Remarks by

Thomas J. Curry
Comptroller of the Currency

Before the National Association of Affordable Housing Lenders

Washington, D.C.

February 27, 2013

Thank you for that very kind introduction. I'm delighted to be here with you today to share some thoughts about affordable housing and community development finance. I can't think of a better forum to have that discussion. I have a deep respect for the work that you do, and especially for the dedication and energy that your President, Judy Kennedy, brings to this important effort. I recall participating in a symposium hosted by NAAHL in 2004, where you were an early voice in sounding the alarm about abusive lending practices.

NAAHL is a unique organization because its diverse membership brings bankers together with community development organizations, entrepreneurs, and fund syndicators. By strengthening community, industry, and public sector partnerships, you have developed and implemented sound approaches for meeting critical community needs and serving low- to moderate-income families. I'm drawing from the writer Thomas Friedman here when I say that —the important work you do combines "a business school brain with a social worker's heart."

Let me start by congratulating you as NAAHL celebrates 35 years of successful community investment. As you may know, the OCC is passing a milestone of our own, and just yesterday I had the honor of kicking off our celebration of the agency's 150th anniversary. In 1863, President Lincoln signed the National Currency Act, which established the Office of the Comptroller of the Currency as the regulator of national banks. One of my predecessors, Comptroller James J. Saxon, who served under President John F. Kennedy, framed the OCC's mission in this way: "to release the full energy and initiative of the banking industry in the service of the community and the nation." I think the concept of mobilizing the resources of federal financial institutions in service to the community admirably sums up what we're still trying to do today.

I mention Comptroller Saxon because it was during his tenure in 1963, that the OCC authorized banks, for the first time, to make investments that promote economic and social development in their communities.

As a result, today we can celebrate another key milestone—the 50^{th} anniversary of the public welfare investment authority. The OCC has played an important role in nurturing and administering the public welfare investment authority, from its modest beginnings to its more robust performance today.

That first step permitted investments up to an aggregate limit of 2 percent of a national bank's capital and surplus, opening the door for collaboration on community and economic development projects with community partners. Initially, community development investments were rare. However, the pace of investment began to pick up after 1971, when the OCC increased the investment limit to 5 percent. At that time of social change and urban unrest, banks assumed a deeper sense of civic responsibility. Congressional actions, like adoption of the Community Reinvestment Act, caused banks to think even more seriously about community development.

Support for public welfare investment continued to grow. In 1992, Congress codified the authority of banks to make these investments and simultaneously raised the investment limits to 10 percent of capital and surplus.

It is important to point out that federal savings associations have a similar community development investment authority. Thrifts can make investments in the types of activities that are permitted for national banks. However, the investment caps are different for thrifts than for national banks. The 1995 CRA regulations laid down a new marker by formalizing the large bank Investment Test. Banks started to think more broadly about community development opportunities, and by 2006, some banks were nearing their 10 percent investment limits. The OCC strongly supported Congressional action that year raising the investment ceiling to 15 percent.

Regulators acknowledged the importance of the public welfare investment authority in other ways as well. For example, the Basel II capital rules, issued in 2007, recognized the risk-mitigating aspects of public subsidies often associated with community development projects and provided specialized risk weighting for equity investments made under the public welfare investment authority.

The genius of the public welfare investment authority lies both in its flexibility and its alignment with other public policy objectives. Today, banks have branched out from "plain vanilla" investments to more innovative transactions and complex financing structures. The OCC has approved public welfare investments ranging from transitional housing, charter schools, food kitchens, and drug rehabilitation centers, to small business incubators and manufacturing facilities.

Public welfare investment is also critical to the success of several Federal tax credit programs that support low-income housing, new markets economic development, historic renovation, and renewable energy facilities. In order to receive tax credit benefits a bank must be an owner or leaseholder, which is possible only because the public welfare investment authority allows a bank to invest in and hold real estate—an activity that typically would not be permissible under the National Bank Act.

Job creation is another beneficial result of the public welfare investment authority. Banks and thrifts hold the lion's share of New Markets Tax Credit investments, which help to foster or retain jobs. The public welfare investment authority allows banks to provide equity for small business start-ups or expansion plans and invest in small business-related funds. As the nation emerges from recession, this job creation function is particularly critical for low- and moderate-income individuals and for communities where unemployment rates remain stubbornly high.

