Remarks by

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Good morning. Thank you Marianne for those welcoming remarks. I want to start by congratulating you on your retirement next year, which will cap 25 years of service at the Community Development Corporation of Long Island. Your efforts and those of this organization and all your partners have made a real difference here in the New York area.

Serving on the NeighborWorks America board for more than 10 years has brought me a deep appreciation for the dedication and accomplishments of community-based organizations and banking institutions who work in partnership to improve their communities. This experience has also given me the chance to see the results of their efforts throughout our great nation. It is especially heartening when I come back to a community to see that their efforts have stabilized, and even turned around, a distressed area that I visited years ago.

Today, my remarks focus on work to stabilize communities by rehabilitating housing, including a look at what the OCC is doing to contribute solutions to some of the problems that those communities face.

Many things may lead to community decline, such as the loss of jobs because major employers close or move away, as was the case along the Rust Belt. But, even stable communities can slide into distress because of aging housing stock, or because physically impaired elderly owners or those who lack the resources simply can't keep up with needed repairs and maintenance. And, in too many areas affected by widespread foreclosures, property values remain depressed. Some of these once-healthy communities have fallen victim to blight that accelerated because of vacant, abandoned, and, in the worst case, vandalized properties. But I am hopeful that the future will be brighter for these communities because of your work and the work of others across the country who share your mission of finding ways to revitalize these communities and return many of those homes that have fallen into disrepair to productive use.

Rehabilitating homes takes more than the solutions popularized on reality TV shows. It requires stable financing through programs tailored to meet the unique needs and risks associated with bringing a community back to life. It takes *investing* time, sweat—and of course money—in a vision.

There are several existing rehabilitation loan programs that can help. The Federal Housing Administration's Section 203(k) loan guarantee program can finance both the purchase *and* rehabilitation of a home. Fannie Mae and Freddie Mac offer similar rehabilitation loan products. For some other homeowners, a home equity loan from a bank or thrift can help finance major repairs and renovations.

Unfortunately, these programs may be of limited use in certain distressed communities. In areas suffering from widespread disinvestment, it may be difficult to establish a reliable estimate of a property's market value because of limited comparable sales. That makes underwriting loans a challenge. Another problem faced in distressed communities is that sometimes repairs to an older house can cost more than the renovated property will be worth. The challenges of financing homes in these situations can keep current homeowners from selling or repairing their homes and prevent new buyers from moving into the neighborhood. These constraints also inhibit the acquisition and rehabilitation of vacant properties that cities may have acquired through tax foreclosure.

Access to rehabilitation financing is critical to preserving the economic health of communities with a significant percentage of older housing stock. That is certainly the case in this area. The first homes constructed in Levittown, out here on Long Island, are nearing 70 years old. In Queens County, almost 70 percent of the homes were built before 1960.

No matter how well built they are, houses eventually need work. Electric and plumbing need to be updated. Mechanical systems need to be replaced. Sometimes the houses just need a makeover. All of these projects take money.

Although barriers to rehabilitation financing exist, many can be overcome by adopting responsible and innovative solutions. The New York State Affordable Housing Corporation has provided funding to local organizations in Queens and Long Island, such as the CDC of Long Island and Neighborhood Housing Services of Jamaica. These community organizations, in turn, have developed rehabilitation loan and grant programs targeted to low- and moderate-income homeowners. These loans help homeowners repair aging homes by correcting structural defects and repairing basic building systems.

Financing, though, is not the only hurdle to revitalizing our neighborhoods. Many homeowners who want to rehab their homes have no idea where to start, and the prospect of determining what needs to be done, how much it will cost, and how to go about finding someone who is honest and will do good-quality work can make it too daunting to even try. That's where programs that offer technical assistance can help. The CDC of Long Island, for instance, can have a trained housing inspector develop the scope of work and then manage bids for the construction work to licensed and insured contractors. The work in progress is closely supervised, and a final inspection is performed to ensure that the finished product meets program standards.

Recognizing that renovating a home is not for everyone, some land banks and affordable housing organizations take on the needed rehabilitation and then sell the newly renovated homes. This approach is capital intensive and requires technical and management capacity to succeed. There is also a growing recognition that just moving a family into a rehabilitated home does not guarantee that they can afford to stay in it if new problems arise. So, while many affordable housing providers and lenders generally require renovations to meet basic habitability standards, some programs require the replacement of heating systems or major appliances so that low- or moderate-income buyers don't face significant unexpected expenses in the early years of homeownership. By providing "move-in-ready" homes that limit the cost of ownership, these programs contribute to community stability.

