Remarks by

Thomas J. Curry
Comptroller of the Currency

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Thank you. It's a pleasure to be in Ohio. In fact, without Ohio, the position I hold and the bureau I head wouldn't exist today. The names Salmon P. Chase and John Sherman may not be as well-known as the name Lebron James. But without those two 19th century Ohioans—Chase, who was President Lincoln's Treasury secretary, and Sherman, who steered the National Bank Act through the Senate in 1863—we would not have had the national banking system and its great contribution to the economic development of our country over the past 152 years.

Ohio continues to be a major source of talent for the banking and financial policymaking arena in Washington. Your former Attorney General, Richard Cordray, is head of the Consumer Financial Protection Bureau, and he and I work closely together. Likewise, I have regular contact with Sherrod Brown, who is the ranking member of the Senate Banking Committee.

So I was very pleased to have this opportunity to visit their home state, and especially to address the City Club. For more than 100 years, the City Club of Cleveland has been a leading forum for discussion of key national, regional, and local issues. I am honored to participate in that dialogue today.

The Office of the Comptroller of the Currency, or OCC, is the primary regulator and supervisor of national banks and federal savings association, and, as I mentioned, we have been doing that for more than 150 years. Our mission is to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

My remarks today will address the balance that the OCC must strike in providing guidance to banks. It is our job to ensure safety and soundness through proper risk controls while at the same time leaving room for innovative financing, including financing that can help revitalize our communities.

In that vein, I would like to share a few thoughts about an issue that has long been near the top of our national agenda: urban stabilization and revitalization. Cleveland, like many other Midwestern cities, has shouldered more than its share of foreclosures, shuttered manufacturers, and population outflow. We know that it takes imagination, innovation, resourcefulness, and persistence to truly transform a city. It also takes a huge investment of financial resources.

As a regulator, I am deeply interested in the role that our financial institutions are playing, and must continue to play, in the revival of America’s cities. Cleveland can point proudly to dozens of examples of projects that bring together the public, private, and non-profit sectors in a common effort to continue the city’s revitalization. So let me discuss with you today what the OCC is doing to support these efforts.

Before the financial crisis struck, bank loans and investments were driving the building and rebuilding of homes, office buildings, and infrastructure in some of our cities that are most in need of reinvestment. For the first time in many years, there was real progress—and real hope that, at least in some places, we had turned the corner. Then the bottom fell out of the housing market. Whole neighborhoods were abandoned. Foreclosures skyrocketed. And, even today, despite the general recovery of housing values, millions of homeowners are still underwater, limiting their mobility and their financial options.

I am pleased to say that the banking system has significantly recovered from the economic catastrophe of 2007 to 2009. There are many reasons for this, including an enhanced regulatory regime that holds banks to higher standards of risk management and corporate behavior. Bankers today are focused on finding ways to show they can be profitable <u>and</u> responsible. And, in cities across America, and especially in places where the housing recovery is still lagging, bankers' efforts are producing real results.

Let me give you a few examples, including one just minutes away from where we're meeting today. Slavic Village was especially affected by the recession. At one point in 2007, it was widely reported that more foreclosures were recorded there than in anywhere else in the country. By 2013, one quarter of its homes stood empty. Without question, the mortgage crisis was a significant setback to that community. What is remarkable, however, is how the community has fought back. One OCC-supervised institution that has called Slavic Village home for decades is leading the way by investing in community organizations. Today, residents who toughed it out through the bad times have joined the banks, nonprofit community development organizations, private sector supporters, and local government agencies who are working together to create a new, revitalized Slavic Village.

The Greater University Circle Initiative, which has leveraged the combined efforts of area universities, museums, and hospitals, is another fine example of the public-private partnerships that are needed to carry out comprehensive strategies. These institutions, joined by thousands of area residents, are working to rejuvenate an area that includes several Cleveland neighborhoods. Financial institutions have provided leadership and funding for this initiative, ensuring that capital is available for development, mortgages for new homeowners, and small business loans.

Earlier this morning, I had the opportunity to meet with Lou Tisler from Neighborhood Housing Services of Greater Cleveland and representatives from several other NeighborWorks organizations who are doing great work here in Cleveland.

Yet the problem of foreclosed or abandoned properties persists in many Cleveland communities, in other older industrial cities in the Midwest, and elsewhere. One promising strategy to address this problem is the land bank movement, exemplified here in Cleveland by the Cuyahoga Land Bank, which was established in 2009. The Land Bank is a nonprofit, government-affiliated entity that operates under enhanced powers granted by the Ohio legislature. The Land bank was thus enabled to organize as a corporation, which fostered more efficient property disposition processes. In addition to acquiring properties foreclosed for tax liens, the Land Bank has been the recipient of low value properties donated by investors, including a number of national banks.

The Land Bank has adopted a number of sophisticated strategies to acquire and dispose of properties. It partnered with a local university to develop a data tool that now aids in the decision making about which neighborhoods and properties to target for rehabilitation or stabilization. Some 60 percent of the Land Bank’s properties are beyond repair and are slated for demolition. In many cases, banks are paying for the demolition cost on properties they donate so the Land Bank does not have to absorb that expense.

