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Remarks by

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Good afternoon. It's a pleasure to see such interest in low-income housing tax credits. The OCC is delighted to have this chance to share the success stories these investments have created and introduce you to the various strategies that banks, developers, local governments, and community groups are using to make quality housing more affordable for our country's low- and moderate-income families.

One of the most enjoyable aspects of being Comptroller of the Currency is the chance to visit cities and towns across the country and hear how community development projects have come together through partnerships, innovation and sheer determination. Nothing compares to seeing the faces of men and women who are now able to provide their children a safe place to call home -- whether a quality apartment in a thriving neighborhood or a single-family house on an urban street that is being turned around by home ownership and the sense of pride it instills. Few efforts do more to help bridge the gap between society's haves and have-nots than to enable fellow citizens to live in a more stable environment or achieve the American dream of owning their own home.

Financing and investing in affordable housing are key elements to bringing more Americans into the economic mainstream -- it's one more step in the historic process I've described as the "democratization of credit."

If you're a student of American banking and finance during the 20th century, you know that its evolution has shown there are almost always new opportunities to extend credit responsibly to individuals and businesses that had not previously been served or served effectively. The banking industry's drive to innovate and tap potential profitable opportunities has continually opened up new lending vistas -- from residential mortgages to auto loans, from consumer credit to community reinvestments -- including community development partnerships and instruments like low-income housing tax credits.

Chicago, of course, knows more than a little about rebuilding communities.

This month marks the 125th anniversary of the Great Chicago Fire. Looking back at this disaster, more notable than the devastation was the rebirth that followed, as Chicago and the country rallied together to build an even stronger urban community out of the ashes.

One of the more interesting stories about the Great Fire and the Great Rebuilding that followed is about a man named William Bross. Bross was one of the city's more prosperous citizens who was burnt out of his home on Terrace Row. The fire ended on a Tuesday at dawn and by Thursday, Bross was on a train to New York City. He quickly became a favorite of reporters who were eager for sensational eyewitness accounts, but his purpose for going to New York was more pragmatic -- he had come to speak directly to the city's investment community. His message was straightforward -- the fire opened rather than foreclosed investment opportunities in Chicago.

He presented this case in a thought-provoking way -- New York, he believed, was the senior partner in American enterprise and Chicago the junior partner. In that role, New York's business leaders couldn't, as Bross put it, "sit by and see the business of the firm crushed out when they have the means to reestablish it." The logic of his argument was sound: In 1871, an America in the throes of industrialization already had too much invested in Chicago's future -- and too much to lose -- not to reach out to the still smoldering city.

The rest, as they say, is history. Within a month of the fire, over 5,200 houses had been constructed and sold to needy families for about a hundred dollars a piece. And within seven years, the population of Chicago exceeded 500,000.

But why the history lesson today?

Because, in 1996, an America that is becoming more diverse and more centered in urban areas also has too much to lose if we do not commit ourselves to community revitalization. And today, we need a similar commitment on a national scale -- a commitment to invest and to partner in new ways that breathe new life into neighborhoods and extend housing opportunities, here in Chicago and across the country.

With the need for this commitment in mind, I would like to do two things today -- first, offer you my congratulations on how far we have come; and, more importantly, issue you a challenge to do what is necessary to keep the progress going.

The past few years have seen impressive progress in affordable housing finance, and America's banks are leading the way. Banks are making home mortgage loans to previously underserved people and neighborhoods at record rates, laying the foundation for a new generation of bankable customers and a new century of healthier communities.

Lower interest rates and low inflation have made home ownership

more affordable today than five years ago. Minorities and families in low-income areas have taken particular advantage of this increased affordability as well as programs that have targeted these new home buyers. Home Mortgage Disclosure Act data show that nationwide, the number of home loans to minorities was 33 percent higher in 1995 than in 1993, with loans to African-American families increasing 55 percent and mortgages made to Hispanic-Americans up 42 percent. That is particularly impressive when you consider that the residential mortgage market as a whole was growing at about 18 percent during those years.