Public welfare investment authority also encourages investments that complement initiatives in areas targeted by a governmental entity for redevelopment. These synergies strengthen communities' capacity to undertake and sustain large scale community development projects. For example, I recently toured the Columbia Heights neighborhood just north of here, where a public welfare investment funded renovation of the historic Tivoli theatre. In 1924, when the Tivoli was built, it was one of the most opulent movie palaces in the region and the avenue was lined with fine shops. But the area declined and the theatre closed in 1976. Today, the Gala Hispanic Theatre performs at Tivoli Square, which also serves as the permanent home for the National Center for Latino Performing Arts.

The theatre anchors vibrant redevelopment near a metro stop, and the nearby area is bustling again. The nonprofit Development Corporation of Columbia Heights partnered with developers on large scale projects that revitalized the area, bringing retail and commercial projects as well as condominium housing with a set-aside for affordable units. A grocery and several big box stores surround the square. The D.C. Department of Employment Services and the developers agreed to give neighborhood residents first preference for jobs associated with the project. This stimulus is precisely what the public welfare investment authority is intended to achieve.

In addition to economic development projects a significant portion of public welfare investment is devoted to affordable housing. By some estimates, more than half of all low-income housing tax credit projects are financed, directly or indirectly, through the public welfare investment authority. Across the Anacostia River from the OCC's new headquarters, a bank invested in a low-income housing tax credit project called the Overview at Washington View. That development acted as a catalyst for private investment in nearby neighborhoods—including market-rate housing and a full-service grocery store in a low-income area that had been clamoring for a wider range of nutritious food offerings. Also, the D.C. government provided ancillary services by funding a computer lab and an after-school care program to support residents' needs.

A key advantage of the public welfare investment authority is that it is sufficiently broad to allow banks to shift strategies and respond appropriately to changing needs. For example, the OCC recently allowed a bank to transfer a foreclosed multifamily property to a partnership and then invest in the partnership. This both allowed the bank to manage foreclosed asset and preserved the bank's ability to utilize the tax credits associated with the property.

This broad investment authority allows banks to craft community development strategies that meet their business needs and investment objectives. Larger banks with a dedicated community development staff are able to structure and directly invest in more complex deals, while community banks often prefer investing in qualified funds.

The benefits of the public welfare investment authority are easy enough to list, but these investments must also be profitable and financially sustainable. The risk associated with a particular community development effort is minimized because, if it is appropriately structured, a bank is liable only for the amount of its investment.

A critical aspect of the OCC's role in administering this authority is to review each of these investments to ensure they are made in a safe and sound manner. To expedite the approval process, banks that meet certain criteria are able to do their own due diligence, make an investment, and notify the OCC after-the-fact. A bank may also ask the OCC to approve an investment before it is made—either because the bank does not meet the regulatory criteria for the after-the-fact notice or to make sure that a particular investment meets the public welfare and investment limit requirements.

We strive to make the program as easy as possible to use. There is an efficient on-line process for submitting approval requests and after-the-fact notices. We believe our administrative review process provides timely decisions and appropriately balances the need to evaluate safety and soundness considerations with a bank's desire to move forward with its investment strategy. As part of our implementation of the Dodd-Frank

Act, the OCC is currently working on a project to harmonize the investment approval procedures for banks and thrifts.

For our part, the OCC's Community Affairs Department devotes a good deal of energy to providing the information that bankers need to use the program successfully. The OCC's Public Welfare Investments resource web page offers numerous reference tools to help bankers, including a section of Frequently Asked Questions, along with detailed information on compliance and investment guidelines. Summaries of our investment approvals are posted on our "At-A-Glance" chart each quarter so bankers can see what others are doing. We maintain a list of investments by banks in national and regional funds and our publications describe best practices for a wide range of public welfare investments. The OCC also posts precedent letters when we approve an innovative public welfare investment to build awareness of new trends and investment types.

The fact that banks have embraced public welfare investment is borne out by the numbers. Despite the economic downturn, public welfare investments are growing steadily. By the end of 2012, cumulative investments totaled $68 billion. Last year alone, banks made $9.6 billion in public welfare investments.

The public welfare investment authority has attracted a significant amount of private capital to address social and economic problems in our communities. Banks and thrifts have used the authority to foster innovation and complement other programs designed to spur certain types of development, such as tax credits. Public welfare investments have a proven track record of sustainability and profitability. The OCC administers this program with an eye toward efficiency and with the goal of allowing capital to flow smoothly to meet these public needs. However, I'd like to solicit your views about any steps we could take to improve the public welfare investment authority. Are there substantive changes to the public welfare investment authority that would increase its effectiveness as a tool to spur housing and economic development in our communities? Your input for improving the investment approval process is also welcome. I feel strongly that banking regulators benefit tremendously by listening to your ideas about how you as bankers and practitioners can best serve community needs.

With that, I'll conclude and I'd be happy to take your questions.