For properties that can be rehabilitated, the Land Bank has developed a creative housing program to foster homeownership and ensure that renovation work is done properly and promptly. A Deed-in-Escrow program gives buyers an opportunity to purchase a home, with the Land Bank holding the title in escrow until improvements are made and are up to the standards set by the Land Bank. If the rehabilitation is not completed on time, the Land Bank can retain ownership, which gives buyers a strong financial incentive to comply with the program's terms.

The Land Bank offers several other homeownership programs. Properties that only need a modest level of repairs are offered on a "first look" basis to prospective homeowners, which gives them an advantage over local property investors. Two programs offer discounted purchase prices and a lease/purchase option to serve veterans and attract college graduates.

Obtaining financing has been a major challenge for buyers in Cleveland, and the same is true for other cities. This is not very surprising, when one considers that many banks took huge losses on their mortgage portfolios during the financial crisis. Some bankers are understandably hesitant about making mortgage loans in cities that skeptics have written off. Lack of access to credit is a key issue, and it is one that arises in part from certain misconceptions about supervisory standards and expectations.

It is certainly true that the OCC has raised its expectations regarding credit underwriting and loan portfolio management since the end of the financial crisis. The OCC and other financial regulators also updated our longstanding guidance addressing appraisal and evaluation practices. These guidelines built on the existing regulatory framework and reaffirmed the agencies' supervisory expectations for sound collateral valuation processes when originating or modifying real estate loans. Additionally, the Interagency Guidelines for Real Estate Lending provide that institutions should require a loan-to-value limit of 90 percent for 1 to 4 family residential mortgages, unless there are appropriate credit enhancements.

In some markets, and particularly for low-value properties in hard-hit communities, we have heard that these supervisory policies might present challenges in the lending process. A further concern is that many properties in these communities may require substantial renovation to make them habitable. Those renovation costs also may need to be financed. Sound appraisal and evaluation practices depend on having meaningful comparable property sales to draw upon when performing valuations. However, in distressed neighborhoods with limited sales activity, finding comparable property sales is more difficult. And in some areas, values have been driven down by discounted investor cash sales, short sales, and foreclosures, which may depress market values throughout the community. The challenge of performing an appraisal or evaluation in a hard-hit community can be particularly complicated for appraisers who are less familiar with that area.

We've heard from national banks and federal savings associations that want to support and participate in programs like the Land Bank and are concerned about how to do so with the current regulatory framework and supervisory expectations. We have tried to address these concerns by pointing out that the supervisory standards discussing the 90 percent loan-to-value limit for residential lending do not create an ironclad ban on lending above that limit, even if there are no credit enhancements. Indeed, the standards acknowledge that lending above that limit in excess of supervisory loan-to-value expectations can be consistent with safe and sound lending practices in specified circumstances, provided that banks maintain appropriate controls and otherwise comply with applicable law, regulation, guidance, and the bank's own policies and procedures. "Supervisory loan-to-value exception" loans may be a means of addressing circumstances facing borrowers and lenders in rehabilitating housing stock in communities that have suffered significant declines and have been targeted for revitalization. But we also must make sure that when circumstances justify these loans, the interests of both lenders and borrowers are well protected.

To provide greater clarity about our supervisory expectations, I recently asked OCC supervisors and specialists in fields such as Credit Risk, Community Development, and Consumer Compliance to come together to consider how we might support urban rehabilitation efforts through programs that include loan-to-value exception loans. While we have not yet resolved all the many questions these loans present from a supervisory standpoint, the OCC believes that it is possible for loan-to-value exception loans to be made in a safe and sound manner if appropriate parameters are observed. Let me outline some of these important principles that should be considered. For instance, in addition to the general lending policy regarding limits and standards that we expect all banks to maintain, banks should consider adopting specific policies and procedures that, among other things, identify the proposed geographic area, anticipated financial commitment, and duration of the loan program. Additionally, other factors may include specific underwriting and evaluation standards, compliance responsibilities for these loans, and internal monitoring and reporting requirements that assess the performance, impact and success of the loan program. It would be important for the bank's board of directors to approve these policies and procedures. As always, OCC examiners would be available to provide feedback as institutions consider ways to assist in the redevelopment and rehabilitation of these communities.

Addressing these issues is one piece of the solution for helping distressed neighborhoods. But all of our efforts to rebuild stronger communities also speak to a larger question about our nation's future. Since the end of the financial crisis, homeownership levels have been in steep decline. Recent reports tell us that they are the lowest they have been since 1967, wiping out nearly a half-century of progress in making our communities safer and more stable. The question, which has taken on added urgency since the end of the financial crisis, is whether we can reverse this trend and provide more of our citizens with the opportunity to own their own homes with fair and sustainable mortgage terms. I believe that we can. But it will take continued constructive collaboration between the public and private sectors, as well as a major commitment by our financial institutions, to get us there. I can assure you that the OCC will do everything in its power to make that happen.

Thank you. I'd be pleased to take some questions.