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Remarks by

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Good afternoon, and thank you for asking me to join you here today. It's always exciting to come to New England -- and it is particularly exciting now, as the entire region has rallied around the Patriots and their pursuit of their first NFL championship. Even though your Red Sox still live under the Curse of the Bambino, I've always considered Boston a championship city, and whatever the outcome in New Orleans, that opinion won't change. But before I go any further, let me change into something a bit more comfortable.

Now, of course, I didn't come up from Washington today to talk about sports -- or, for that matter, politics, another New England passion. What makes coming to Boston so exciting for me, and what sets this city and New England apart from other areas of this country is just that -- your passion. I've come to Boston today to talk about an issue to which you're bringing your trademark passion and intelligence, an issue about which I care deeply as well -- the challenge of revitalizing our cities and bridging the gulf between society's haves and have nots.

Today, I had the chance to see this city's passion, intelligence and cooperative spirit first hand as I toured the streets around Dudley Square in Roxbury and visited the revitalized neighborhoods of Upham's Corner in Dorchester. I talked to residents who, today, live in quality housing and have a decent home in which to raise their families because an individual, an organization or a financial institution had the courage and the conviction to tackle a difficult challenge.

I want to thank Joe Flatley, once again, not only for asking me to speak at your annual meeting, but for putting this entire day together for me. You're fortunate to have the dedicated leadership that Joe provides your organization. And the Commonwealth is fortunate to have the Massachusetts Housing Investment Corporation as a resource that marshals passion, shares experience and expertise, and produces impressive results for so many of your citizens and neighborhoods. Further, your local efforts are augmented by the strong leadership you send to Congress -- people like Joe Kennedy and Barney Frank, who represent you on the House Banking Committee, Congressman Moakley on the Rules Committee, as well as that influential duo on the

other side of Capitol Hill, Senator Kennedy and Senator Kerry, who serves on the Senate Banking Committee. It's no coincidence that Massachusetts and Boston are clearly at the forefront of community development in this nation, helping to continue the democratization of credit that has extended greater opportunities to American citizens throughout our history as a nation.

All over the United States -- and particularly here in New England -- community development has made tremendous strides in recent years. Organizations such as yours -- with committed bankers, developers and community-based organizations -- have helped debunk the stereotype that providing affordable housing is an obligation or an act of philanthropy that is not real finance or is fundamentally neither profitable or safe. Today, one can make a convincing case that investing in affordable housing is not only public-spirited, but genuine, mainstream business. You know that, you've proved it, and you continue to search for new ways to provide families quality homes and apartments.

This afternoon, I'd like to talk about how that firm foundation you've helped put in place can enable Boston and the nation to meet new challenges in community revitalization. Specifically, I want to talk about the importance of expanding our vision of community development and the need to usher in a new era in community development to bring even greater hope and opportunity to urban neighborhoods in the form of housing opportunities, job creation and essential services.

Last month, the Boston Globe ran a front page story that illustrated the progress that has been made in community and economic development and the scope of the challenges that remain. Under the headline "Banks Learning Valuable Lessons," the article highlighted the experiences many of you have had in serving the financial needs of your city's low- and moderate-income citizens and suggested that -- and I'm quoting now -- "the results have been mixed -- impressive in some ways, sobering in others. By getting involved in previously underserved areas, the banks have demonstrated what they can do and where their limits lie those hoping for a more sweeping transformation of the city's neighborhoods have been disappointed."

I wouldn't disagree with that assessment. But, clearly, the momentum is positive. The numbers tell a story of impressive accomplishment and steady progress. Home purchase loans to residents of low- and moderate income census tracts increased 22 percent between the years 1993 and 1995. Mortgages made to African American families nearly doubled, and home purchase loans to Hispanic borrowers increased by more than one-third during that same time period. Here in Massachusetts, home mortgage lending to all minority borrowers between 1993 and 1995 outpaced the national average increase of 33 percent. And within the Boston MSA, multifamily originations increased nearly 40 percent during those years.

While these trends are impressive, what is most inspiring -- and encouraging for the future -- is not so much the performance itself, but how these successes came about. The revolution in

community development that MHIC and organizations like it across the country spearheaded in the 1990s took hold because we followed a distinctly American -- indeed, distinctly New England -- approach to problem solving. An approach that begins with a hard look at the facts; moves on to an open debate; and concludes with solutions built on cooperation and partnership.