Those of you in the room who own homes also know that homeownership comes with responsibilities. For new owners, those responsibilities can be overwhelming. That's why homeownership and home maintenance counseling programs are important components of many rehabilitation programs. The CDC of Long Island, for example, offers a home maintenance training program to teach homeowners how to perform basic home repairs. Why are these programs important? Responsible owners, armed with the understanding of what it takes to maintain a property and who have access to financing and reliable contractors, help protect neighborhood home values and keep communities vibrant. They can even help downtrodden areas regain lost prestige and restore residents' pride of place.

Alongside the community redevelopment organizations, banks are helping to revitalize communities—by supporting homeownership and home maintenance counseling, assisting with the rehabilitation process, and helping to choose qualified contractors. We have heard about a number of these initiatives. One bank uses a grant from a larger bank partner to backstop a loss-reserve fund, which provides four times as much in rehabilitation lending as the original grant. Another bank offers rehabilitation financing with a loan of up to $25,000 that will be fully forgiven after the borrower lives in the home for five years. To further assist borrowers, that bank is partnering with a local nonprofit that is helping to oversee renovation management and funding of construction draws. These initiatives have brought much-needed financing to distressed and aging neighborhoods.

Despite all these good efforts and after talking to community leaders, we realized that even more work could be done if we helped address a barrier to financing in distressed communities with low property valuations. Current regulations and guidelines addressing supervisory loan-to-value expectations limit the origination of residential mortgage loans in excess of 90 percent of the property's value. So banks generally avoid making loans that exceed the value to buy and rehab a home because of the associated risk and fear of criticism. We spoke with a number of lenders, community groups, and municipalities, and concluded that this was a challenge where the OCC might be able to contribute some assistance.

Our contribution comes in the form of guidance that, when finalized, may provide additional options for banks and thrifts interested in lending in distressed communities. The guidance focuses on what we call "higher LTV" loans, which are certain residential mortgage loans where the loan-to-value ratio exceeds 100 percent. Our proposed guidance describes the specific risk management controls that a bank should have in place in order to offer higher LTV loans on a program basis in an effort to help stabilize and revitalize communities, and still be consistent with safe and sound lending. We issued this guidance for comment in late 2015 and hope to finalize it soon. By providing financing on eligible loans that are higher than 100 percent LTV, lenders could spur more home purchase and rehabilitation activity in these eligible communities targeted by their individual programs, as described in the draft guidance. And, it should give lenders another option for their financing toolbox.

We want to encourage banks to participate in programs that can reinvigorate neighborhoods and respond to the credit needs of individual borrowers. At the same time, as regulators, it's also our job to consider potential risks to the consumers involved in the lending transaction. At the time of origination—and conceivably for much longer—the balance owed on a higher LTV loan will exceed the market value of the underlying property. Until a borrower has some equity—either by paying down principal or through market appreciation—the risk of selling at a loss remains. We want to ensure that prospective borrowers are aware of this risk, so our guidance also requires programs to include notices that address the potential financial risks over the life of a higher LTV loan. Providing homebuyer education or other counseling may also help borrowers understand *their* risk and, ultimately, may improve loan performance. Banks considering higher LTV programs may want to offer these services through partnerships with counseling organizations.

For banks that notify the OCC of their intent to implement higher LTV programs, OCC examiners will review the bank's proposed policies and procedures at the time of the notice and, if necessary, request changes to ensure that the program is consistent with safe and sound lending practices. Thereafter, during scheduled supervisory activities, the OCC will evaluate a bank's programs. Additionally, the OCC will undertake an annual review to assess the effect these programs, on an aggregate basis, are having on the revitalization efforts in eligible communities. During the annual review we will consider the effect these programs are having on the housing markets and other economic indicators, and whether banks are adequately controlling the various risks of these loans. The OCC shares the desire that positive change come as soon as possible, but we recognize that meaningful change may require patience and may take a number of years.

We have great confidence that these initiatives, in conjunction with community and local government programs, will contribute to revitalizing some of our nation's most distressed communities. By being a part of this effort, your community organizations and the banks we oversee fulfill an important role in our nation by helping to keep strong neighborhoods thriving and bringing back struggling communities. Thank you for your commitment and hard work. I look forward to your questions.