Similarly, the increase in lending to low- and moderate-income areas was more than double the increase for all areas during the same period. Here in the Chicago metropolitan area, home mortgages to minority borrowers increased over 41 percent, and loans made in low- and moderate-income census tracts grew 45 percent.

This progress has brought the national home ownership rate to an all-time high -- 64.7 percent. An estimated 2.3 million households have made the transition to home ownership in the last two years alone.

All of you deserve congratulations for these achievements. But greater challenges lie ahead if we are to sustain the commitment to community revitalization that we need to realize the full potential of America in the next century.

One challenge is to extend the impressive growth in affordable single family lending to multifamily finance. The most recent Harvard Joint Center for Housing Study -- which analyzed data through 1995 -- reported that rents had changed little from their 1980s peak. The researchers noted that the country's affordable stock of rental units had been shrinking as less expensive apartments were either demolished, upgraded or converted to other uses. That trend, however, is beginning to be reversed. In the last three years, the country's financial institutions have invested over $41 billion to develop affordable multifamily housing. National banks, I'm happy to say, have led the way, increasing their multifamily lending efforts by 45 percent since 1993.

I applaud these efforts, because banks have recognized a community need and are rising to the challenge. It is a challenging -- but immensely rewarding -- business.

Successful lending efforts, in any arena -- whether commercial, retail or affordable housing --require a thorough understanding of the risks inherent to the product line and strategies to mitigate that risk. However, multifamily housing lending is unique in its complexity.

There are multiple reasons for this.

By its very nature, financing an apartment complex is more expensive than making single family loans or providing

mortgages for 2-4 family housing. Underwriting criteria can also be difficult to standardize across the board, and, consequently, there is little liquidity in multifamily development lending since a deep secondary market has yet to be developed. Further, lenders must successfully consider the business acumen of multifamily developers and property managers, because their skills help ensure that rental income is there as the source of loan repayment. A quality investment in a multifamily development depends in large part upon the property manager employing effective techniques for tenant selection, rent collection, lease enforcement, security, tenant services and -- when appropriate -- the provision of social services.

Successful multifamily lending is, indeed, a challenge -- one that demands and depends upon solid partnerships. You are here today to explore one way that banks can partner with local community developers to reverse this trend -- participation in low-income housing tax credits.

But there are many other ways that banks can profitably participate in affordable multifamily housing development -- including investments in community development corporations, purchasing community development securities, and support for community development financial institutions. To make it easier for banks to take advantage of these opportunities, the OCC recently streamlined and increased the flexibility of our regulation governing the authority for national banks to make investments that primarily promote the public welfare.

In addition, over the past year, the OCC has hired community reinvestment and development specialists in each of our six districts to help foster national bank involvement in community development. And, just a few days ago, we and the other federal regulators completed a comprehensive set of questions and answers on the new performance-based Community Reinvestment Act regulations. This document contains concrete examples of bank community development activities that qualify for favorable consideration under the CRA rule. I should note that the new CRA regulation was designed to reflect the realities and challenges of successful multifamily development, which often require multiple layering of financing and creative partnerships with public and private sources. In addition to looking at a bank's overall community development activity, our examiners also weigh the level of innovation and complexity of individual projects and services when assessing a bank's CRA performance.

So I want to assure you that the OCC is doing all we can to work with you to meet the challenge to participate in affordable multifamily housing finance.

The other community development challenge I want to discuss today is the challenge of ensuring that the expanded market in affordable single family mortgages I described earlier remains profitable and sustainable. At the OCC, we are committed to working with the industry to meet that challenge. That is why

we've been concerned about some negative reports about the quality and delinquency rates of affordable mortgage loans. In some cases, these reports are causing lenders to reconsider their commitment to affordable mortgage financing.

