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Remarks by

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Good morning, and thank you, Jim, for asking me to help you open this conference on the future of American cities. It is truly a great pleasure and an honor for me to be here this morning.

We're living in an era of significant progress for our urban communities and renewed hope for achieving the American dream of home ownership. Fannie Mae -- and particularly Jim Johnson -- have played a leading role in making the seemingly impossible possible. I also want to commend Fannie Mae -- as well as HUD and the U.S. Conference of Mayors -- for hosting this conference today. It is of critical importance that we work together to explore innovative ways to make community development loans and extend credit to low and moderate income families -- particularly at a time when there is a general and genuine willingness on the part of banks to do more in these areas.

Sadly, in recent days, we've lost two of this nation's most effective, dedicated and inspiring leaders in community development and urban reinvestment. While most Americans had never heard of James Rouse and Donald Turner, their passion and vision touched their fellow citizens' lives in profound ways. Jim Rouse understood, long before many others, that today's metropolitan areas cannot thrive without a vibrant downtown and true economic and cultural diversity in their neighborhoods. As one commentator recently observed, "James Rouse helped put heart back into the heart of urban America."

And Don Turner, who accompanied Ron Brown on that fateful, tragic mission to Bosnia, was a tireless, dynamic and inspirational leader who built his Bridge Corporation into the nation's largest nonprofit housing organization and believed that home ownership could change lives and spark community vitality. Together, they represented the heart and soul of urban activism. Their loss is immeasurable, but their lives were -- and remain -- an incredible inspiration.

Today -- because of visionaries and pioneers ... those few who make the headlines and the many who toil in obscurity -- urban America's pulse is getting stronger with each new day and with each new innovation. Progress is being made because, as Jim Rouse reminded us, "the free enterprise business system can function for public purpose as well as for profits...." Only initiatives built on the bedrock of solid business principles can have a lasting impact on our communities.

This realization -- that underserved individuals and urban communities can be profitable business opportunities best served by market forces -- continues a historic process that I've often referred to as the democratization of credit. History shows that there are almost always opportunities to extend credit responsibly to individuals and businesses that were not previously served or served effectively. This penchant for experimentation and the financial services industry's determination to tap new markets has long proved that credit can be extended well beyond what skeptics at any given time in our history deemed feasible.

Innovations and evolution in the technology of lending have allowed the banking industry to expand gradually its understanding of who is creditworthy, making yesterday's under-served tomorrow's core business customers. Clearly, banks have begun to embrace the low- and moderate-income market with increasingly open arms -- laying the foundation for urban renewal and developing another generation of bankable customers. These past few years have seen the industry accepting new challenges and addressing lingering issues that had impeded progress.

At the Office of the Comptroller of the Currency, we've seen -- over the last three years -- national bank investment in community development operations and projects increase four-fold. Last year, national banks

made over \$400 million in

community development investments ... investments that leveraged over \$1 billion in additional private and public resources. Between 1993 and 1995, national banks and their community partners invested over \$2.5 billion in affordable housing units, the majority of which was multi-family housing. The realization that this can be good business and good public policy has given rise to the tens of billions of dollars of commitments we've seen from institutions all over the country.

Perhaps the most impressive evidence of the progress we've seen in recent years is reflected in the most current Home Mortgage Disclosure Act data. In 1994, conventional home purchase loans to low-income households were up 27 percent from the previous year, with loans to African-American families up 55 percent and loans to Hispanic-Americans up 42 percent. That's particularly significant at a time when residential mortgage lending overall rose only 18 percent. Further, HMDA figures show a dramatic increase in multifamily lending, with national banks and their mortgage subsidiaries leading the way as they increased their multifamily business 45 percent during this period.

I should also mention that the need for affordable housing is as geographically diverse as it is widespread. While the shortage of housing in our nation's cities and rural communities is well-documented, one area often overlooked is the need for safe and decent housing on Indian reservations. As Native American economies evolve, there is a growing market for private sector mortgage loans in these communities. The OCC is developing a guide for national banks that outlines unique areas involved in making mortgage loans on reservations, such as mortgaging trust land and working through sovereignty issues. Fannie Mae has also been very active in this area with the development of a secondary market program for mortgage loans made on Native American lands.

To support these and other types of community development initiatives, the OCC recently hired district community development specialists in each of our district offices. These specialists will serve as a resource for bankers and their community partners as they strive to implement profitable community development lending and investment programs.

Yes, working together, we have all made progress in the area. But, continued progress depends upon continuous process improvement ... focusing on the nuts and bolts of mortgage lending and community development.

What I'm talking about is the day-to-day attention to the fundamentals ... refining and perfecting, for example, the process by which the industry develops new products, underwrites loans, and services a loan obligation throughout the life of the loan ... the process of managing properties and providing families and businesses effective financial counseling ... the process of strengthening existing partnerships, adapting to changing realities, and embracing new cooperative strategies ... all of which are essential to truly

move this market into the mainstream and graduate today's new customers into a lifetime of expanding opportunities.

Today, in an effort to advance this process, I'd like to focus on a few of the tough areas which I believe require our attention and energies.

