

Remarks by
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Comptroller of the Currency
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Thank you. It's a real pleasure to be here with you today. Since becoming Comptroller, I've been impressed by the important role that banks play in the economic vitality of their communities, and I've also been very impressed by the fine work that community affairs officers like you play in promoting bank involvement in community and economic development. I've had a number of opportunities over the past four years to visit the cities that have benefited from these efforts. That's allowed me to see first hand many of the successful projects that are helping to stimulate job creation, affordable housing, and economic development around the country.

One of the lessons I've taken away from these visits is that the programs Congress enacts to facilitate bank involvement in community development only work if banks actively take advantage of them, and that doesn't happen by chance. As community affairs officers, you play a key role in helping to educate banker and their community partners about all of these programs and associated regulatory requirements. I know that you've already convened a number of successful interagency conferences for bankers this year, which received high marks for information sharing and communicating best

practices, and several more are scheduled for this fall. If I can put a plug in for one of our initiatives, the OCC will hold a telephone seminar on SBA programs in late September. Along with similar seminars and conferences that each of your agencies sponsor, we hope this teleconference will help get the word out about programs that will benefit both banks and their communities.

The work you've done to educate bankers on community credit needs makes a real difference. Your connections with community-based organizations, government officials, and other stakeholders are vitally important. So is the help you provide supervisory staff in their bank consultations and assessments of community reinvestment performance. Indeed, the Community Reinvestment Act has been a pillar for economic stabilization and recovery of distressed and underserved communities. CRA-eligible lending has grown impressively over the past decade, aided in no small part by your efforts to encourage these activities in a safe and sound manner.

In that regard, we all know that CRA has been criticized as helping to fuel the toxic lending that led to the market disruptions of the past year. I've said this before, but it bears repeating: it's just not true. CRA was not a cause of the crisis. To the contrary, the track record of CRA lending by depository institutions indicates that those loans have performed notably better than loans made by lenders that are not subject to CRA. For example, single family CRA-related mortgages offered in conjunction with NeighborWorks organizations have performed on par with standard conventional mortgages.¹ Similar conclusions were reached in a study by the University of North Carolina's Center for Community Capital, which indicates that high-cost subprime

¹ "Low-Income Mortgage Borrowers with the Benefit of Homeownership Counseling Do Substantially Better than General Market, According to New Foreclosure Analysis," NeighborWorks America, *News Release*, September 25, 2008.

mortgage borrowers have defaulted at much higher rates than those who borrowed for CRA purposes.² In part, this positive record reflects the efforts of community affairs officers like you who stressed that lending to support community development should – and could – be done in a safe and sound manner.

Now let me shift my focus today to two other areas – small business lending and affordable housing – where you can also help banks use the tools provided by the recently enacted American Recovery and Reinvestment Act, as well as other government credit support programs, to aid in the recovery effort and potentially enhance banks' CRA performance.

I'll start with small business, which historically has driven the nation's economy. More than 95 percent of all businesses in the United States – 26.8 million – have fewer than 500 employees. According to the latest data available from 2007, small businesses account for roughly half of America's gross domestic product and employment in the non-farm private sector.³

The Recovery Act expanded several existing Small Business Administration (SBA) programs and created new ones to help stimulate small business lending by banks and other financial institutions. Changes to the SBA's flagship 7(a) loan guarantee program reduced the credit risk exposure that banks have on these loans. Under the 7(a) program, SBA provides a guarantee to banks originating small business loans. In the event that the borrower defaults on the loan, the SBA reimburses lenders for their loss up to the SBA guarantee limit. The Recovery Act increased that limit from 85 percent to 90

² Lei Ding, Roberto G. Quercia, Janneke Ratcliffe, Wei Li, "Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models," University of North Carolina, Center for Community Capital, October 2008.

³ *Small Business Profile*, Small Business Administration, Office of Advocacy, January 2009

percent. It also temporarily eliminated the upfront guarantee fees, which typically range from 2 percent to 3.5 percent of the loan amount, depending on the size and duration of the loan. Banks should be aware that both provisions will continue until congressional funding is exhausted, which SBA estimates will occur by the end of 2009.

Second, the SBA permanently expanded the SBA 504 certified development company program, in which banks and the SBA co-lend to finance small business plant and equipment. Previously, the program was limited to purchases of newly acquired plant and equipment. With the Recovery Act changes, a 504 certified development company will also be able to refinance existing loans that previously financed 504-eligible fixed assets. This expanded authority will allow businesses to restructure eligible debt to improve cash flow and enhance capacity for growth and job creation or retention. In addition, in order to spur lending under the program, borrower and lender fees have been temporarily suspended until congressional funding is exhausted later this year.

These changes are already sparking a resurgence of interest and participation in SBA programs. Since passage of the Recovery Act, 848 lenders who had not made an SBA loan since 2008 have re-joined the program. Half of those lenders had not made SBA loans since 2007. This year, as of July 31, 2009, SBA had approved \$5.7 billion in Section 504 and 7(a) recovery loans, which helped generate \$7.8 billion in lending to small businesses. About 45 percent of the total limits allocated by Congress have not been obligated, so opportunities still exist for SBA approved lenders, including currently inactive lenders, to take advantage of these favorable terms.⁴

⁴ Remarks delivered by Grady Hedgespeth, SBA Director of Financial Assistance, at the Mid-America's Lenders Conference, Sugar Land, Texas, August 11, 2009. See "SBA Stimulus to Dry Up by December," at <http://www.colemanpublishing.com/public/970.cfm>.

