

Remarks of
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before the
Veterans Association of Real Estate Professionals
June 9, 2014

Good morning. It's a pleasure to participate on a panel with such a distinguished group of speakers who represent various other agencies and the Administration. Our objective today is to explore how our different missions work and come together in support of a common purpose. Our shared goal is to ensure the proper functioning of programs and initiatives that provide the necessary support, assistance, and protection for active duty members of the military as well as veterans. My remarks will cover several areas affecting servicemembers and veterans: first, our supervisory activities over laws that protect them; second, how the Community Reinvestment Act applies to activities that serve their banking and credit needs; and finally, a review of some military-focused initiatives that banks have developed or joined.

I would like to begin my remarks by telling you a little bit about the mission of the Office of the Comptroller of the Currency – OCC for short – and how our work potentially affects veterans and active duty members of the military. The OCC, a bureau within the Department of the Treasury, supervises and regulates national banks and federal savings associations. Together, these banks represent about 70 percent of all depository institution assets in the country. Our prudential supervision over these institutions includes on-site examinations to ensure that they are conducting their business in a safe and sound manner and complying with all laws and regulations.

The story is a bit more complicated with regard to consumer compliance supervision. My fellow panelist, Holly Petraeus, represents the Consumer Financial Protection Bureau – or CFPB – which has exclusive authority to write regulations for a number of Federal consumer financial laws, which are a subset of all consumer protection laws and regulations. Among them are the Truth in Lending Act, the Real Estate Settlement Procedures Act, and a number of other laws dealing with consumer financial protection.

The CFPB has authority under the Dodd-Frank Act to examine national banks and federal savings associations with more than \$10 billion in assets for compliance with those laws. The OCC and the other prudential banking regulators retained consumer compliance examination and supervision authority all banks and thrifts with assets of \$10 billion or less.

However, regulatory jurisdiction for supervising compliance with some other federal laws dealing with consumer financial protection, including the Servicemembers Civil Relief Act – better known as the SCRA – was not transferred to the CFPB. For these laws, the OCC continues to have primary supervisory authority with respect to all of the institutions that we regulate. The SCRA provides a range of legal and financial protections that may apply as early as on the date when servicemembers receive active duty orders. The SCRA protections apply for active duty military members, reservists and, to a more limited extent, members of the National Guard.¹

Under SCRA, creditors must forgive the amount of any interest above 6 percent – and adjust payments accordingly – for outstanding debts that were incurred by the servicemember or the servicemember and spouse before entering military service. For debts, such as credit cards or

¹ SCRA applies the National Guard members who are called to federal active duty service under Title 10, or called under Title 32 status service for a period of more than 30 consecutive days to respond to a national emergency declared by the President and paid with federal funds.

installment loans, this requirement applies until military service ends. For home mortgage loans, the rate reduction extends for one year after the end of military service.

The law also applies to lease or rental agreements. When a servicemember is deployed or receives a Permanent Change of Station order, he or she can terminate a lease, even if the lease was signed after the servicemember's entry into military service. Once the landlord is notified in writing, the obligation to pay rent ends 30 days after the next rent payment is due. Unless a court orders otherwise, servicemembers and their dependents who are renting their primary residence are also protected from eviction if the monthly rent is under a specified amount. The courts have discretion to stay eviction proceedings that fall under the SCRA for 90 days, unless a longer or shorter time period is deemed warranted.

Protection from foreclosure or the sale of real property is another important aspect of SCRA. This protection applies to loans secured by a mortgage on property owned by a servicemember that were originated before entry into military service and for which the servicemember remains obligated. A lender's foreclosure of such a mortgage loan is not valid unless the lender first obtains a court order or the servicemember provides a waiver allowing the lender to foreclose. If the lender files a court action to foreclose, the court has discretion to stay the proceeding or to adjust the obligation to preserve the interests of the parties. For the rest of 2014, this protection applies during the period of military service and for one year after the servicemember leaves the military. Beginning in 2015, the period of post-service protection will decrease to 90 days.