We asked examiners at our largest banks to report on underwriting standards for a variety of loans in those banks, including affordable mortgage loans. Their findings were interesting -- higher levels of delinquencies for affordable home loans but the same level of losses as standard one- to four-family mortgages. These results were not the same for every bank. Some banks had high earnings and solid portfolios of affordable housing loans, showing once again that -- as with any new product or credit innovation -- there is a learning curve that must be negotiated.

All of us who are concerned about revitalizing communities -- bankers, bank regulators, and community organizations -- need to identify the characteristics of well-structured, well-managed affordable housing programs in individual banks so that these programs can be replicated throughout the industry. These programs offer products that meet the particular needs of low- and moderate-income borrowers while mitigating risks and implementing the necessary management techniques.

Experience with single family mortgage portfolios has already shown that successful affordable mortgage lending requires more than modified underwriting standards. It requires innovative approaches to originating and servicing loans made to a more diverse, non-traditional customer base. That means focusing more attention and energy on working with servicers. That means, perhaps, responding differently to late payments from non-traditional first-time home buyers than to late payments from the traditional middle-to-upper income suburban homeowner.

A clear consensus has emerged that pre-purchase and post-purchase counseling is an important component to serving non-traditional first-time home buyers. Broader consumer education about the home buying process may also be necessary to generate demand and improve asset quality. Banks are working with social and religious organizations to bridge the gap between the cultures of traditional banking and the various segments of the unbanked population -- to make sure counseling is effective and appropriate for different groups of borrowers.

As we continue to move forward and incorporate what we are learning, it is sensible to think through new ways to give more homebuyers the chance to get a mortgage, meet their monthly obligations, or be prepared -- both intellectually and financially -- for the unanticipated responsibilities of homeownership. For example, incorporating credit counseling as part of the mortgage cost could, conceivably, be desirable in some programs and for some buyers. For just a few dollars a month -- admittedly not a small amount for a low-income borrower but one that could mean a big difference in opportunity -- lenders would be able to offer truly high quality counseling services, which we already know improve the

performance of affordable mortgages. In addition, it might also be beneficial to look at ways to create separate funds to ensure that when a homeowner does have to make an emergency repair -- such as a new furnace or a new roof -- it doesn't put the borrower in jeopardy of falling behind on mortgage payments.

Another possibility involves allowing banks to engage in new risk-sharing arrangements with mortgage insurers. The OCC recently issued an interpretation that would permit banks to enter the mortgage reinsurance business in partnership with mortgage insurers. This move will help banks to make more affordable mortgage loans -- which typically have low downpayments and, therefore, require insurance -- because it increases their ability to sell these loans into the secondary market.

Many banks, particularly larger institutions, have underwritten affordable housing loans with terms that are more flexible than many private mortgage insurers and secondary market leaders, such as Fannie Mae and Freddie Mac, will accept. As a result these lenders must hold the loans in portfolio. But holding loans -- rather than selling them into the secondary mortgage market -- reduces a bank's ability to make more affordable loans. Risk-sharing partnerships, however, may allow a bank to sell more affordable loans into the secondary market, and free up funds to make additional loans in the community.

## Conclusion

So much more can be done to rebuild communities and extend opportunities -- so much more may be possible with sound experimentation and tireless innovation. Community revitalization is an exciting venture and a noble undertaking -- one that requires vision, commitment and determination. You wouldn't be here today if you didn't believe that low-income housing tax credits are a great idea and if you didn't have the desire to make a difference in your community. So I applaud you and urge you to build upon the progress we've achieved over the last few years . . . continue to seek exciting new ways to serve families and community needs -- families that may have been underserved or completely unserved, community needs that may have been unmet. The opportunities are boundless, the benefits real. And your investments in community revitalization, your search for new solutions, and your partnerships with others will create stronger American communities and a stronger America for years to come.

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The OCC charters, regulates and supervises approximately 2,800 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system tha\

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