Remarks by

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Before the Massachusetts Affordable Housing Alliance

Boston, Massachusetts

December 3, 2012

Thank you Andy Calamare for that very kind introduction. Before I get started, I want to thank the leadership of the Massachusetts Affordable Housing Alliance for inviting me here today. I always look forward to coming back to the place I consider home and meeting with the people I have worked with over the years to address our common goals. I am particularly pleased to be speaking at the Bob and Jean Sheridan Building, MAHA's modern, green headquarters. Over 23 years ago, Bob Sheridan, Tom Callahan, Bank Commissioner Andy Calamare and others in this room were the architects of some truly groundbreaking community reinvestment, affordable housing, financial counseling and access to banking services innovations. Their success was, and still is, based upon developing effective and financially sound solutions to very real problems by forging lasting community, industry and public sector partnerships. The Commonwealth, particularly its low to moderate income neighborhoods, is far better off for their efforts.

As Massachusetts Commissioner of Banks I saw firsthand how critical the work of this organization is. Your counseling programs not only help to create homeownership opportunities, but help to sustain homeownership through delinquency intervention and post-purchase counseling. Your insights inform banking regulators and examiners about financial needs in communities and provide us with important on-the-ground intelligence about what banks are doing to help meet those community needs. In particular, I'd like to commend your organization for the excellent series of annual reports, Paying More for the American Dream, which examine inequalities in the housing finance system.

Ensuring accessibility to affordable housing is crucial to the viability of underserved neighborhoods here in Massachusetts and across America. That's an important mission you have shouldered, and it's not an easy one because in the communities you serve unemployment is still high, the housing market is only slowly recovering, and many borrowers are economically distressed.

We can all agree that many factors contributed to the housing crisis. First, the loose underwriting standards employed by aggressive mortgage brokers and originators made it possible for too many people to buy overvalued houses on terms they couldn't afford to repay. Many of these brokers were under-regulated, and they often had compensation structures that ignored risk. In addition, securitizers and rating agencies failed to recognize the significant, and systemic, risks underlying mortgage-backed instruments. And when the housing bubble burst, the mortgage industry did not have the operational capacity to implement viable loan modifications on a large scale or properly manage foreclosures. Modifications were further complicated by the variety of players and competing interests in the mortgage lending, servicing and securitization chain. These are but a few of the challenges we have encountered and are working to address in order to support continued housing market recovery. Our collective wisdom and insights will be necessary as we work to help restore the mortgage and housing markets.

Actions the OCC is taking right now include support for the issuance of Dodd-Frank regulations that ensure additional consumer protections and that mitigate the potential for future systemic risk events in financial markets. The federal banking and housing agencies are working on a final risk retention rule for securitizations, including mortgage-backed securities, that would give securitization sponsors a greater financial stake in the quality of the mortgages that they package into securities. These rules aim to re-establish the link between the credit availability to consumers that is facilitated by the secondary mortgage market on the one hand, and sound underwriting of those mortgages on the other. We are also consulting with the CFPB on forthcoming mortgage servicing standards.

Secondly, the OCC continues to address violations and unfair treatment of mortgage borrowers and other financial service consumers through a number of active enforcement cases. As you know, the OCC and other regulators issued Consent Orders against major mortgage servicers for unsafe and unsound foreclosure practices last year. I'll provide an update on that in a few moments. This summer, we also took enforcement actions against large banks for compliance deficiencies under the Servicemembers Civil Relief Act, including those associated with harmful and illegal foreclosure actions against members of our armed forces, and for the practice of steering minority borrowers into higher-priced subprime loans.

Finally, the centerpiece of OCC supervision is the management of risk, from credit underwriting to market risk to operational risk. Excellence in financial institution risk management is key to *avoiding* episodes of costly operational risk that harm all of us, including vulnerable mortgage borrowers.

We are seeing much more prudent underwriting today and as a result we are also seeing improved borrower performance and reduced mortgage credit risk exposure. The OCC's Mortgage Metrics report for the Second Quarter of 2012 showed improved performance over the same period last year. In particular, seriously delinquent mortgages fell to their lowest level in three years. Home retention loan modifications were a contributing factor to the improvement. Home retention actions increased 18 percent from the prior quarter, and retention actions outnumbered foreclosures.

This is good news, and I am confident that with the help of organizations like the Massachusetts Affordable Housing Alliance, we will find the proper balance between managing risk and providing homeownership opportunities to historically under-represented populations. Homeownership has been a key element of the American dream and it can be an important asset-building tool, particularly for minority and lower-income families. Indeed, one of the greatest tragedies of the financial crisis has been the disproportionate harm inflicted on borrowers from historically under-represented populations, especially those who were misled about the mortgage obligations they were taking on.

The challenge we face today is how to preserve the sustainable homeownership opportunities that have been achieved while moving to adopt policies and implement programs that will responsibly build new homeownership opportunities. Because of the economic challenges facing minorities and lower income families, it is critical that we understand precisely what the barriers are to accessing mortgage credit, so that we can address them with appropriate strategies.

Fortunately, data is available that can help us better understand the hurdles to homeownership and perhaps point us to the most appropriate solutions. When we look at the reasons for denials of conventional loans as well as FHA or Veterans Administration loans, two categories stand out: collateral-related issues and debt-to-income considerations. Potential home buyers need to understand how critical good credit is to achieving homeownership, because stricter underwriting guidelines now require higher quality credit. The median credit score for home buyers has increased by 40 points since 2006 with credit scores now averaging around 700 for FHA mortgages and GSE mortgages rising to over 760.