Homeowners who are in the military face unique challenges when they receive Permanent Change of Station (PCS) orders, because they often have to move within a short, strict timeframe. As Realtors who specialize in serving the military, I'm sure you have worked

with clients who need to rent or sell their home when they receive PCS orders to move to a new assignment. This situation can be particularly stressful for those whose home values are underwater. The OCC joined with the other bank regulatory agencies last year in issuing guidance reminding mortgage servicers of their obligation to provide service members facing mandatory transfers with accurate and readily understandable information about available mortgage assistance options.

The OCC believes SCRA compliance is a high priority. In 2012, we joined with the Department of Justice in a major enforcement action against a large banking institution to correct past violations of SCRA. In addition to requiring remediation to harmed servicemembers, the order required the bank to correct deficiencies and improve policies and procedures for determining eligibility for SCRA benefits, ensure that those benefits are calculated correctly, and verify the military status of servicemembers when seeking a default judgment. In a number of other instances, when deficiencies were identified in banks' SCRA compliance, our agency required banks to take corrective action to address problem areas.

OCC's role, of course, goes far beyond protecting the rights of active duty military members in their financial affairs. The OCC is also responsible for periodically evaluating how well banks and thrifts serve community credit needs as is required by CRA – the Community Reinvestment Act. In evaluating banks under the CRA, our examiners evaluate the performance of the institutions in meeting the financial services needs of their communities. Examiners then prepare detailed Performance Evaluations and assign a rating of Outstanding, Satisfactory, Needs to Improve, or, in the worst cases, Substantial Noncompliance. Both the rating and the Performance Evaluation are made public.

Many banks strive to achieve an Outstanding rating, not only to maintain their public reputation, but because they feel strongly about supporting the financial well-being of their customers and the communities in which they do business.

Of course, there are business reasons for maintaining a high CRA rating as well. A bank's record of CRA performance is considered during the review of an application to establish a branch, relocate the main office or a branch, merge or consolidate with another insured depository institution, or convert an insured depository institution to a national bank charter. So, CRA ratings have real world impact for banks that want to grow and expand their footprint.

There is no special CRA category for activities related to servicemembers and veterans. However, positive CRA consideration is available for activities that benefit low- and moderate-income individuals, which is defined as up to 80 percent of area median income. According to the 2010 Census, the median income of veterans is just over \$35,000, so many servicemembers and veterans may fall within that low- and moderate-income category.²

The opportunity to earn CRA consideration offers an incentive for banks to originate Veterans Administration (VA) loans. Under the CRA regulations, lending test consideration is available for VA mortgages — as well as conventional mortgages — that are originated to low- or moderate-income borrowers. As you know from your own experience, mortgage credit underwriting is generally more restrictive today and many prospective buyers have to save longer to meet higher down payment requirements. The VA home loan guaranty program provides one of the few opportunities for a no-down-payment loan, which is available to qualified borrowers with a VA entitlement.

² In 2010, the median income of veterans was \$35,357 at <http://www.census.gov/how/infographics/veterans.html>.

OCC-regulated institutions are significant contributors to the success of the VA home loan program. According to *Inside Mortgage Finance*, the top ten VA lenders provided just over half of VA loans originated in the first quarter of 2014. OCC-regulated institutions dominated the top ten category providing almost 39 percent of the total dollar volume of VA loans during that time frame.³

Last year CFPB promulgated new mortgage rules that amend the Regulation Z, which implements the Truth in Lending Act. One of these new rules is the Ability to Repay rule, which requires a creditor to make a reasonable and good faith determination that the consumer will have a reasonable ability to repay the loan according to its terms. One way for creditors to satisfy this rule is to make loans that meet the criteria for one of five categories of qualified mortgages. If a loan meets all of the requirements for one of these qualified mortgage categories, the rule provides a safe harbor or a presumption that the creditor making the loan satisfied the ability to repay requirements for that loan. The Dodd-Frank Act also contained a provision giving certain agencies, such as the VA, the authority to establish their own QM definition for loans eligible to be guaranteed by that agency.⁴ The VA has promulgated its own QM rules. Recently, the VA issued an interim rule clarifying that purchase money VA home loans will fall within the QM safe harbor.⁵ This could give the VA more flexibility in establishing debt-to-income and other underwriting or verification requirements.

