance rating. The Secretary assigns each bank's lending performance one of the five following ratings.

A) Outstanding. The Secretary rates a bank's lending performance "outstanding" if, in general, it demonstrates:

i) Excellent responsiveness to credit needs in its assessment area, taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area;

ii) A substantial majority of its loans are made in its assessment area;

iii) An excellent geographic distribution of loans in its assessment area;

iv) An excellent distribution, particularly in its assessment area, of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank;

v) An excellent record of serving the credit needs of highly economically disadvantaged areas in its assessment area, low-income individuals, or businesses (including farms) with gross annual revenues of $1 million or less, consistent with safe and sound operations;

vi) Extensive use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies; and

vii) It is a leader in making community development loans.

B) High satisfactory. The Secretary rates a bank's lending performance "high satisfactory" if, in general, it demonstrates:

i) Good responsiveness to credit needs in its assessment area, taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area;

ii) A high percentage of its loans are made in its assessment area;

iii) A good geographic distribution of loans in its assessment area;

iv) A good distribution, particularly in its assessment area, of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank;

v) A good record of serving the credit needs of highly economically disadvantaged areas in its assessment area, low-income individuals, or businesses (including farms) with gross annual revenues of $1 million or less, consistent with safe and sound operations;

vi) Use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies; and

vii) It has made a relatively high level of community development loans.

C) Low satisfactory. The Secretary rates a bank's lending performance "low satisfactory" if, in general, it demonstrates:

i) Adequate responsiveness to credit needs in its assessment area, taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area;

ii) An adequate percentage of its loans are made in its assessment area;

iii) An adequate geographic distribution of loans in its assessment area;

iv) An adequate distribution, particularly in its assessment area, of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank;

v) An adequate record of serving the credit needs of highly economically disadvantaged areas in its assessment area, low-income individuals, or businesses (including farms) with gross annual revenues of $1 million or less, consistent with safe and sound operations;

vi) Limited use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies; and

vii) It has made an adequate level of community development loans.

D) Needs to improve. The Secretary rates a bank's lending performance "needs to improve" if, in general, it demonstrates:

i) Poor responsiveness to credit needs in its assessment area, taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area;

ii) A small percentage of its loans are made in its assessment area;

iii) A poor geographic distribution of loans, particularly to low- or moderate-income geographies, in its assessment area;

iv) A poor distribution, particularly in its assessment area, of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank;

v) A poor record of serving the credit needs of highly economically disadvantaged areas in its assessment area, low-income individuals, or businesses (including farms) with gross annual revenues of $1 million or less, consistent with safe and sound operations;

vi) Little use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies; and

vii) It has made a low level of community development loans.

E) Substantial noncompliance. The Secretary rates a bank's lending performance as being in "substantial noncompliance" if, in general, it demonstrates:

i) A very poor responsiveness to credit needs in its assessment area, taking into account the number and amount of home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area;

ii) A very small percentage of its loans are made in its assessment area;

iii) A very poor geographic distribution of loans, particularly to low- or moderate-income geographies, in its assessment area;

iv) A very poor distribution, particularly in its assessment area, of loans among individuals of different income levels and businesses (including farms) of different sizes, given the product lines offered by the bank;

v) A very poor record of serving the credit needs of highly economically disadvantaged areas in its assessment area, low-income individuals, or businesses (including farms) with gross annual revenues of $1 million or less, consistent with safe and sound operations;

vi) No use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies; and

vii) It has made few, if any, community development loans.

2) Investment performance rating. The Secretary assigns each bank's investment performance one of the five following ratings:

A) Outstanding. The Secretary rates a bank's investment performance "outstanding" if, in general, it demonstrates:

i) An excellent level of qualified investments, particularly those that are not routinely provided by private investors, often in a leadership position;

ii) Extensive use of innovative or complex qualified investments; and

iii) Excellent responsiveness to credit and community development needs.

B) High satisfactory. The Secretary rates a bank's investment performance "high satisfactory" if, in general, it demonstrates:

i) A significant level of qualified investments, particularly those that are not routinely provided by private investors, occasionally in a leadership position;

ii) Significant use of innovative or complex qualified investments; and

iii) Good responsiveness to credit and community development needs.

C) Low satisfactory. The Secretary rates a bank's investment performance "low satisfactory" if, in general, it demonstrates:

i) An adequate level of qualified investments, particularly those that are not routinely provided by private investors, although rarely in a leadership position;

ii) Occasional use of innovative or complex qualified investments; and

iii) Adequate responsiveness to credit and community development needs.

