NR 97-94
October 22, 1997

Remarks Prepared for Delivery by
Eugene A. Ludwig
Comptroller of the Currency
before the
Neighborhood Housing Services of New York City

October 21, 1997

Thank you, Bill, for that introduction. I am proud to accept this award on behalf of the 3,000 men and women of the Office of the Comptroller of the Currency. They are as fine a collection of public servants as one can hope to assemble. It has been an honor to represent them as Comptroller over the past four and a half years.

As a personal matter, this is an especially moving and meaningful moment for me because I know full well what this award and this organization stand for. Indeed, I feel as though I should be giving you an award, rather than receiving one. To me, the New York NHS is a organization of heroes--of people dedicated in and out of season to the principles of public-private partnership that I believe are so crucial in moving us toward the kind of America we all wish to see--an America of abundance, of compassion, and of real equal opportunity for all.

The accomplishments of the New York NHS and its myriad of corporate partners are both legion and legend. In the last year alone, the New York NHS secured and helped to originate tens of millions of dollars of first-time mortgage loans, down payment and closing cost-assistance loans, home rehabilitation loans, and other affordable housing loans. You enabled homeowners to obtain property insurance when they could not do so by other means. You counseled thousands of New Yorkers about the responsibilities of home ownership and the intricacies of the home buying process, helping them to acquire the financial skills to obtain their homes and the mechanical skills to maintain them. Dreams do not materialize simply because we want them to come true. Exceptional accomplishment can only come from true commitment, hard work, and leadership. The New York NHS has been blessed with an abundance of all three, in people who give freely of themselves for the sake of a better America and a better New York.

The New York NHS has made a difference, and Fran Justa is a big part of the reason why. Fran has given of herself through long hours of labor to make NHS New York work. She is that rare combination of talents that every organization needs but few are fortunate enough to have. Fran is at home in a conference of academics, just as she is on the streets of the South Bronx. She is equally comfortable in a corporate boardroom as in a community room of first-time homeowners. Fran, I salute you.

I can bear personal witness to her accomplishments and all of yours. As a native son of this great city, I know what its neighborhoods once looked like, and what so many of them are becoming once again through your efforts. I have seen the communities once decaying, now flowering with renovated homes and thriving small businesses. I have walked with you on the streets of Bedford-Stuyvesant and the Bronx, and seen the buildings, once boarded up and abandoned, now restored to solid habitability. I have joined you in the classrooms where bankers teach would-be homeowners how to manage the mortgage application process and tutor first-time homeowners on how to manage their budgets. I have seen the look of pride in the eyes of those hard-working New Yorkers, once relegated to the ranks of renters, now owners of their own homes, with the opportunity to build equity and become full stakeholders in the American dream.

I am proud to report that your success reflects similar successes around the whole country. As chairman of the Neighborhood Reinvestment Corporation, I have traveled the length and breadth of our land, watching the commitment of people like yourselves transforming lives and communities -- one neighborhood, one block, and one building at a time. Today, the NRC provides financial and technical assistance to over 175 local NeighborWorks organizations dedicated to expanding home ownership and affordable housing opportunities in 500 communities nationwide. Over the last five years, the NeighborWorks network has helped more than 70,000 families purchase or improve their homes. And, this leadership is replicated many times over in the growing partnerships between lenders and community-based organizations in cities and towns all across America.

We in the financial regulatory community have played a small but, I think, significant role in the renewal of America's neighborhoods and the expansion of credit and home ownership opportunities. Recent results in this area stem, in part, from a reform in which I take great pride. One of my first acts as Comptroller of the Currency was to commit to change the Community Reinvestment Act regulations to emphasize results -- loans, investments, and services -- instead of paperwork. The final phase of the new regulations only became fully effective on July 1 of this year. I think you will all agree that the new results-orientated CRA represents a significant improvement over the process-burdened approach that had produced more frustration and disappointment than benefits since the enactment of CRA in October 1977. Now, exactly twenty years later, we finally have in the revised CRA the effective tool for community investment envisioned by Senator William Proxmire and his many colleagues who worked so hard for its passage.

Already the gains under the revised CRA have been substantial. In less than four years, we have witnessed new commitments for low and moderate income loans totaling more than $175 billion -- more than 80 percent of the total loan commitments under CRA since the law was enacted. In the past four years, national banks have invested four times as much in community development investments or "public welfare" investments as they did in the whole previous 30 years. During 1996 alone, national banks and their community partners invested almost $1.5 billion in community development corporations and community development projects -- funds used to produce affordable housing, finance small business, and develop retail and commercial revitalization projects.

