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Submitted via email (reg.comments@federalreserve.gov)

Re: Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations {Docket ID OCC-2022-0002; Regulation BB; Docket No. R-1769}

On behalf of the Board of Directors and the membership of the Arizona Housing Coalition, we want to thank you for the opportunity to comment on the Notice of Proposed Rulemaking (NPR) regarding the Community Reinvestment Act (CRA). The Arizona Housing Coalition stands united in the effort to end injustice and vows to remain committed to efforts that end racial disparity in the homelessness and housing sector. Based on our data, we know Black, Indigenous and People of Color are significantly more likely to experience housing instability and homelessness as a result of historic inequities and structural racism that are deeply embedded within social policies that affect and impact life outcomes. The interconnectedness of housing outcomes are interconnected with various social structures, including criminal justice, health, economic opportunity, employment and education. The Arizona Housing Coalition's staff, board and members will advocate, educate and coordinate our work on the need not only to address racial disparity within our homeless response and housing systems, but to deepen the understanding of how inequitable policies cross-sector impact the housing outcomes of Arizona's residents. It's from this perspective that we submit our comments as areas of improvement for the NPR.

Be explicit in addressing racial inequities

Persistent racial disparities in lending should compel the agencies to incorporate race and ethnicity in CRA exams. Recent national level analysis shows continuing disparities in loan denials by race and when people of color received home loans, their equity accumulation was less. The National Community Reinvestment Coalition (NCRC) had asserted that it is possible for changes to CRA to comply with legal standards if CRA examined lending by race and ethnicity in geographical areas experiencing ongoing discrimination. By including race and ethnicity, CRA can identify and address persistent racial disparities that have direct impacts on quality of life and health outcomes.



Agencies must consider activity by race and ethnicity. We recommend including ethnicity and race in exams to further identify and address these inequitable outcomes that are directly tied to the wellness and quality of life of consumers. Deep racial and ethnic disparities will persist in lending practices without the incorporation of race and ethnicity in CRA exams. Banks are currently collecting the data on race and ethnicity in the Housing Mortgage Disclosure Act (HMDA) data and strengthened CRA regulations should evaluate bank performance, including evaluations based on race and ethnicity.

We support NCRC's proposals for affirmative obligations to serve people of color and their communities into CRA evaluations of retail lending, retail services, community development financing and community development services. The agencies should value programs which address the racial and ethnic wealth gap, including first generation down payment assistance, special purpose credit programs that take into account race and ethnicity, and smaller mortgages.

Addressing Appraisal Bias

The new CRA rules should address appraisal bias with the requirement of a HMDA-like disclosure for appraisal firms. Recent reports have demonstrated that appraisals for consumers of color and properties in communities of color are more likely to understate property values in comparison to actual sale prices for white sellers and less diverse communities.

The HMDA-like reports should include data on the number and share of appraisal firms provided by the census tract, the number where appraised value is less than the contract sale price, and related data. This would enable local cities, counties, hospitals, universities, and nonprofits to identify and utilize preferred appraisal firms similar to lists of minority-owned, women-owned, and veteran-owned contractors. Mortgage lenders should be encouraged to work with appraisers who have a track record of serving diverse communities. It is critical to address appraisal bias because communities of color earn less equity than their white counterparts in their mortgages. Appraisal bias worsens racial inequities in the housing market. The disparate impact of appraisal bias is inconsistent with the Fair Housing Act.

Housing Counselors = Financial First Responders

Housing counseling delivered by HUD approved housing counseling agencies is a critical component in addressing the housing challenges faced by low and moderate-income people and people of color. HUD certified housing counselors work directly with the low and moderate-income populations currently targeted by the CRA and work directly with the Black, Brown, and Asian populations that we are asking regulators to include with this rulemaking. As an example, in FY 2020, 72% of the housing counseling sessions were delivered to low and moderate-income households (80% or less of area median income) and 81% were to people of color (including 44% Black, 22% Hispanic, 10% Mixed Race, 3% Asian, 1% American Indian/Alaskan Native, 1% Native Hawaiian/Pacific Islander), based on the FY 2020 HUD 9902 Reports.

We appreciate the recognition of financial literacy and housing counseling as part of the Community Reinvestment Act process. However, it is important to recognize the unique role and effectiveness of housing counseling. Financial literacy helps inform people about homeownership, homebuying, and financial management. Housing counseling has a much deeper role in helping people meet their financial goals. Housing counseling is a personalized analysis and guidance for people through the complicated, opaque, and intimidating process of purchasing a home. New entrants to the homebuying



process are disadvantaged by the intimidating array of challenges of the process, are at risk of being taken advantage of by predatory or discriminatory actors, and can benefit from professional, independent advice from a trusted, HUD certified housing counselor. We recommend that the final rule recognize the important role housing counseling by HUD approved housing counseling agencies provides in addressing income, race, and ethnic barriers in the market place and provide higher value in support for housing counseling in the CRA evaluation process.

Housing counseling is a proven tool that helps consumers get mortgage-ready through financial education, pre-purchase counseling, reverse mortgage counseling, and credit history counseling. While lenders recognize the value of HUD approved housing counseling agencies in addressing the troubling and persistent gaps in access to homeownership, there is a needed clarification in what form that support can take. Lender fee-for-service payments for housing counseling services are an important avenue for supporting housing counseling and a clear statement in the rule that these fee-for-service payments are considered eligible supports under the CRA will provide the necessary clarity. We recommend that the final rule specifically recognize lender fee-for-service payments for housing counseling services by HUD approved housing counseling agencies as an eligible activity under the Community Reinvestment Act.

Complete data to tell the complete story


The agencies correctly proposed to include new data collecting requirements for deposits, community development activities and automobile lending. Some of this data such as deposit and automobile lending would not be publicly available, which limits the extent to which the public can hold banks accountable. We ask the agencies to reconsider this decision and also to expand this data collection to all large banks.

Advocates have urged the agencies to examine lending that occurs online. The agencies proposed to create assessment areas where a large bank does not have branches when a bank has issued 100 home loans or 250 small business loans. This proposal would result in the great majority of total lending being incorporated on exams and would therefore hold banks more accountable for serving low- and moderate-income communities. However, the agencies must further ensure that exams do not overlook assessment areas containing smaller metropolitan areas and rural counties.

Commendable step

The proposed rule change is a good start and promises to make parts of CRA exams more rigorous, but we urge the agencies to extend the rigor of the large bank lending test to the other tests and make other improvements. If CRA is improved while maintaining public input and accountability, we believe the proposed rule could help reduce inequalities, disinvestment, and other disadvantages in America's overlooked communities.

Sincerely,


Joan Serviss, Executive Director
Arizona Housing Coalition