Many financial institutions have struggled to understand the most important factors considered by examiners in determining a rating for the Community Reinvestment Act (CRA) Investment Test. According to the regulations that implement the CRA, agencies evaluate the investment performance of large institutions using the following criteria:

- the dollar amount of qualified investments;
- the innovativeness or complexity of qualified investments;
- the responsiveness of qualified investments to credit and community development needs; and
- the degree to which the qualified investments are not routinely provided by private investors.

A popular misconception, however, is that examiners focus primarily on the total amount of investments when deriving an Investment Test rating. The Center for Community Development Investments, as part of its effort to help financial institutions better understand and comply with the CRA Investment Test, has sponsored an in-depth study of the extent to which each criterion correlates to an institution’s Investment Test rating.

To evaluate the predictive value of each of the aforementioned criteria, regression analysis was used. Quantitative and qualitative variables were
created based on information in 2002 large bank performance evaluations from the nine states comprising the Federal Reserve’s 12th District. Quantitative variables reflect an institution’s level of investments expressed as a percentage of three different indicators of capacity: assets, total investments, and Tier 1 capital. Qualitative variables were used to assess the relationship between Investment Test ratings and: 1) the complexity or innovativeness of an investment; and 2) the responsiveness of a qualified investment to specific community needs.

The results of this analysis suggests that Investment Test ratings are not derived solely from the dollar value of investments and that qualitative considerations are actually more important in determining ratings. The analysis shows that qualitative considerations, such as responsiveness to credit needs and innovation and complexity, are significantly more predictive of Investment Test ratings than investment volumes. These findings not only lend credibility to agency claims that ratings are based on a variety of factors, but also provide financial institutions valuable insight into how to improve their Investment Test performance.

The results of the analysis can be seen in the report *Understanding the Relationship Between Investment Test Examination Criteria and Ratings*, located on the Center for Community Development Investments’ webpage. This report summarizes highlights from 2002 performance evaluations, including each institution’s volume of investment activity and an analysis of investment vehicles used. A narrative section provides examples of investments which examiners found especially innovative or complex. These summaries will be useful to financial institutions interested in comparing their Investment Test performance with peer banks, and others interested in financial institution performance under the Investment Test.