D) Needs to improve. The Secretary rates a bank's investment performance "needs to improve" if, in general, it demonstrates:

i) A poor level of qualified investments, particularly those that are not routinely provided by private investors;

ii) Rare use of innovative or complex qualified investments; and

iii) Poor responsiveness to credit and community development needs.

E) Substantial noncompliance. The Secretary rates a bank's investment performance as being in "substantial noncompliance" if, in general, it demonstrates:

i) Few, if any, qualified investments, particularly those that are not routinely provided by private investors;

ii) No use of innovative or complex qualified investments; and

iii) Very poor responsiveness to credit and community development needs.

3) Service performance rating. The Secretary assigns each bank's service performance one of the five following ratings.

A) Outstanding. The Secretary rates a bank's service performance "outstanding" if, in general, the bank demonstrates:

i) Its service delivery systems are readily accessible to geographies and individuals of different income levels in its assessment area;

ii) To the extent changes have been made, its record of opening and closing branches has improved the accessibility of its delivery systems, particularly in low- or moderate-income geographies or to low- or moderate-income individuals;

iii) Its services (including, where appropriate, business hours) are tailored to the convenience and needs of its assessment area, particularly low- or moderate-income geographies or low- or moderate-income individuals; and

iv) It is a leader in providing community development services.

B) High satisfactory. The Secretary rates a bank's service performance "high satisfactory" if, in general, the bank demonstrates:

i) Its service delivery systems are accessible to geographies and individuals of different income levels in its assessment area;

ii) To the extent changes have been made, its record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals;

iii) Its services (including, where appropriate, business hours) do not vary in a way that inconveniences its assessment area, particularly low- and moderate-income geographies and low- and moderate-income individuals; and

iv) It provides a relatively high level of community development services.

C) Low satisfactory. The Secretary rates a bank's service performance "low satisfactory" if, in general, the bank demonstrates:

i) Its service delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area;

ii) To the extent changes have been made, its record of opening and closing branches has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals;

iii) Its services (including, where appropriate, business hours) do not vary in a way that inconveniences its assessment area, particularly low- and moderate-income geographies and low- and moderate-income individuals; and

iv) It provides an adequate level of community development services.

D) Needs to improve. The Secretary rates a bank's service performance "needs to improve" if, in general, the bank demonstrates:

i) Its service delivery systems are unreasonably inaccessible to portions of its assessment area, particularly to low- or moderate-income geographies or to low- or moderate-income individuals;

ii) To the extent changes have been made, its record of opening and closing branches has adversely affected the accessibility its delivery systems, particularly in low- or moderate-income geographies or to low- or moderate-income individuals;

iii) Its services (including, where appropriate, business hours) vary in a way that inconveniences its assessment area, particularly low- or moderate-income geographies or low- or moderate-income individuals; and

iv) It provides a limited level of community development services.

E) Substantial noncompliance. The Secretary rates a bank's service performance as being in "substantial noncompliance" if, in general, the bank demonstrates:

i) Its service delivery systems are unreasonably inaccessible to significant portions of its assessment area, particularly to low- or moderate-income geographies or to low- or moderate-income individuals;

ii) To the extent changes have been made, its record of opening and closing branches has significantly adversely affected the accessibility of its delivery systems, particularly in low- or moderate-income geographies or to low- or moderate-income individuals;

iii) Its services (including, where appropriate, business hours) vary in a way that significantly inconveniences its assessment area, particularly low- or moderate-income geographies or low- or moderate-income individuals; and

iv) It provides few, if any, community development services.

c) Wholesale or limited purpose banks. The Secretary assigns each wholesale or limited purpose bank's community development performance one of the four following ratings.

1) Outstanding. The Secretary rates a wholesale or limited purpose bank's community development performance "outstanding" if, in general, it demonstrates:

A) A high level of community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors;

B) Extensive use of innovative or complex qualified investments, community development loans, or community development services; and

C) Excellent responsiveness to credit and community development needs in its assessment area.

2) Satisfactory. The Secretary rates a wholesale or limited purpose bank's community development performance "satisfactory" if, in general, it demonstrates:

A) An adequate level of community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors;

B) Occasional use of innovative or complex qualified investments, community development loans, or community development services; and

C) Adequate responsiveness to credit and community development needs in its assessment area.

3) Needs to improve. The Secretary rates a wholesale or limited purpose bank's community development performance as "needs to improve" if, in general, it demonstrates:

A) A poor level of community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors;

B) Rare use of innovative or complex qualified investments, community development loans, or community development services; and

C) Poor responsiveness to credit and community development needs in its assessment area.

