Remarks by

Julie L. Williams
Acting Comptroller of the Currency

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It is an honor and a real pleasure to join you at your annual policy convention. Since 1931, the National Housing Conference has brought people together from many different walks of life. You all share a commitment to the cause of a better-housed America. The NHC has truly been, as your motto says, "the unified voice for housing" in this country.

Thanks to you and others, many of our cities and towns do have a brighter future. After decades of decline, urban populations are growing again. Home ownership is on the rise. Serious crime is down. According to this year's American Housing Survey, two-thirds of local officials report more conditions improving than worsening and more optimism about our cities than about our country as a whole. They believe, as I do, that our best days lie before us.

Despite the gains we have made, the jobs you do have certainly not gotten any easier. Nor -- despite the increasing number of American homeowners -- have our basic housing needs grown any less acute. A study by the Department of Housing and Urban Development released just weeks ago shows that affordable housing remains one of our nation's most pressing social and economic problems. According to this study, the number of American households with critical housing needs rose by nearly one-third in the early 1990s and has held steady ever since, despite a generally buoyant economy. Indeed, in some places, rising national income has actually exacerbated the affordable housing shortage by pushing up real estate prices beyond what the poor can hope to pay.

Meanwhile, federal housing resources have grown scarcer. Inflation-adjusted federal funding for low income housing dropped by more than three-quarters in the past twenty years. For the first time in many years, HUD has a budget proposal pending before the Congress that would increase the level of government support for housing assistance to low and moderate income Americans. But even this bill would represent only a small step toward erasing the deficit in past federal assistance to affordable housing.

At the same time, making use of the limited government resources that are available seems to require more patience, resourcefulness, and fortitude than ever before. No one doubts, for example, that reform of the Section 8 rental assistance program was in order. But those reforms have had the unintended effect of undermining the viability of some affordable housing projects, which could once count on long-term commitments from Section 8 recipients.

The shifting relationship between the federal government and the states has also changed the ground rules governing the availability of public subsidies for affordable housing. Where local officials previously could obtain federal funding earmarked for specific projects, they now must develop comprehensive housing affordability strategies in order to obtain federal funds. These strategies must consider community needs, priorities, and local matching resources to benefit whole neighborhoods, not just individual projects.

Given the challenges of government assistance programs, a greater burden has fallen upon private sector/ community partnerships that can leverage the resources and expertise we need to get the job done for our unhoused and underhoused fellow citizens.

In this connection, let me mention the work of the Neighborhood Reinvestment Corporation, on whose board I sit. Through the NRC's NeighborWorks Campaign for Home Ownership 2002, banks, insurance companies, secondary markets, government, the real estate industry and others will work with 107 community-based NeighborWorks organizations to create 25,000 new homebuyers and generate $1.8 billion of investment in underserved communities over the next four years.

I should also say that I am particularly proud of the creativity and commitment shown by national banks in the affordable housing field over the last decade. They have become major backers of community development banks and major participants in the loan consortia that are mobilizing funding to enlarge -- and enhance -- our nation's housing stock. Since 1993, under our community development and public welfare investment authority, the OCC has approved national bank community development investments totaling $5.6 billion, 45 percent of which involved limited partnerships with developers in multifamily housing projects that meet requirements for Federal low income housing tax credits. This investment authority has also provided national banks with an opportunity to help fund private secondary market entities. One of these entities is currently planning to convert to the first known community development real estate investment trust -- a CD REIT.

Banks have themselves become active lenders in the affordable mortgage market. This is particularly noteworthy because banks' participation in this area was negligible just 10 years ago. But today, some of our larger national banks have more than 10 percent of their residential real estate loans in the affordable market, and the numbers are growing. Just two weeks ago, Nationsbank and BankAmerica pledged $115 billion in affordable housing loans alone over the next 10 years, and other institutions contemplating mergers have also earmarked significant sums for housing to low and moderate income

Americans.