The Recovery Act also made changes to the SBA's Small Business Investment Company Program – the agency's venture capital program that helps bridge the gap between the amount of capital an entrepreneur needs and the amount available through traditional financing sources. Banks sponsor and invest in Small Business Investment Company funds by combining their own venture capital with SBA-guaranteed loan funds to make equity and debt investments in qualifying small businesses. The Recovery Act raised the maximum SBA-guaranteed loan to three times the amount of each private dollar invested – significantly enlarging the potential of this program.

In addition to these changes to existing programs, the Recovery Act created a new SBA financing tool, the America's Recovery Capital Loan, or "ARC" Program, which offers small business stabilization financing. SBA will fully guarantee loans of up to \$35,000 to assist viable, for-profit small businesses that need short-term help in making their payments on existing, qualifying debt. SBA-participating commercial lenders making these loans can defer repayment by the borrower for 12 months, during which time the SBA pays the monthly interest. After the interest deferral period, the borrower must repay the loan over five years.

The objective of this program is to give small businesses some temporary financial relief to get their cash flow back on track so they can keep their doors open and ultimately preserve or create new jobs. SBA reports that 400 lenders are participating in the program, and more than 1,000 ARC loans have been originated since the program went live this past June.

Turning to housing, the Recovery legislation contained several important provisions to address two of the key challenges facing local housing markets –

dislocations in the multifamily housing tax credit sector, and the growing inventory of foreclosed properties.

The economic recession and financial turbulence have significantly reduced investments in Low Income Housing tax credits, a critical resource for production of affordable rental housing. For the past twenty years, these credits have produced an average of 100,000 rental units per year for low- and moderate-income households. Volume peaked in 2007, with almost \$9 billion in equity invested.

In 2008, both Fannie and Freddie suspended their investments, and industry-wide equity for these credits dropped to \$5.5 billion. Banks and other corporate investors remain as the major holders of this equity, and the projected 2009 volume is estimated to be only \$2.5 billion⁵ – a sharp drop from the \$9 billion peak. As a result, some areas of the country will see a significant financing gap that will slow or halt development of affordable housing.

The Recovery Act attempts to address this gap by providing assistance to tax credit projects where investors are not available or where proceeds from the sale of the credits is insufficient to cover project development costs. Under the Act's Tax Credit Assistance Program, HUD has begun providing grants to housing finance agencies that require additional funding to complete their current tax credit projects. The industry has also begun to receive a boost from the Act's Tax Credit Exchange Program, where the Treasury Department is exchanging allocated tax credits for cash that can be directly infused into developments. The OCC, in conjunction with the other bank regulatory agencies and the Federal Home Loan Banks, has been holding seminars around the country to educate bankers about the recent changes to the Low Income Housing Tax

⁵Source: Ernest & Young Tax Credit Investment Advisory Services, August 2009.

Credit program, as well as investment opportunities presented by current market conditions. These events have been well attended, and we hope they will help rejuvenate bank investments for affordable housing tax credit projects.

The OCC and other regulatory agencies also have held meetings to educate financial institutions about how the Act's continued funding of HUD's Neighborhood Stabilization Program might be used to help them transition their foreclosed single family housing inventory into productive re-use. This additional funding provides an important source of capital to assist banks in moving their real estate owned properties to community-based organizations and qualified new homebuyers.

Legislation in 2008 provided the first round of Neighborhood Stabilization Program funding, which was intended to help state and local governments and nonprofits combat neighborhood decline due to vacant and foreclosed properties. An additional round of funding for competitive grants was also approved. Together, these allocations will provide nearly \$6 billion in HUD funding for efforts to stabilize communities through acquisition and redevelopment of foreclosed and vacant properties.

Neighborhood Stabilization funds must be used for activities related to vacant or foreclosed properties, but are not restricted solely to acquisition and rehabilitation activities. Under both programs, grant recipients can purchase properties outright or offer qualified buyers financing assistance through soft seconds, down payment grants, or rehabilitation loans. This program has the potential to help financial institutions move foreclosed properties back into productive use, and we will continue our efforts to educate banks about ways to market their OREO properties to take advantage of these Neighborhood Stabilization funds.

Finally, the FHA 203(K) Rehabilitation Loan Program may offer another opportunity for HUD-approved lenders to provide a financing tool that responds to current market conditions. Banks should find this product especially useful as a niche product to attract new customers, while at the same time mitigating risks associated with rehabilitation lending. So far in fiscal year 2009, lenders using this program have made more than 11,000 loans – almost double the level from the previous year.

The OCC has just released a new publication that describes how banks can fund both the purchase and rehabilitation of a home through a single 203(k) loan. Although this is not a new program associated with the Recovery Act, these loans should prove especially useful for homebuyers who are purchasing foreclosed or distressed properties that are suffering from deferred maintenance.

In sum, we have great new opportunities to help the banks we supervise meet their community development goals – fully consistent with safe and sound banking practices – through the new economic recovery programs I’ve discussed today. I hope that, with the able assistance of each of you, banks will take full advantage of them.

Thank you very much.