Remarks by
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All across America, when people talk about cities on the move, Cleveland, the "Comeback City," is among those mentioned. So when **I** get to come back, as I wish I could more often, it's not only a pleasure -- it's an inspiration. My family traces to Ohio roots, and I spent many summers of my youth with my grandmother and other relatives who lived not far from Cleveland. I can still remember listening to Indians' games – and the heroics of Rocky Colavito – on the radio at night. Its always great to be back.

But its really great to be back to see what Cleveland is today. The Cleveland renaissance serves as a reminder of what it takes to make such a turn-around happen. I was not surprised, looking over Mayor Campbell's latest "Cleveland 500,000-plus" quarterly report, to see the emphasis on two key requirements: partnerships and leadership. Cleveland has taken this one better. Here, civic, nonprofit, and business leaders have united with their colleagues from government to advocate for the city and its goals.

It's particularly gratifying as a representative of my agency, the Office of Comptroller of the Currency, which is the administrator of our country's system of nationally-chartered banks, to see the names of so many national bankers among the city's partners in leadership. For bankers, as for all responsible business people, fostering a vibrant city is not only commendable; it's enlightened self-interest.

When it comes to delivering a vision that moves citizens from all walks of life, economic stations, and political persuasions, and brings them together in this great campaign of mutual uplift and municipal renewal, Cleveland has learned that many voices speak louder than one. With those many voices speaking as one in support of common goals, this is one city that's already a demonstrably "safer, smarter, and stronger" place than it was when Cleveland started on the long road back.

Leadership and partnerships also combine to make the Cleveland NHS the outstanding organization it is today. We know what a crucial part the Neighborhood Reinvestment Corporation and its network of more than 200 community-based NeighborWorks® affiliates, of which this is one, have played in the stabilization and rehabilitation of literally thousands of the nation's neighborhoods. We know what can be achieved when you bring together a broad array of residents, nonprofits, and public and private sector representatives in a multi-faceted program that targets the whole range of a community's problems.

I have the privilege of serving as the OCC's designate on the board of the Neighborhood Reinvestment Corporation's Board of Directors. And the OCC's Community Affairs department also reports to me in my capacity as the agency's Chief Counsel and First Senior Deputy Comptroller. I take great personal satisfaction in the work of our Community Affairs department and the support the OCC continues to provide to the NeighborWorks® agenda in many ways.

As a further expression of that support, it gives me great pleasure today to introduce Norma Polanco, the OCC's newest Community Affairs officer. For the first time, the OCC will station one of our district community affairs officers right here, in Cleveland, beginning on July 1. Norma joins Paul Ginger, who is based in Chicago, as our second Community Affairs officer in our Central District. Norma comes to the OCC after serving for six years as the founding Executive Director of the Humboldt Park Economic Development Corporation on Chicago's northwest side, where she specialized in developing financial literacy workshops and commercial revitalization initiatives. When you get to know her, I know you'll find Norma to be an enormous asset to the greater Cleveland community and region, our national bankers doing business here – and to the Cleveland NHS.

I mention the city and the city's NHS together, because, in a very real sense, your fortunes are inextricably linked. That should give everyone in this room an enormous sense of optimism. Under executive director Emily Lipovan Holan and her dedicated Board of Directors, the Cleveland NHS has developed a full and impressive range of services for low- and moderate-income home owners and prospective homeowners – pre-purchase education, counseling programs, home repair loans, down payment and closing cost loans, and more. I know that some of you here today would not be homeowners if this organization were not in the business of caring and helping. And Cleveland would be a less promising, less vibrant city than it is today.

But there's much work to be done – here and all across America.

The more than four million Americans who are direct beneficiaries of the productive partnerships between banks and NeighborWorks® organizations and other housing CDCs certainly represent a great accomplishment. Home ownership records are being set, and the gap in the homeownership rate between African Americans and Hispanics and the rest of our population is narrowing. Last year, nearly half of all minority households achieved the goal of home ownership. This promising achievement is the result of many factors, some of which I'll discuss a bit more fully in a moment.

And yet these gains are both incomplete and precarious. Incomplete, because while we have narrowed the minority home ownership gap, we have not erased it: minority home ownership still trails the national average by as much as 28 percentage points. Incomplete, because while national home ownership rates are at all time highs, for nearly a third of all Americans households, home ownership remains an elusive dream. And precarious, because predatory lending remains a cancer in many communities, and its terminal byproduct – epidemic foreclosure rates – can unravel all the good work and progress made to revitalize a neighborhood.

The frustrating part is that this unraveling is taking place in the face of determined eradication efforts on the part of community-based organizations, like this one, and their private-sector partners, including national banks and other regulated financial institutions, elected officials, and state and federal agencies.