Not only are banks major players in the affordable mortgage market, they are increasingly market innovators. Some banks are working with their local government and community development partners to provide funds, structured either as grants or as soft second mortgages, that reduce or offset the home purchaser's down payment, closing costs, or mortgage insurance. Low down-payment and second-look mortgage programs, housing counseling and home repair programs, and other new products and services introduced by financial institutions in recent years reflect their determination to make these loans and to make them work -- not simply as a compliance activity, but as part of broad marketing strategy with real potential for mutually profitable relationships. I like to refer to this as a domestic emerging market.

Over the years, we have seen yet another promising development -- the increasing integration of our nation's capital markets with community development and affordable housing lending. In recent months, two national banks, in separate deals, packaged a total of almost $750 million-worth of affordable mortgage loans and marketed them as such to the investment community. We understand that similar deals are soon to follow.

Conventional wisdom has always been skeptical of the notion that the capital markets would purchase loans to nontraditional home buyers. The assumption was that if these securitizations were saleable at all, it would be at a prohibitive discount to the originating institutions. In some quarters, simply acknowledging that a portfolio was comprised of affordable housing loans made the deal problematical.

But the skeptics have lately been proved wrong. Reports suggest that, with regard to the two most recent offerings, the market could have absorbed five times as many of these securities as were available at the offered price.

What made these securities so saleable? When you look beyond the label, the substance of these securities proves attractive for several reasons. As a rule, affordable housing loans generally have prepayment rates that are well below average in the mortgage market. Low and moderate income borrowers are far less likely to refinance their housing debt than conventional borrowers. With their relatively small outstanding balances and high loan-to-value ratios, these borrowers have less to gain from refinancing.
In short, the purchasers of affordable mortgage-backed securities have reason to expect a steady, reliable income stream for the original life of the loan.

Moreover, as a group, low and moderate income mortgagees have demonstrated at least as much responsibility in their handling of credit as their conventional counterparts. It turns out that fewer than one in 10 holders of these loans has ever been delinquent on any loan -- mortgage or otherwise. As two Wall Street analysts recently wrote, to many lower-income borrowers, "being able to own a home is a near-sacred obligation. A family will do almost anything to meet that monthly mortgage payment."

This recent experience with affordable mortgage-backed securities remind us again of the importance of thinking "outside the box" -- not allowing negative stereotypes and preconceptions to inhibit us from pursuing innovative approaches to our public policy objectives.

This lesson has been especially relevant throughout the history of the Community Reinvestment Act. For years, CRA was a bureaucrat's dream, replete with burdensome paperwork and extensive process requirements. That was partly the result of a deep-seated skepticism -- to which the regulators were frankly not immune -- about whether it was possible to make community reinvestment loans that were also good, profitable loans. On the community side, there was equal skepticism that bankers would enter into wholehearted partnerships with the communities they were supposed to be serving. And so, for nearly 20 years, implementation of CRA was marked by too much finger-pointing and too little original thinking.

The reforms to the CRA regulation that became final last year have gone far toward changing that. When OCC examiners now visit a national bank to conduct a CRA compliance exam, they look for results. Where they once looked for documentation of community outreach efforts, they now look for loans and investments actually made. And, as I said at the outset, we increasingly have the results to show for it -- results measured in record new CRA commitments for affordable housing, small business lending, and community development; results measured in neighborhoods that are being rejuvinated.

We are proud of this progress, but by no means satisfied. Although virtually everyone agrees that the new CRA regulations represented a significant step toward carrying out the original intent of the law, implementation remains the key. At this early stage, the new regulations are -- inevitably -- a work in progress. A number of community groups have raised concerns about grade inflation and lack of consistency within and among the regulatory agencies in evaluating the CRA performance of financial institutions. While they welcome our new emphasis on performance, they rightfully expect CRA ratings to reflect not merely the number of loans a bank is making, but the degree to which a bank's lending and investment activities are truly responsive to community needs.

