



Recommendations for Reform of the Community Reinvestment Act (CRA) Regulatory Framework

BPI strongly supports a targeted approach by the Federal banking agencies to modernize the CRA regulatory framework. While the current framework helps banks to support the credit needs of low-income communities, BPI believes a few common-sense reforms will deliver significantly better outcomes for these consumers. BPI's recommended improvements include the following, which are discussed in greater detail below:

- Clarification of the kinds of investments that banks are permitted to make (Evaluation Process), as well as where they may make them (Assessment Areas), and
- A more timely and consistent regulatory dialogue that helps banks focus on increasing investments in underserved communities (CRA Performance Evaluations)

EVALUATION PROCESS

Problem: The existing CRA framework can impede banks' ability to increase investments in deserving communities due to unclear evaluation standards that create uncertainty about what kinds of investments should get CRA credit and how banks can improve their CRA performance records. The current evaluation standards are vague and subject to examiner discretion across agencies. The application of these unclear standards may vary across performance evaluations for a single institution, creating confusion and complicating the process by which banks serve the credit needs of low-income areas.

Solution: CRA evaluations should be objective, transparent, and clear. The agencies should provide upfront certainty as to which activities will receive CRA credit so that banks can better implement a community investment agenda. Revisions to the regulations should be clear enough to facilitate consistent application of the CRA across the agencies.

ASSESSMENT AREAS

Problem: The American economy and the banking business have evolved significantly since the CRA was passed in 1977. The current CRA framework restricts the geographic footprint of banks' CRA activities to areas around physical locations, curbing the reach of potential bank-fueled economic activity. Under the current regulatory framework, a bank must "adequately address the credit needs of its assessment area(s)" before it is eligible to receive credit for activities outside the assessment area(s). This standard is currently subject to significant interpretation by examiners and is based on the banking business as it was in 1977, before the advent of digital delivery systems for financial services and even before interstate branching was permitted. These restrictions confine bank activities to a more limited set of communities than could be served with modifications to the rules.

Solution: The agencies should update the definition of an assessment area to reflect the changing nature of banking and to address both the areas that have an abundance of qualifying CRA activity and those that do not receive nearly enough. The revised CRA regulations should include criteria for determining when the needs of an assessment area have been addressed to increase opportunities for CRA activity outside a bank's assessment area. The revised regulatory framework should also establish an evaluation method for banks whose businesses are not based on a physical service delivery model, such as online-only banks.

CRA PERFORMANCE EVALUATIONS

Problem: CRA performance evaluations can take years to complete, particularly for the largest banks. Consequently, evaluations are often outdated from the moment they are released, creating problems for banks and the communities they serve. These releases may not reflect progress that has been made since the evaluation was performed and responding appropriately to dated feedback in advance of the next evaluation impairs future investment plans and improved community service.

Solution: The agencies should require examiners to issue a final performance evaluation within an expedient and defined period of no more than a year from the start of a CRA evaluation. Examiners should also be able to provide informal reviews and feedback between formal evaluation releases.

