Remarks by
John D. Hawke, Jr.
Comptroller of the Currency
Before the
National Association of Affordable Housing Lenders
Washington, D.C.
March 1, 2001

I'm delighted to be a participant in NAAHL's annual legislative and policy conference, and grateful for the opportunity to share my thoughts with you on some subjects of mutual concern. You and the organizations you represent deserve great credit for the immensely important work you're doing every day in cities and towns all across America. Thanks to you, our country is a better place to live -- and not just for those who are the direct beneficiaries of your work. I'm particularly proud of the contribution that national banks make to your efforts, not only as lenders and investors, but also as partners fully committed to the communities they serve.

Community development is a rich and varied field. But whether your specialty is some facet of small business lending, or affordable housing, or something else, each of you is also in the business of overcoming challenges. Your experiences have demonstrated that community development lending can be good business; that low income individuals are generally just as reliable -- sometimes even more reliable -- in meeting their financial obligations as more affluent borrowers; and that through public and private partnerships, communities can be rebuilt -- one brick, one building, one block at a time.

Now there's a new challenge before us. The prosperity of the 1990s may not have lifted all boats, but there's little doubt that the benefits of nearly a decade of uninterrupted economic growth were widespread. It's no coincidence that the last decade was also one of dramatic accomplishment in the community development arena. And there's little doubt that at least some of the CD projects undertaken over the last ten years would have had trouble getting off the ground in a less buoyant economy.

So it's natural for those directly involved in these community development projects to wonder whether and to what extent the current economic slowdown will affect current and future CD initiatives.

Obviously, a lot will depend on the nature of the slowdown. With any luck, it may turn out to be a mere interlude before the economy regains its momentum. While I don't want to speculate on economic issues beyond my purview, the OCC has over many months been working dutifully, through what I believe has been judicious supervision of national banks, to ensure that our banks remain healthy and retain the ability to continue to make loans to creditworthy borrowers, at prices that fairly reflect the risks and costs involved. That's the best way to safeguard the strength of the banking system -- and the strength of the economy that depends upon it.

But we can't rule out the possibility that economic uncertainty and a reduced appetite for risk on the part of financial institutions could affect the viability of some community development projects, especially those still on the drawing board, and put bank officials responsible for these projects into a position of having to justify them anew.

How do we respond to this challenge? And what can be done to assure that the progress of recent years in rebuilding our communities continues, regardless of which way the economic wind blows?

I don’t think anyone who hears banks discuss their CD activities today can help be struck by a shift in attitude. Most banks that are active in this market characterize their involvement as motivated by sound business considerations, rather than as a legal imperative. Banks have increasingly found that if they structure and manage community development loans and investments, it doesn’t take years before they start paying off. As neighborhoods stabilize, property values rise, residents begin to accumulate wealth, and they return with their business to the banks that helped them succeed. When banks invest in their communities, they’re also investing in their own future success.

Indeed, our leading financial institutions are institutionalizing their involvement in community development. Under the law, banks need at least satisfactory CRA ratings in order to take advantage of various expansion opportunities, but the activities that qualify for those ratings increasingly stand or fall on their merits, as they should. CRA should not be the sole determinant of whether or not banks take on a project. A program of community development investments motivated solely by carrot-and-stick inducements is not likely to be as effective in achieving beneficial results for the community as one that is solidly grounded in the underlying economic merits.

Still, as I suggested earlier, the merits of some CD projects are not always self-evident, and at a time of growing earnings pressure for financial institutions, these projects may find themselves under tougher scrutiny than ever before. In this more challenging economic environment, community development bankers will have to become more efficient, more resourceful, and more creative in structuring projects in ways that reduce risk and maximize returns -- for the community and the financial institution itself.

Fortunately, we have each other's experiences to draw upon and learn from. From our experience administering the Part 24 investment authority and working with national banks seeking to expand community development activities, we see examples every day of how banks have learned to conduct these activities in a way that is creative, efficient, risk sensitive, and profitable. I'd like to share of few of these examples with you today.

First, we've learned that an integrated approach to community development works best. There was a time when banks addressed community development needs simply by easing the requirements for traditional products like small business and mortgage loans so that some nontraditional customers could obtain them. Now there's a wider recognition that substandard housing and lack of small business capital are symptoms of deeper ills that afflict our neediest communities, and that banks that define their own participation more broadly in programs that attack these ills at their source can not only make important contributions to the health of the communities in which they operate, but can do so in a manner that is fully consistent with safety and soundness and reasonable profitability.

This generally means offering an integrated menu of CD lending, investment, and service products, and embracing a strategy of targeting these products to designated neighborhoods, rather than scattering them over a wider area. Although some banks still choose to specialize in a particular product line, many offer a broader mix that may include support for single- and multi-family housing construction and rehabilitation, small business establishment and expansion, larger commercial development, and infrastructure improvements. Some banks even integrate into their community development strategy the financing of hospitals and health-care clinics, educational facilities, churches, and libraries that serve or are located in the targeted communities.