First, the issue of asset quality.

In the past few months, we have seen some press accounts about the asset quality and delinquency rates of affordable mortgage loans. At the OCC, we've also heard these concerns echoed by a few banks, particularly involving programs with features such as low down payments, high LTVs, high income ratios, and loans made without private mortgage insurance.

In response to these concerns, we asked our examiners to talk to several institutions that have been very active in this market to assess their experiences and the performance of loans in their portfolios. Most of the banks we talked to have not experienced any significant problems and are quite satisfied with this area of their businesses. These banks have developed and implemented sound strategies to address the unique concerns of affordable housing lending programs. In certain portfolios, however, we found somewhat higher than anticipated delinquency rates, particularly with respect to loans that involved the layering of several risk factors.

It's important to remember that -- as with any new product or credit innovation -- there is a learning curve that must be negotiated. Our examiners' discussions with banks showed there clearly are institutions well along that learning curve. Other institutions have more complex situations, either because they are recent entrants into this business, or because they are further out on the cutting edge of innovation.

It would be a mistake to overreact to these uneven results, but it is important to take them seriously and learn from them. Clearly, the responsible course is to acknowledge the problems in this area and search for ways to improve how the industry originates and underwrites affordable loans.

To that end, we at the OCC are forming an internal working group that will look at the risk management strategies in place within the industry to address community development lending risk -- and in particular to identify the characteristics of well-structured, well-managed programs. We will provide this information to national banks in the form of "best practices" guidance by the end of the year.

We also plan to send out an advisory letter that informs bankers of the establishment of this informal working group, advises them of the uneven asset quality and delinquency patterns we have seen in some affordable mortgage portfolios, and finally, reiterates that affordable housing loans -- like all lending -- must be based on safe and sound banking principles.

A second area that requires our energy and attention involves enhancing the level of servicing, counseling and community engagement necessary for sustainable affordable lending and community development.

Mortgage originators have learned that they may have to modify traditional underwriting guidelines to be more responsive to different types of borrowers. Likewise, servicers are discovering the same thing -- for example, they may have to respond differently to late payments from non-traditional first-time homebuyers than to late payments from the traditional middle-to-upper income suburban homeowner.

In the area of pre-purchase and post-purchase counseling, there is general consensus that counseling is necessary to serve nontraditional borrowers. A wide range of activities fall under this rubric ... some of it quite extensive and effective, some of it merely requiring a borrower to watch a videotape before signing on the dotted line.

Gordon Steinbeck, president of MGIC, has discussed the importance of giving potential homeowners the information and guidance they need early in the process so they can be guided to make the best personal decision to fit their economic circumstance. There is a major role for community groups to play in providing the cultural bridge between traditional banking and the various segments of the unbanked population, and ensuring that counseling is customized and appropriate for particular groups of borrowers.

Further, the new CRA service test offers greater opportunities for banks to provide broader-based community development services ... the type of engagement that supports and augments the provision of credit. While not direct lending or investment, community development services are often integral to sustainable development and the forging of lasting relationships between a bank and its community partners. For example, under today's CRA, banks receive service credit for activities such as providing technical expertise to nonprofit organizations devoted to health services, loaning executives to affordable housing organizations, offering school savings programs, or making grants to foundations that teach at-risk youths entrepreneurial business skills.

This is an acknowledgment that keeping a community economically vibrant and strong encompasses many approaches.

Finally, technology is a third area that demands our energy and focus.

We can make great strides in making technology a more effective tool for serving urban communities and their residents. We're just beginning to scratch the surface of technology's potential to make credit -- including, importantly, mortgage credit -- more accessible and less intimidating. One example is bringing laptop computers into living rooms to originate a home loan, or bringing traditional banking services more efficiently to low- and moderate-income consumers and neighborhoods.

In Chicago, for instance, the Roseland Christian Ministries has introduced its members to the information age using computers and software provided through a grant from the Evergreen National Bank. This is part of the bank's strategy to expand account relationships and serve the credit and banking needs of this urban community.

And we're nowhere near where we can be in deploying technology to wring unnecessary costs out of community development lending, mortgage lending included.

As we all know, one of the challenges lenders face is scale. Community development loans are typically smaller, and, as a result, more costly to make using conventional technology. New technology, however, has a way of driving down per unit costs. With the cost of computing being cut in half every 18 months, I believe the costs of loan applications, lending documents, and disbursement can all be reduced through technology. That should be a boon for smaller loans.

Conclusion

I have focused my remarks today on genuine challenges involved in community development and affordable home mortgage lending. Progress is not made in this world without facing up to challenges. And it is only by working hard to overcome challenges that we have achieved the progress and accomplishments we've enjoyed thus far.

But I know I am preaching to the choir. You know better than I do what it takes to tackle tough challenges and win. You have great successes to show for your efforts in this area and you have a right to take great pride in them. And, looking out over this audience today, I know that you will confront and overcome existing and future challenges. Your continued efforts and successes will continue to make America a better place in which to live.

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The OCC charters, regulates and examines approximately 2,800 national banks and 70 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 the safety and soundness of the national banking system.