And that leads to the challenging part – understanding why the problem is so tenacious and recognizing that we need to evolve our partnerships to bring to bear new tools and new approaches to beat it.

I think its useful to step back and appreciate how the structure of the U.S. mortgage market has changed in recent decades and how profoundly that change affects the challenge we face.

People who haven't shopped for a mortgage in a while are sometimes startled to discover just how much the process has changed. Some of those changes – the ability to easily comparison shop rates and terms, to submit applications electronically via fax and the Internet, and to obtain commitments in days that might once have taken weeks or even months – are very visible. For most consumers, they're also most appreciated.

Other changes have been more of a mixed blessing from the customer's standpoint. Most mortgages today do not come from a locally-headquartered bank or thrift, and securitization has overtaken deposit-gathering as the source of funding for mortgage lending. The mortgage industry has become increasingly consolidated and increasingly dominated by large, high volume, automated producers operating nationwide. None of these characteristics is bad. Indeed, size, speed and geographic diversity can translate in more product offerings, more competitive pricing, greater customer convenience, and better credit risk diversification.

But, it can also translate into a different – and transitory – relationship between the borrower and the originator of the borrower's mortgage. In fact, the originator may neither fund, nor hold, nor service a borrower's mortgage. Notably, according to a recent mortgage industry publication, over 62 percent of the subprime mortgage loans originated in 2002 were securitized, that is, they were not held in the lender's portfolio, but were sold to third parties to make up pools of loans, with securities representing interests in the pool sold to investors.

With the growth of secondary mortgage markets, and a declining share of all mortgage loans sourced by depository institutions and mortgage companies, loan originators themselves are less likely to be banks than correspondents or brokers. Indeed, the ranks of mortgage brokers and correspondents have increased dramatically. Based on one recent accounting, there were 44,000 mortgage brokers in 2002, compared to 7,000 in 1987. This should mean more competition and better rates and service for consumers. And if you're a prime customer, it usually does.

But in the subprime market, where the largest share of loans are originated by brokers, the story can be quite different. Indeed, some observers have described a dual mortgage delivery system, where some individuals – mostly poorer, older, or less sophisticated, and disproportionately minority – often pay more for mortgages than their actual credit profile would warrant, do not so much "shop" for loans as they are "sold" loans, and who are therefore inordinately vulnerable to a range of abusive practices.

Don't get me wrong. I'm not suggesting there's anything inherently more abusive about broker-originated loans than any other kind. Indeed, as I've already mentioned, the rise of the subprime segment, in which brokers are key players, can be credited for much of what we've achieved of late in advancing home ownership, especially for minority Americans.

But, we need to recognize that there are a combination of ingredients at work here that can make for a toxic brew: subprime borrowers who may have limited credit options available and less sophistication about how to pursue those options, and a dominant distribution network where mortgage originators are compensated, up front, through a share of fees charged the borrower, and where those originators have little or no expectation of any ongoing relationship with the borrower, such as by holding or servicing the loan. Recent studies do indicate that brokers have competing interests in getting loans funded and on collecting fees for their services, on the one hand, and in matching borrowers with the best available mortgage, with the best prospects for long term performance, on the other. And, as I noted earlier, as of recent years over 60 percent of subprime mortgage loans are securitized.

These structural shifts in the U.S. mortgage market have surely contributed to the challenge of eradicating predatory and abusive lending in our communities – challenges that NeighborWorks® organizations all across the country are stepping up to meet. It's impossible to estimate how many new homeowners might have had no alternatives other than to obtain loans on unfair terms – or who might never have become homeowners at all – but for the success of NeighborWorks®' Full-Cycle Lending approach, with its emphasis on financial counseling and financial literacy. Under the NeighborWorks® Campaign for Home Ownership, thousands of homeowners are receiving help in managing their property and their finances, making it significantly less likely that they'll wind up as victims of predatory lending. But if they do, NeighborWorks® organizations like the NHS right here in Cleveland, are providing workout and refinancing alternatives for borrowers through delinquency intervention programs.

But more needs to be done.

What can bankers do? Simply put: Don't be part of the problem; be part of the solution. On the first point, we expect national bankers to be following the formal guidance the OCC issued last year on the steps they should take and the factors they should consider to avoid becoming involved in abusive, predatory, unfair or deceptive lending practices. With respect to purchased and brokered loans in particular, we emphasized that banks should have criteria for entering into and continuing relationships with intermediaries and originators, including due diligence requirements, and standards related to total compensation, including compensation of intermediaries, such as maximum rates, points and other charges. We also emphasized the importance of management information systems and quality control reviews to verify conformity with the standards a bank has set.