These are very legitimate concerns, and we are taking action to address them. Let me take just a minute or two to tell you what the OCC is doing, both on our own and on an interagency basis, to improve the effectiveness of our new CRA regulations.

Earlier this year, the OCC, the Federal Reserve, the FDIC, and the Office of Thrift Supervision launched a joint review of each agency's CRA performance evaluations for those large institutions that had been examined and rated under the CRA regulation, including the new tests to assess a bank's lending, service, and investments in its community. This review, which was completed just six weeks ago, showed that while the regulatory agencies are fairly consistent in their application of the regulations, there are differences in the how we analyze a bank's lending performance. For example, OCC evaluations tended to focus on the big picture and an institution's overall performance, but said less about each of the metropolitan areas in which performance was analyzed. The other regulators tended to reverse those emphases.

To cite another example, the Fed was found to make extensive use of quarterly loan-to-deposit ratios to measure lending performance, whereas the other agencies relied more on qualitative judgments about lending volume and loan growth. And our review showed inconsistency over such things as the kinds of investments and grants that qualify as community development, the relative importance of binding commitments for future lending and investment, and the evaluation of a bank's small business lending data.

Identifying inconsistency is the first step toward reducing it. And that is exactly what we will be working to do in the coming months.

We are also taking steps to improve our own internal consistency through our ongoing Large Bank CRA Exam Project. It has several facets. First, we are scrutinizing our CRA performance evaluations from the standpoints of clarity and conciseness and will be making changes to improve their value as public documents. Second, we are revisiting the measures for assessing a bank's performance to help examiners make more informed qualitative judgments about the degree to which particular bank activities satisfy CRA requirements.

Third, we are considering a new strategy for supervising the CRA activities of our large banks with multi-state operations. This strategy is based on the concept of "continuous supervision" -- in essence, applying the same techniques to our CRA examinations as we have used for years in our safety and soundness exams of large banks. Under this plan, we would assign a cadre of examiners to examine large, multistate banks. Those examiners would move from one state or region to another over a period of 24 months, evaluating CRA compliance and assigning a CRA rating in each state, or multistate area in which a bank has branches. These ratings would be provided as they are completed, and at the end of the process, the bank would receive an overall CRA rating that reflected the evaluations occurring over the preceding 24 months. Then the process would begin anew. We are currently field-testing these changes, using a team of the OCC's most experienced CRA field examiners, plus our regional experts in community development lending and investment, aong with staff who helped write the revised CRA regulation and examination procedures.

But, finally, with respect to CRA, I must note that I see one very big potential stumbling block in the road ahead -- a development that threatens to undermine prospects for further advances under CRA in the future. That threat is the currently proposed, so-called "financial modernization" legislation. Just a few weeks ago, the House of Representatives, by a single vote, passed H.R. 10, the Financial Services Act of 1998. The Senate Banking Committee will open hearings on this bill on June 17.

If this law is enacted, a growing base of financial assets would not be available to enhance the ability of banks and thrifts to perform under CRA or to be considered in evaluating an institution's CRA performance compared to its financial capacity. And a growing base of financial institution assets would not be subject to comprehensive enforcement -- including routine, on-site CRA examinations -- currently applied to banks and thrifts.

The net effect, long term, will be a serious reduction in the share of financial services industry assets available for CRA.

In my view, it would be a shame if the enormous progress we have made so far under CRA -- and the possibilities that await us to do more for all bank customers -- were sacrificed in a rush to pass legislation designed to benefit basically a handful of large financial firms. I would like to think that, in the end, good judgment will prevail, and that we will see financial modernization legislation that truly serves the interests of this nation's communities and consumers -- as well as the needs of the financial community.

In the meantime, you have my assurance that we at the OCC will do what we can to press ahead to improve and enhance our implementation of the Community Reinvestment Act and that we will look for opportunities to support innovative approaches to affordable housing finance.

Thank you.