We have accomplished as much as we have in community development thus far because the nation's leaders took a hard look at the facts -- a no-nonsense, thoughtful assessment of existing needs. Some of the earliest data at our disposal -- HMDA figures and research such as the Boston Fed study -- told us that there were too many families, businesses and communities whose financial needs were not being met. The debate over how to meet those needs featured a variety of voices -- community advocates, bankers and regulators -- representing a variety of interests and perspectives, not unlike a typical New England town meeting. And while sparks may fly and tensions may rise from time to time, at the end of the day we've usually reached solutions that adapt to new realities and build on the best of what has proved effective.

The effort to revise the Community Reinvestment Act regulations is an example of this approach. The federal bank regulators took a hard look at the facts, and it was clear that our regulations were more focused on process than actual results. The regulations were well-intentioned, perhaps, but in many respects, counterproductive. And the fact was that no one liked them -- not the banks, the public and not our examiners. Change was clearly in order, but it wasn't done in a vacuum just by those of us in Washington. Rather, we held town meetings across the country to hear from everyone with a stake in the new CRA and put our proposed solution out twice for public comment. This process enabled us to move beyond confrontation and toward effective partnerships -- partnerships that are, today, growing in strength and helping to rebuild communities.

Since the new regulations were announced in 1995, the OCC has taken additional steps to stimulate investment in neglected communities. Last fall, we revised Part 24 to facilitate bank community development investments by streamlining the application process and eliminating applications entirely for certain investments, such as investments within empowerment zones. Late last year, as many of you know, we also issued revisions to Part 5 of our regulations, a move that has the potential to expand bank activities that may benefit underserved communities and increase the availability of assets and income for community reinvestment purposes. And most recently, we published this book (hold up copy), which highlights the effective tools and techniques national banks have employed in partnership with their communities. I'm proud of the role the banking industry and the OCC have played -- and continue to play -- in increasing fair and equitable access to financial services and encouraging investments in communities across the country.

We have much to be proud of -- most notably the thousands of Americans that are in homes today that they wouldn't have dreamed possible a few years ago. But there remains much more the

country can and must do to build stronger, more vibrant communities in urban as well as rural areas. Our challenge, today, is clear -- to take community development another step forward.

That's because a focus on building affordable housing is not enough -- not enough if the job opportunities in a community are limited or non-existent, not enough if quality of life issues aren't fully addressed, and not enough if citizens don't have a deposit relationship with a financial institution or access to financial planning and counseling.

But how do we do more? How can we provide genuine economic opportunity, truly transform neighborhoods and equip citizens to move up the ladder to a more secure financial future? I believe that requires a sharper focus -- a sharper focus on what matters most. For example, as wonderful as advocacy is in identifying problems and shortfalls, we cannot allow it to impede cooperation, partnership and mutually beneficial solutions. As important as it was to improve the CRA regulation, what matters most now is striving to ensure that the CRA function is viewed -- not as a cost center -- but as a growing or potential profit center. Bank management must regard assignment to and experience in the community lending department as an important step in career development. And finally, as important as bank leadership has been for community revitalization, we should now take a more holistic approach to community development. Banks are not the only institution with a stake in the future of our economy and our cities, and others should bring their resources and skills to the task at hand.

These, then, are the facts -- the facts we must address together if we are to take community development to its next level: the fact that community development is more than affordable housing . . . the fact that advocacy has its place, but partnerships holds the key to success . . . the fact that markets work best in pursuit of profits, not simply in response to a compliance mandate . . . the fact that banks are but one of the key players that have the potential to stimulate community reinvestment, and while they may be the only players that now have a legal obligation, banking's peers in the financial services industry share the moral obligation and the business necessity to contribute to the cause of community development.

These facts create new challenges for all of us with an interest in community development -- banks and other financial institutions, community organizations, and regulators. While there are many pieces to the puzzle that is community development, I would like to highlight one important part of the picture that deserves our focus. And I wanted to talk about it today because it is an area that requires -- not just bank participation -- but the involvement and the expertise of others in the private, public and not-for-profit sectors. What I'd like to focus on for the remainder of my speech is the emerging secondary market for community-based securities, which offers the prospect of extending the benefits of securitization to the

commercial side of community development, such as micro-enterprise, multifamily and small business lending.

Now I know that a detailed discussion of secondary market characteristics may sound like an arcane, abstract topic to many of you, but it has important real world implications. In particular, I want to raise the issue of the secondary market for community development because it has the potential to bring concrete benefits to Boston and the nation.