4) Substantial noncompliance. The Secretary rates a wholesale or limited purpose bank's community development performance in "substantial noncompliance" if, in general, it demonstrates:

A) Few, if any, community development loans, community development services, or qualified investments, particularly investments that are not routinely provided by private investors;

B) No use of innovative or complex qualified investments, community development loans, or community development services; and

C) Very poor responsiveness to credit and community development needs in its assessment area.

d) Banks evaluated under the small bank performance standards −

1) Lending test ratings.

A) Eligibility for a satisfactory lending test rating. The Secretary rates a small bank's lending performance "satisfactory" if, in general, the bank demonstrates:

i) A reasonable loan-to-deposit ratio (considering seasonal variations) given the bank's size, financial condition, the credit needs of its assessment area, and taking into account, as appropriate, other lending-related activities such as loan originations for sale to the secondary markets and community development loans and qualified investments;

ii) A majority of its loans and, as appropriate, other lending-related activities, are in its assessment area;

iii) A distribution of loans to and, as appropriate, other lending-related activities for individuals of different income levels (including low- and moderate-income individuals) and businesses and farms of different sizes that is reasonable given the demographics of the bank's assessment area;

iv) A record of taking appropriate action, when warranted, in response to written complaints, if any, about the bank's performance in helping to meet the credit needs of its assessment area; and

v) A reasonable geographic distribution of loans given the bank's assessment area.

B) Eligibility for an "outstanding" lending test rating. A small bank that meets each of the standards for a "satisfactory" rating under this subsection and exceeds some or all of those standards may warrant consideration for a lending test rating of "outstanding."

C) Needs to improve or substantial noncompliance ratings. A small bank may also receive a lending test rating of "needs to improve" or "substantial noncompliance depending on the degree to which its performance has failed to meet the standard for a "satisfactory" rating.

2) Community development test ratings for intermediate small banks.

A) Eligibility for a satisfactory community development test rating. The Secretary rates an intermediate small bank's community development performance "satisfactory" if the bank demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. The adequacy of the bank's response will depend on its capacity for such community development activities, its assessment area's need for such community development activities, and the availability of such opportunities for community development in the bank's assessment area.

B) Eligibility for an outstanding community development test rating. The Secretary rates an intermediate small bank's community development performance "outstanding" if the bank demonstrates excellent responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area.

C) Needs to improve or substantial noncompliance ratings. An intermediate small bank may also receive a community development test rating of "needs to improve" or "substantial noncompliance" depending on the degree to which its performance has failed to meet the standards for a "satisfactory" rating.

3) Overall rating.

1. Eligibility for a satisfactory overall rating. No intermediate small bank may receive an assigned overall rating of "satisfactory" unless it receives a rating of a least "satisfactory" on both the lending test and the community development test.
2. Eligibility for an outstanding overall rating.

i) An intermediate small bank that receives an "outstanding" rating on one test and at least "satisfactory" on the other test may receive an assigned overall rating of "outstanding."

ii) A small bank that is not an intermediate small bank that meets each of the standards for a "satisfactory" rating under the lending test and exceeds some or all of those standards may warrant consideration for an overall rating of "outstanding." In assessing whether a bank's performance is "outstanding," the Secretary considers the extent to which the bank exceeds each of the performance standards for a "satisfactory" rating and its performance in making qualified investments and its performance in providing branches and other services and delivery systems that enhance credit availability in its assessment area.

C) Needs to improve or substantial noncompliance overall ratings. A small bank may also receive a rating of "needs to improve" or "substantial noncompliance" depending on the degree to which its performance has failed to meet the standards for a "satisfactory" rating.

e) Strategic plan assessment and rating.

1) Satisfactory goals. The Secretary approves as "satisfactory" measurable goals that adequately help to meet the credit needs of the bank's assessment area.

2) Outstanding goals. If the plan identifies a separate group of measurable goals that substantially exceed the levels approved as "satisfactory," the Secretary will approve those goals as "outstanding."

3) Rating. The Secretary assesses the performance of a bank operating under an approved plan to determine if the bank has met its plan goals:

A) If the bank substantially achieves its plan goals for a satisfactory rating, the Secretary will rate the bank's performance under the plan as "satisfactory."

B) If the bank exceeds its plan goals for a satisfactory rating and substantially achieves its plan goals for an outstanding rating, the Secretary will rate the bank's performance under the plan as "outstanding."

C) If the bank fails to meet substantially its plan goals for a satisfactory rating, the Secretary will rate the bank as either "needs to improve" or "substantial noncompliance," depending on the extent to which it falls short of its plan goals, unless the bank elected in its plan to be rated otherwise, as provided in Section 345.270(f)(4).