HMDA data from 1993 to 1996 show increases in mortgage originations for Hispanic Americans and blacks of 56 percent and 55 percent respectively, more than three times the 14 percent increase for white borrowers. Similarly, the rate of increase for low income borrowers was more than one and half times the rate of increase for middle and upper income borrowers. And, from 1993 to 1996, home loans in low- and moderate-income geographies increased 33 percent, while gaining only 21 percent in upper-income geographies. Our anti-redlining efforts have clearly begun to pay off.

During my tenure, we have also stepped up our enforcement of the fair lending laws, sending an unambiguous message that discrimination will be dealt with quickly and effectively. Less than two months after I took office, the OCC adopted new procedures for examining banks for fair lending compliance and -- essentially for the first time -- started referring cases to the Justice Department. Over the past four years, we have conducted more than 3,000 fair lending examinations, and referred 25 cases of violations of fair lending law to the Justice Department and the Department of Housing and Urban Development for prosecution. And we have continued to refine our supervision -- including adopting updated fair lending procedures just last month -- and to work with the other federal banking regulators in an effort to develop uniform approaches to fighting credit discrimination.

Certainly we have much to be proud of. I believe that many bankers are doing an excellent job of expanding credit availability to previously underserved populations and in assuring that all credit applicants are treated fairly and equitably. But for all the good news, there is still a long way to go, as suggested by the recent HMDA data for 1996. Some of that data was troubling. Although the growth in home mortgage loan originations continued to rise for all groups, originations to black borrowers increased more slowly than in the previous year. The data also showed that denial rates for black applicants, as for all applicant groups, had increased compared to 1995 data.

Someone once said that statistics is the science which uses easy words for hard ideas. Certainly, behind the numbers is always a story, and often a complicated one. In order to really make sense of our HMDA numbers, we are trying to unravel that story. So, in my capacity as chairman of the Federal Financial Institutions Examination Council, the coordinating body of Federal bank regulatory agencies, I asked an interagency team of economists to conduct a thorough analysis of that data and to report back to me. I recently received some of their preliminary findings, and I would like to share them with you this evening.

- First, the economists report that the 1.5 percent decline in conventional mortgage loans to black borrowers reported in the HMDA numbers was more than offset by a 9.3 percent increase in the number of VA and FHA home purchase loans to blacks -- an increase which can be attributed in part to recent changes in the FHA program which made FHA loans more attractive to borrowers. These changes included a reduction in the up-front premium, an increase in the maximum loan amount, a reduction in the FHA contract rate, and increased flexibility in a number of the qualifying ratios. Thus, total home purchase loans to blacks increased in 1996, although the increase was substantially smaller than in 1994 and 1995, and smaller than the 1996 increase in mortgage loans to whites and Hispanics.

- Second, the FFIEC economists noted a dramatic increase -- 34.2 percent -- in the number of conventional loans for which the borrower's race was not reported -- a trend that reflects the increased number of mortgage loan applications taken over the phone or on-line, situations in which race is not commonly disclosed during the application process. Certainly, lenders have encouraged such automated application procedures, which serve to cut processing time, reduce costs, and increase consumer convenience. But some have suggested that black borrowers concerned about discrimination may be more apt to avail themselves of such procedures to ensure that information on race is not available to the lender. We just don't know. What we do know is that the number of loans to blacks may have been under reported to a significant degree because some portion of this 34 percent of borrowers is almost certainly black.

- Third, the team of economists found that variations in regional housing markets appear to explain some of the racial discrepancies in mortgage lending patterns. For the most part, states in which blacks constitute the largest share of the population overall also happened to be states experiencing relatively slow economic growth in 1996. Conversely, those states experiencing more rapid growth, largely in the southwest and mountain regions, happened to be states in which blacks constituted a smaller share of the overall population. Still, within many of those states with higher concentrations of blacks, conventional loans to whites nevertheless grew faster than conventional loans to blacks -- which suggests that regional variations are unlikely to fully explain the drop in conventional loans to blacks in 1996.

The interagency team of economists also identified factors that help in understanding relative denial rates, which, as already noted, continued to be more than twice as high for blacks as for whites in 1996.

