Remarks by
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It's truly a pleasure to join you this morning. Of course, I'd heard about Fran Justa well before I became Comptroller of the Currency. But only recently did I get to meet her. And only then did I come to fully appreciate the outstanding work that she and New York NHS and all the financial institutions represented here today -- and many that are not -- have been doing together in partnerships formed over the past 17 years.

I could spend all of my time with you today discussing those accomplishments, and still not do them justice. So, instead, I thought I would offer some observations on a subject in which I know NHS has had a long and abiding interest: the development of more equitable and efficient housing and consumer credit markets.

I'm told that Fran's involvement in community development grew out of a personal encounter with discrimination. Sad to say, her experience was all too common. Not too long ago, redlining prevented credit from flowing into many communities, and far too many would-be borrowers were denied loans on the basis of race, gender, or ethnic origin. The result was stagnation and decay in redlined neighborhoods, hardship and hopelessness among many of our citizens, and lost business opportunities and productivity in our economy.

Slowly, things changed for the better. The passage of laws such as the Equal Credit Opportunity Act, Home Mortgage Disclosure Act, and the Community

Reinvestment Act brought the resources and authority of the Federal government to bear in the fight against unequal access to financial services. Regulators and public interest groups did their part to ensure that the laws were properly implemented and enforced. And organizations like NHS sprang up to provide leadership, bringing borrowers and lenders together, educating homeowners and those who aspired to join their ranks.

While CRA has known its share of controversy, its fundamental purpose is to overcome market imperfections in the flow of information to -- and from -- lenders. Empirical evidence suggests that information barriers have impeded the efficient operation of financial markets. CRA created incentives for banks to reduce the barriers that obstructed the flow of market information. For example, when lenders shied away from some low- and moderate-income borrowers, it was in part because they didn't know enough about them -- and because they thought that the cost of obtaining additional information was not worth it.

For their part, aspiring borrowers found themselves caught in a vicious -- and pernicious -- cycle. Without a verifiable credit history, they were unable to obtain the loans they needed to establish a verifiable credit history. Without good information, lenders relied on what they had, including misperceptions and flawed generalizations. Someone -- or something -- had to break the logjam.

That's what CRA was designed to do -- to overcome the market imperfection of inadequate information, and to help lenders and creditworthy borrowers connect. And they have. As Chairman Greenspan noted last year, "increased focus on [community development] lending has helped financial institutions discover new markets that may have been underserved before."

We can measure this progress in at least two ways. First, there is the growing volume of CRA-qualifying loans and investments. Since 1993, financial institutions have made CRA commitments and pledges totaling more than one trillion dollars.

The second measure of progress is the success of CRA asset-backed securities in the capital markets. Since late 1997, more than $2 billion worth of community reinvestment loans have been packaged and marketed into securities. As a percentage of all lending that earns CRA consideration, of course, that's a drop in the bucket. But it's an important start. Every dollar taken off the originator's books through securitization is a dollar available for new loans. And, more to the point, securitization reflects a growing confidence among secondary market investors -- many of whom, after all, are under no CRA obligation of their own -- in the quality of these loans. I think that it proves we're on the right track.

As we develop more complete information on low- and moderate-income borrowers and the performance of their loans over time, competitive markets are developing, just as we'd hoped. Lenders are discovering opportunities in community development and the low- and moderate-income housing market to build new and profitable business relationships. I trust that NHS of New York is finding the going somewhat easier than it was 17 years ago. Government encouragement is no longer the sole force driving the process.

Some emerging financial sub-markets are experiencing growing pains, however. For example, I know of no financial product with greater potential for good -- or for abuse -- than subprime loans. Potentially, they offer first-time borrowers a chance to build a credit history, and repeat borrowers a chance to rehabilitate a blemished history.

Under the right conditions, subprime loans can provide entry -- or reentry -- into the financial mainstream -- but only if they're marketed and used responsibly. An increasing number of subprime lenders are taking the lead in developing programs that reward good payment performance with gradually lowered rates. That's the way efficient markets should work.

But sharp and shady practices unfortunately abound. Subprime borrowers often lack professional advisers to help them in shopping for a mortgage, which can make them easy targets for unscrupulous lenders. When the paycheck's gone and there are still bills left to pay at the end of the month, the offer of credit -- on any terms -- can be hard to resist, and lenders know it. Yet evidence suggests that at least 30 percent of subprime mortgage borrowers would actually qualify for prime rates if they only knew to ask or to shop around. And we continue to hear heartbreaking stories of people -- especially the elderly -- who have little cash flow, but lots of home equity, being signed up for loans they cannot possibly repay, and losing their homes as a result. Through no fault of their own, subprime borrowers can easily become trapped in a financial straitjacket from which Houdini himself would have trouble escaping.

I would like to believe that these predatory practices are less common among commercial banks with subprime departments than among other subprime providers. And I wonder whether the CEOs and directors of any offending banks are actually aware that these practices are taking place.

Just as with community development lending in the recent past, I believe that sunshine is the best antidote to predatory and discriminatory lending practices in the subprime field today. That means full, complete, and conspicuous disclosure of terms to

potential borrowers, to let them see the actual cost of their loan, how rapidly it will amortize, and what the consequences of non-payment will be -- a matter of particular importance when loans are secured by the borrower's primary residence.

Consumers need full and accurate information if they are to make intelligent choices. The lack of information plays directly into the hands of the financial predators.

Another essential piece of the disclosure picture concerns credit bureau reporting. Subprime loans can't become a vehicle for upward mobility if creditors in the broader credit market lack access to consumer credit history. Yet, a growing number of subprime lenders have adopted a policy of refusing to report credit line and loan payment information to the credit bureaus -- without letting borrowers know about it. Some make no bones about their motives: good customers that pay subprime rates are too valuable to lose to their competitors. So they try to keep the identity and history of these customers a closely guarded secret.

When they do, it's the borrower who loses. A credit history can't be built or repaired if lenders refuse to let anyone else know about it. The failure to report is unfair to customers, unfair to competition, and ultimately inconsistent with the values of our national economy.

I'm also concerned that a decline in credit bureau reporting could have broader safety and soundness implications for the whole banking system. Lenders that continue to rely on credit bureau information -- as most still do -- on the assumption that it is fair and complete, and lenders who construct their scoring systems using such data, will have less complete information. This must inevitably skew lending decisions and eventually compromise the integrity of those lenders' risk management processes.

That's why we recently brought this issue to the attention of the other banking agencies, and why our staff has raised questions about these practices with staff at the Federal Trade Commission. In the coming weeks, we will be formulating a joint supervisory response to the non-reporting of favorable consumer credit histories

. In the meantime, I would urge any banks and other financial institutions with subprime interests that might be reconsidering their policy on credit bureau reporting to think about the potential consequences -- for themselves and for their customers -- before they jump aboard this bandwagon.

Thanks to the NHS of New York and its many corporate and community partners, thousands of New Yorkers are better housed than they've ever been. You should be very proud of that achievement. One of the things I've tried to do in my remarks this morning is to remind you that the impact of your good work goes beyond the individual neighborhoods of this great city. You've made a significant contribution to a national economy that's more open, more rational, and more humane. That's no small feat. I congratulate you -- and thank you.