Clearly, the secondary market is already making a difference in communities across the country. For example, the increase in affordable housing lending we've witnessed has been fueled in significant part by the ability of the secondary market to adapt to the needs of the low- and moderate-income homebuyer. Both Fannie Mae and Freddie Mac have modified their underwriting standards and developed new programs that enable lenders to qualify more borrowers and sell these loans to the GSEs, which pool them into securities that are valued by the capital markets. That provides a critical conduit of private capital that the secondary market giants use to purchase even more mortgages from lenders across the country. Between 1993 and 1995, over 3.2 million home mortgage loans to low- and moderate-income borrowers were financed in this manner. Today, over 45 percent of mortgage purchases by Fannie Mae and 40 percent by Freddie Mac finance low- and moderate-income housing. However, multifamily development represents a small piece of that activity.

While securitization has proved a reliable -- and growing -- source of funding for home mortgages to borrowers of all incomes, its potential is largely unrealized as a resource to finance community development beyond single family affordable housing. We must now work to bring the full benefits of securitization to the commercial side of community development.

There are several reasons why broader community development securitization has been limited to date, such as a lack of conformity in the underlying loans. A major obstacle to this market's growth has been the fact that community development securities typically do not receive a rating from a nationally recognized rating agency. Receiving a security rating can be a very expensive and burdensome process, and the organizations interested in securitizing and offering community development securities often do not have the resources necessary to accomplish this task. Further, the underlying loans may lack long-term performance data, making them difficult to rate even if the packager chooses to use scarce financial resources to get a rating. As a result, community development securities remain an underutilized investment option -- but one I believe can help banks provide capital to their communities.

The OCC has received scores of requests from national banks, community development loan funds and other community-based organizations regarding investments in community development securities. To address these types of inquiries, we formed a community development securities working group to develop guidance to the industry and community organizations, because

bank participation -- as both purchasers and issuers of these securities -- is one important way to stimulate this important market. And one that we feel can benefit communities as well as banks. But, clearly, the market's evolution will require others to participate as well.

National banks are, indeed, permitted to purchase and hold securities that lack ratings or performance data, and recently revised OCC regulations permit greater flexibility in this area. Under the Investment Securities Regulation -- Part One of the OCC's rulebook -- banks can use the reliable estimate method of calculating a security's value and gauge a security's ability to perform based on the presence of credit enhancements such as mortgage insurance, over collateralization, and repurchase provisions. Part One permits banks to invest up to 5 percent of their unimpaired capital and surplus in community development securities. Over time, as securities develop performance track records, it may be possible to reclassify these securities, which would allow an institution to invest a higher percentage of its capital in community development securities.

Further, a bank's investment in securities backed by a pool of loans whose purpose is primarily community development is a qualified investment that receives favorable consideration under the new performance-based CRA regulation. The OCC recently issued a CRA opinion letter explaining that a bank can receive favorable CRA consideration for community development securities, even if they are backed by community development loans that are not directly in the bank's assessment area, provided the loans are located in a statewide or a regional area that includes the bank's assessment area. This ruling should make it easier to fund community development partnerships that serve a broad geographic area.

In addition, by partnering with other institutions and organizations that can provide the necessary credit enhancements, banks can be pioneers -- as they have been in affordable mortgage lending -- and stimulate job growth and much-needed community services in urban neighborhoods. Other players that can be instrumental in building and securitizing community-based debt instruments include finance companies, foundations and state and local government agencies. So I encourage banks to explore how they can use this authority to encourage broader involvement of the private, public and not-for-profit sectors in bringing greater opportunity to urban and rural communities.

Another promising vehicle for increasing the capital available for community development projects is the community development real estate investment trust, or CD REIT. This structure, which has been used for decades for conventional commercial real estate projects, allows greater diversification than the traditional partnership structure for undertaking community development projects. Another recent CRA ruling by OCC makes clear that banks that invest in CD REITs can receive favorable CRA consideration either for the amount of their investments, or for the loans that the REIT makes to local community development projects by leveraging these investments.

CONCLUSION

Community development securities and related investments are the next important steps we can take in the continued democratization of credit -- a process that is always challenging, but one that ultimately leads to increased access to financial services for individuals and communities and enhanced profitability for lenders with the vision and determination to innovate -- profitability that can bring a sustained source of capital to reinvest in the community.

Here in Boston, where you are blessed to have strong, committed leadership, you can restore a genuine sense of community that will live long after the shared -- but fleeting -- spirit of togetherness that cheering on this year's Patriots team has created. The way to build lasting community is to remember the patriot dream upon which this city, region and nation was founded -- the dream that all Americans deserve the opportunity to succeed. I thank you, again, for all you've done thus far to breathe new life into Boston's neglected neighborhoods, and I urge you to continue to pioneer even more ways to innovate, partner and prosper -- together -- for the benefit of the great American community we all share.

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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 that supports the citizens, communities and economy of the United States.