There are opportunities here for us to work together to build on this guidance and enhance productive partnerships – as well as a whole range of new possibilities for organizations like the Cleveland NHS to increase its contribution to the fight against predatory lending.

One area in which you can help is in monitoring the behavior of mortgage originators and exposing those few who are responsible for soiling the reputation of many. You who work with victims of abusive lending know who these lenders are. And no one is in a better position than you to get that information out, to the state and federal agencies that regulate mortgage brokers and lenders, to mortgage industry data exchanges, and to regulated financial institutions, which need that information to ensure that they don't become unwitting accomplices of the abusive lenders by purchasing loans they have originated. And should a national bank ever be involved, you bet we want to hear about it.

And there is still more to do.

I talked about the changing structure of the mortgage market earlier in my remarks to provide a framework for the challenge we face, but that structure and the forces that led to it also may be a blueprint for approaches to some solutions. The dynamics and incentives inherent in today's mortgage market contribute to the problem we have, but they may also reflect techniques we should use to solve it.

For example, let's assume that there will always be some mortgage originators driven, not by the interests of their customers, but by the size of their fee, and let's assume also that there will be prospective borrowers with subprime credit qualifications, that seek out, or are sought out by those originators. I described this as a "toxic brew." Today, we try to regulate it. Consider also how to <u>compete</u> <u>with</u> <u>it</u>.

For example, thoughtful commentators have described, and community-based groups are pioneering, the concept of the "buyer's broker," to help potential borrowers shop for the right loan for them. This means reaching out – like the brokers do – to identify prospective borrowers, giving them a realistic reading of their credit risk profile, and helping to locate the best available loan for them. This requires community organizations to have accurate, dependable information on prospective borrowers, access to the automated tools used to evaluate their risk profile, and loan pricing information similar to the information that mortgage brokers receive. It means <u>competing</u> effectively to reach potential borrowers and get them the best deal available – which may be a subprime loan that reflects subprime rates, but which will not be a predatory loan.

It strikes me that this type of initiative is a natural for constructive collaboration between community organizations and banking institutions.

Community organizations also can learn from the structure of the mortgage banking business today. Ask yourself – are there opportunities for scale, scope and automation in making available responsible subprime credit in your communities? How can subprime – non-predatory – loan programs be designed and made available on a regional, or even national basis? Are there functions that you perform – but not in any unique way – that could be outsourced, so that your resources could be focused on the activities that you do uniquely well? Are there things you do well that you could do for others, such as smaller scale community organizations?

For example, some organizations have outsourced the origination and servicing operations of their community-based loan programs to third parties – thus saving overhead expenses – while a few others, with a more entrepreneurial touch, have chosen to create in-house state-of-the-art servicing operations of their own. Some of those now offer loan processing and servicing to other community loan programs, resembling the correspondent banking services relationships that exist in the banking industry among large institutions and smaller banks that they service.

Indeed, I am struck – and very encouraged – by how these initiatives resemble one of the most important and far-reaching trends that we have seen in the banking industry over the past decade. In a speech several years ago I called it "deconstruction" of the functions of the banking business. What I described was the separation or segmentation of banking products, services and operations into their component parts or processes so that they can be provided or obtained separately.

For example, a bank with a capacity for a particular function, such as loan servicing, may "export" that capacity by marketing it to other banks, while another bank might determine that it does not want to develop that capacity and would look for a bank from which it can "import" the function. Similarly, a bank may decide that it is important for its customers to have access to a broad range of products, but rather than producing those products itself, it will import the choices and give its customers access to products from other providers. This perspective enables a firm to play to its strengths; to commit resources to the particular processes its does best, and to gain access to skills, expertise and products that it needs to be most effective and efficient.

Community organizations can learn from this experience – indeed, I would argue that they must – lest they use precious resources inefficiently, and try to combat modern market forces and modern techniques with strategies that worked in a previous era. Here again, bankers who know the modern mortgage marketplace and have utilized new techniques to contribute to the quality and efficiency of their operations would make natural partners for community organizations as they explore how to apply these perspectives to enhance their own organizations' operations.

So if I leave you with any one message, let it be a message of partnership. Community organizations, bankers, and bank regulators, don't always see eye-to-eye. But when the task is to restore and reinvigorate America's communities, we are shoulder-to-shoulder. We may bring different perspectives and different approaches to the mission, but partnerships built on that diversity lend strength to our efforts and can illuminate new paths to achieve our common goal.

The OCC is proud to be a participant in the revival of this great organization and the great city of Cleveland. It has been a real honor and personal pleasure to be here with you today, and I am deeply grateful to you for both.

Thank you.