Second, we've learned that comprehensive community development requires comprehensive community effort, including local governments, community organizations, charitable and religious groups, the business community, and other interested parties. It may require several lenders to work together, pooling their resources and expertise. And this coordination and cooperation should come into play not just when a passing need arises, but as part of an ongoing relationship that does not necessarily end when the keys are turned over to the new homeowner or small businessperson.

Teaming up with experienced and well-run nonprofit CDCs can actually reduce a bank's transaction costs if the CDC partner prescreens the good deals from the bad ones, provides prepurchase homeownership counseling, and helps to shape up credit proposals that satisfy the bank's needs and requirements.

The bank partnerships I've seen are as varied as the organizations that enter into them. And there are about 3600 community development corporations currently operating, four major national housing intermediaries and their subsidiaries, and thousands of financial institutions of every type, it's obviously difficult to generalize -- except about the importance of flexibility in choosing the right partners for each project.

The CDCs can play a crucial role as intermediaries and facilitators. They typically provide resources and services that supplement banks' activities, gather market information about the neighborhoods in which banks are contemplating lending or investment, and enhance communications between banks and community residents. They work with local governments and utilities to obtain licenses and approvals. They may provide a variety of customer support services, including counseling for potential homebuyers and recent homebuyers, and those interested in starting or expanding a small business. Such counseling can make the difference between a loan that stays current and one that becomes troubled, and it's a service that many of the CDCs do very well.

The third point speaks to the importance of creativity in assembling financing for CD projects. Here, too, banks may be able to take advantage of a variety of resources -- in the form of public subsidies, tax credits, secondary market mechanisms, and foundation grants, to name just a few -- that only a short time ago either did not exist or were unavailable for purposes of community development. But they are now, in part because CD projects have achieved greater recognition and viability in the marketplace. Indeed, there are likely to be increased opportunities for public and private collaboration resulting from the recent expansion of federal low income housing tax credits, tax exempt bond authority for the states, and other economic development initiatives like the New Markets program passed by Congress.

Banks often work with each other in order to share expenses and spread risk; often times, they have no choice in the matter, given the scope of the undertaking. CDCs and Community Development Financial Institutions frequently serve as vehicles through which these multi-bank sharing arrangements are consummated. Most frequently, CDCs are sources both of supplemental financing and of expertise in arranging such financing from third-party sources. Especially for smaller banks, which may lack in-house expertise of their own, community organizations often can provide technical knowledge to help assemble these frequently complex financial packages. As a result, they are often able to offer opportunities to banks to participate in projects as lenders or investors, that the banks would not have been able to arrange on their own.

Let me give you another example of how CD lending and investment can be creative, safe, and profitable. In a recent issue of our Community Developments newsletter, we highlighted a low income housing tax credit transaction in the Bickerdike neighborhood of Chicago that included five sources of financing. The bank's permanent mortgage amounted only to 2.9 percent of the total project cost. I know that the lender sleeps much more peacefully knowing that not a single dollar of the additional $6.4 million invested in this deal has a priority over the bank's first mortgage position.

The kind of partnering between financial institutions and community organizations that I've been describing enables each party to the transaction to focus most efficiently on what each does best, and to get maximum impact from each dollar in meeting the pressing needs of their communities. It's also the best way to ensure that CD projects are not disproportionately affected by changes in the economy.

In my recent travels around the country, I've seen these techniques at work, changing neighborhoods and changing lives. Here in the nation's capital, where skyrocketing real estate values have contributed to a severe shortage of affordable housing, the Local Initiatives Support Corporation, or LISC, has been a catalyst for revitalization efforts. Its work in the long-depressed 14th Street corridor offers a good illustration of how creative financing can bring ambitious CD projects to life. In one case, Washington's historic Whitelaw Hotel was converted into 38 units of affordable rental housing, using national bank investments in LISC's National Equity Fund, investments made possible by the OCC's Part 24 investment authority. The project also received assistance from the federal Low Income Housing Tax Credit and Historic Tax Credit programs.

In Chicago, New York, and many other cities, local Neighborhood Housing Services organizations have done heroic work in troubled communities, arranging financing for housing construction and rehabilitation, and working with local government to reduce crime, improve city services, and make these communities attractive places to live.

And it's not only our big cities that are seeing the benefits of community development partnerships. In a small town in the Midwest hit by the loss of a major employer, a national bank resolved to turn things around. Working with state and local officials, public utilities, and members of the business community, the bank took advantage of Part 24 authority to finance construction of three commercial buildings. Because the new buildings were located within a state enterprise zone, the tenants received significant tax advantages. As a limited partner in these arrangements, the bank received cash dividends from the sale of the properties. But for the bank and its partners, the biggest dividends lie ahead, as prosperity makes a comeback in that town.

I know of many such stories, and I imagine that any of you could tell a few of your own. What's significant is that these are no longer isolated cases. They're the expression of a trend full of promise for our needy communities. Because of your hard work -- and the resourcefulness and creativity that you bring to it -- I believe that community development has passed that critical point of no return. Community development activities will continue to thrive even during difficult times as long as banks and their partners work together, pooling resources and expertise in an integrated and targeted approach to the business. Our communities are counting on your continued commitment to a cause so vital to their well being -- and yours. I have never been more confident that we’re equal to whatever challenges the future holds -- one brick, one building, one block at a time.