- They tell us that when the reported denial rates are adjusted for the income of the applicants, racial discrepancies diminish significantly. In this context, higher denial rates for blacks may say less about the behavior of lenders than about the pervasive problem of economic inequality in our country. Financial institutions can and must contribute to our efforts to solve that problem. But they cannot be expected to provide the solution singlehandedly.

- Another factor in racial disparities in denial rates, the economists suggest, is the growth in subprime mortgage lending. Here the evidence is both stark and startling. Subprime home lending has been growing by leaps and bounds in recent years--by anywhere from 34 to 70 percent a year. Denial rates in the subprime market are about three times higher than in the non-subprime. Indeed, subprime application denials constitute more than 57 percent of all HMDA-reportable denials of black applicants and just under 51 percent of white applicant denials -- a relatively minor difference. The problem, the economists tell us, is that blacks are almost twice as likely as whites to seek a mortgage from a subprime lender. This badly skews the overall HMDA denial rate in favor of white applicants.

- Finally, the economists' analysis noted the increase in multiple applications from borrowers seeking the lowest possible interest rate or attempting to increase the likelihood of securing a loan. Their analysis suggested that low-income applicants were over represented in the pool of loan-seekers filing multiple applications -- not surprising, given the greater likelihood that their applications would be denied.

That is a summary of the preliminary conclusions of the interagency team. What do we make of these findings? And, more to the point, what are we proposing to do about them?

First, it is clear that multiple factors contributed to the slowdown in loan growth to black applicants in 1996 and the persistent disparities in denial rates among applicants of different race and ethnicity. Among those contributing factors were general economic conditions, regional population patterns, changes in government lending programs, borrower income characteristics, increases in the number of applications for which race is not reported, the growth of subprime mortgage lending, and the increase in multiple applications by a single applicant.

Our analysis shows that focussing on any one category of lending -- like conventional mortgage loan originations--or a particular pattern of denial rates or a single year will likely provide an incomplete picture of lending patterns. The challenges of real equal opportunity and fairness in lending are complicated ones. A broad perspective is essential if we are to understand those problems and pursue workable solutions.

However, even when we take all these factors into account, the economists' preliminary analysis fails to provide conclusive evidence -- one way or the other -- that discriminatory factors underlie trends in recent HMDA data. My personal belief is that some discrimination in the mortgage lending process of some lenders probably continues to exist. How much of that may be the result of disparate impact as opposed to disparate treatment

I do not know. What I do know is that the responsibility for enforcement is no less today than it was the first day I came to the OCC.

Moreover, our findings about the HMDA numbers do not tell us the extent to which worthy borrowers are not getting the loans they need to fulfill their dreams. That is, discrimination aside, can we reach more borrowers while maintaining the safety and soundness of the banking system? I am personally convinced that we can -- that sound demand continues to exceed supply.

To deal with these discrepancies and to further the goal of improving access to credit, we will follow a three-part program.

First, let me make this point clear: the OCC's policy has been and always will be one of zero tolerance for illegal discrimination. In our new fair lending examination procedures issued to our examiners last month, we provided additional guidance in setting the scope of the fair lending exams, in using advanced statistical methods to conduct certain exams, and in assessing a bank's self-testing efforts. One facet of our revised procedures deals with the use of credit scores in the mortgage origination process: examiners are now directed to evaluate a lender's override practices, to ensure that they are applied consistently and in a non-discriminatory way.

Second, we are continuing to advance the CRA modernization effort, refining our examination procedures to assure that examiners identify true exemplary performance and innovation, reduce regulatory burden where possible, while crediting and encouraging real, concrete results that make a difference in the lives of our people and communities.

Third and perhaps most important, we are putting increased emphasis on building partnerships with community organizations, local governments, and other public constituencies. To give you just one example of the forms these partnerships take, the OCC recently launched an initiative called Banking on Minority Business. This cross-country dialogue brings together community leaders, minority small business entrepreneurs, and bankers to discuss how to break down barriers to small business lending and build mutually profitable relationships that will bring economic opportunities to our neglected neighborhoods. We look forward to crafting more such partnerships over the coming months.

Of course, if there is one place where it is superfluous to talk about the importance of partnerships, it is at the New York NHS. For you have made partnering a veritable art form -- a national model for others to emulate. Other community development organizations around the country look to you for inspiration and for ideas on how to harness the resources of diverse sectors of our economy. They look to you for the practical solutions you have pioneered to accomplish so much. You and I both know that there is much, much more to do. Working together, one day at a time, we will reach the goals we all share.

# # #

The OCC charters, regulates and supervises more than 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 56 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.