Lack of a down payment is another potential barrier to homeownership. Last year almost half of owner-occupant home borrowers used FHA financing, which offers low down payment options.

Declining home values, while potentially placing more housing stock in reach of buyers, also provide challenges to existing and potential homeowners. Appraisals are a critical component of determining value. Reduced property values can keep current homeowners from refinancing to take advantage of historically low interest rates. Prospective new buyers and sellers may encounter difficulty when the purchase price doesn't match up with the appraised value. That is why OCC guidance emphasizes that lenders must obtain reliable appraisals to determine the market value of collateral and that they must choose appraisers based on their competence, experience, and knowledge of the market.

Despite the difficulties facing current and prospective homeowners, there is some evidence that the housing environment overall is improving. There is a growing consensus that housing prices have bottomed out in many areas of the country and that home prices are increasingly affordable for buyers. Mortgage interest rates are at historic lows. While those trends are encouraging, it’s clear that we have a long ways to go to ensure that aspiring homeowners, particularly in minority and underserved communities, have access to financing. With the important work that you do in the community, I know you are aware of the financial challenges facing minorities and underserved borrowers even in good economic times. Your work has been essential to help families manage economic stress during the present cycle. It is more critical than ever that we all work together to ensure that these families have access to mortgage credit that is available on fair terms, and that lenders realistically evaluate borrowers’ ability to meet those terms.

As the safety and soundness regulator for national banks and federal savings associations, the OCC, working with the Consumer Financial Protection Bureau, is striving to ensure that mortgage lenders improve disclosures and embrace sound underwriting principles and lending practices. Misleading borrowers about the obligations they are taking on will not be tolerated. The OCC, the CFPB, and groups such as yours all play essential roles in creating a safe and sound mortgage market that will ultimately increase access to fair and sustainable mortgage credit. I know for many of you this goal is your life’s work.

Your work has had an impact, but going forward this work is perhaps even more critical to overcoming the hurdles that consumers face today. Increased financial education helps individuals understand the importance of saving and budgeting for both immediate needs and long-term goals.

The Massachusetts Affordable Housing Alliance has long recognized the importance of financial education. Pre-purchase counseling lays the groundwork for successful homeownership. This counseling helps consumers learn critical budgeting strategies, understand the pros and cons of different mortgage products, and make informed decisions. In some cases, clients will realize they need more time to improve their financial situation, or they may recognize that renting makes more sense given their current situation and goals.

For many new homeowners, counseling doesn't stop when they cross the threshold. I'm particularly pleased to see that your organization also offers post-purchase counseling, helping homeowners assume the expanded responsibilities of homeownership by improving their budgeting skills and teaching them how to maintain their home.

Counselors have been the first line of defense in helping troubled borrowers seek loan modifications and keep their homes. We know how effective counseling can be. Borrowers who receive foreclosure prevention counseling are 60 percent more likely to avoid foreclosure than those who do not.

I'd like to conclude by discussing our ongoing outreach efforts to build awareness about the Independent Foreclosure Review process, which is being done to provide redress to borrowers harmed by improper foreclosure processes. In April 2010, the financial regulators issued Consent Orders requiring 14 banks to take a number of steps to improve loan modification and foreclosure servicing processes and called for independent foreclosure reviews of case files to identify harmed borrowers. That process involves a review of a large sample of files to determine whether errors in the foreclosure process financially harmed borrowers. In addition, as a backstop, any homeowner who was in any stage of foreclosure during 2009 and 2010, and whose loan was serviced by any of the 14 banks that were subject to the OCC's Consent Order, can request a review of their file to determine if they were financially harmed by the servicer's practices.

Where financial harm from foreclosure errors is found, the harm will be remediated, which may include payment of appropriate compensation to the borrower. These remedies may include suspending a pending foreclosure or rescinding a completed foreclosure, reimbursing improper fees plus interest, providing a loan modification, correcting credit reports or other errors in the borrower's records, or providing lump sum payments. Payments can range from relatively small amounts up to $125,000 plus lost equity in the most egregious cases.

I'd like to enlist your help in getting the word out and helping borrowers file these requests if they are eligible for a review. Information is available on the IFR Web site[1] to help counseling organizations engage in this effort. The Web site also provides resources to make it easier for you to reach out to your members, affiliates, or clients. For example, there is sample language for an email explaining the IFR process and the deadline for applying. The toolkit includes a story about the IFR that you could use in a newsletter and text for a public service announcement that you could send to local media to help get the word out. Time is short—borrowers must send in their requests for review by the end of the year.

In closing, I want to emphasize that increasing homeownership opportunities remains a high priority. Homeownership benefits individuals, families, and communities. Ensuring that we have an inclusive mortgage industry that operates in a safe and sound

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[1] www.IndependentForeclosureReview.com/Toolkit

manner is a full-time job that involves everyone in this room to ensure that the goal of homeownership remains both attainable and sustainable.

You and the Massachusetts Affordable Housing Alliance have been part of the solution for over 20 years. I trust you and your community, industry and government partners will continue to make the Commonwealth, in the words of Justice Brandeis, an experimental “laboratory” of change.

With that, I’d be happy to take your questions.