³ Inside Mortgage Finance, Vol.7, Issue 10, May 9, 2014, page 7. The top ten VA lenders provided 54.2 percent of VA loans originated in the first quarter of 2014. OCC-regulated institutions provided 38.7 percent of the total dollar volume of VA loans during that time frame.

⁴ The Ability to Repay rule contains provisions for a temporary QM with a view towards permitting certain loans to be viewed as QMs, until the earlier of 2021 or the date that the respective agency established their own QM criteria. Under the temporary QM provisions, lenders need only comply with documentation and underwriting requirements established by the respective agency (here, the VA) to meet the Ability to Repay Rule.

⁵79 Fed. Reg. 26620 (May 9, 2014) (avail. at this [link](#)).

Banks can also earn CRA consideration by making counseling services available to help low- and moderate-income veterans learn financial management and budgeting basics or prepare for homeownership. Some banks provide financial counseling directly, while others make these services available by providing grants to counseling organizations. These services are particularly helpful for younger veterans as they transition to civilian life. To further assist servicemembers and veterans, some banks offer special programs that offer savings on closing costs or targeted affordable mortgage programs to the military. Many banks also provide low-cost deposit accounts for servicemembers.

A huge challenge over the past six years has been helping homeowners avoid foreclosure. The OCC has encouraged banks to provide programs to offer sustainable loan modifications or refinances. These modifications or refinances on a veteran's primary residence also may warrant CRA consideration. Several years ago, a number of banks formed the Hope Now Alliance, which was influential in coordinating industry outreach to help struggling mortgage borrowers. Their efforts also focused on helping members of the military and many loan modification events took place on or near military bases. One large bank opened homeownership service centers near various military bases to meet those customers' special needs. Some banks offer dedicated customer service hotlines for military servicemembers and veterans that are staffed by personnel trained in service-related programs and issues.

Housing assistance has been another strong area of focus for CRA-related activities. The Consumer Bankers Association reports⁶ that its member institutions have donated properties from their inventory of foreclosed homes to provide homes to veterans. If necessary, homes are refurbished to meet accessibility needs of disabled veterans. And, the needs of homeless

⁶ News Release, Consumer Bankers Association, November 7, 2013 at http://www.cbanet.org/News%20and%20Media/Press%20Releases%202013/11072013_pressrelease.aspx.

veterans have not been ignored. Some banks have worked with local organizations to build senior citizens housing for veterans and shelters for homeless veterans.

Notwithstanding CRA, we have found that banks are motivated to honor military service by offering training and assistance programs tailored to the needs of veterans. According to the U.S. Bureau of Labor Statistics, the unemployment rate for veterans who served after September 2001 was 9.0 percent in 2013, while the jobless rate of 6.6 percent for all veterans more closely matches the national figure.⁷ Many institutions recognize that veterans are able to convert the leadership skills they learned in the military to civic and business affairs. Some banks have sponsored job fairs to attract new employees with military experience and have developed special training or hiring programs targeted to veterans. One bank set up a dedicated Military Veterans Network for outreach, mentoring, and recruitment. Other banks maintain dedicated one-stop website resources for recruiting veterans or have otherwise centralized their military recruiting efforts. A coalition of banks and other companies formed the 100,000 Jobs Mission, whose efforts led to hiring almost 93,000 veterans in three years—nearly meeting the goal to hire 100,000 veterans by 2020.

Veterans who want to start businesses after leaving the military need small business financing. The Veteran Pledge Initiative is an effort to increase banks' participation in Small Business Administration (SBA) lending to military veteran business owners by 5 percent annually over the next five years. For our part, the OCC has worked closely with the SBA to develop publications and webinars to help banks understand how to originate SBA loans.

I've tried today to offer a broad overview of the efforts banks are making to support the needs of servicemembers and veterans – and what we at the OCC are doing to encourage those

⁷ News Release, Bureau of Labor Statistics, March 20, 2014 at <http://www.bls.gov/news.release/vet.nr0.htm>.

efforts. The men and women who have served their country in our nation's military have sacrificed greatly for us. We owe them a debt of gratitude, and we at the OCC and the national banks and federal savings associations we supervise are doing everything we can to ensure that debt is repaid.