Remarks by
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Comptroller of the Currency
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Thank you Mayor Rice. It's a real pleasure to have this opportunity to be here with you today at the Enterprise Annual Network Conference.

Growing up in Washington, D.C., I followed the work of Jim Rouse first-hand. He captivated us all with his festival marketplaces and his inspiring vision for America's cities. Baltimore, with its Inner Harbor and diverse neighborhoods, is one of the many places where his vision and the work of the Enterprise Foundation came alive and flourished.

Today, Enterprise brings that same spirit of innovation to projects benefiting low- and moderate-income households and green communities around the country. In the capable hands of Doris Koo and the Enterprise Board, Enterprise continues to be a respected intermediary that has raised and invested over $8 billion to support the creation of affordable homes. It is also currently investing in communities at a rate of $1 billion annually.

I would like to spend my time with you today discussing the current credit environment and the important contribution that community reinvestment makes – to individual communities and to our economy as a whole.

We continue to face an extraordinary market situation and unprecedented challenges to the flow of credit. These circumstances have put considerable pressure on borrowers and lenders alike. As so many people in this audience have witnessed, helping

low- and moderate-income individuals and families that Enterprise serves has become even more challenging with disruptions in the financial markets.

The good news is that although we have many challenges ahead, important steps have been taken to assure financial stability, and the financial system is definitely in better shape than it was six weeks ago. Our focus is now on continuing to reinforce that stability; enhancing the availability of sound credit; and moving forward with strategies to reduce the number of homes lost to foreclosure.

On this last point, I recognize that there is considerable discussion about the need for the government to provide direct funding to reduce foreclosures, and I think it's safe to assume that this debate will continue into the next Administration. In the meantime, however, I do think it's important to recognize the concerted and considerable efforts of the public, private, and nonprofit sectors to make meaningful progress. As many of you may know, the OCC has spearheaded an effort to collect reliable, validated, loan level data on the performance of individual mortgages throughout the country that are serviced by the large national banks that we supervise. The Office of Thrift Supervision has joined us in this effort, and together we have begun producing a quarterly Mortgage Metrics report that provides the best available information on more than 60 percent of all mortgages outstanding in the United States. The Mortgage Metrics report covering the second quarter of 2008 shows that new loan modifications – and I don't mean payment plans – increased by 50 percent from the previous quarter, with modifications accounting for nearly 45 percent of all workouts.[1] Our preliminary analysis of third quarter data shows that this trend is continuing, and we expect soon to have more data about the types of modifications being employed. Moreover, major lenders that we supervise have

recently announced comprehensive, proactive, and streamlined mortgage loan modification and loss mitigation programs. And a number of mortgages are being restructured and refinanced through Fannie Mae, Freddie Mac, and HUD's FHA Secure programs. While these actions and programs may not prove fully adequate to address the problem, they do constitute meaningful steps in the right direction.

Turning back to financial stability, I believe that all banks have benefited from the stabilizing effect of recent aggressive actions by the government to inject capital, to provide guarantees on bank deposit accounts and certain liabilities, and to ensure the availability of backup liquidity to our nation's banking organizations. At the same time, we recognize that banks must continue to perform their essential function of extending credit – in a safe and sound manner – to meet the needs of creditworthy borrowers.

In an interagency statement issued just last week, the federal banking agencies emphasized this – stressing both the importance of banks fulfilling their fundamental roles as credit intermediaries through prudent lending practices, and the need to work with existing borrowers to avoid preventable foreclosures. We support recent efforts by banking organizations to implement systematic loan modification protocols, and the objective of attaining modifications that borrowers are able to sustain. The OCC and the other federal banking supervisors are committed to fully supporting their regulated banking organizations as they work to implement effective and sound loan modification programs.

Indeed, all of these efforts are fully in keeping with the OCC's mission and the way that we approach our regulatory and supervisory responsibilities, including those under the Community Reinvestment Act. CRA supports banks doing what they do best

and what they should want to do well – making viable lending and investment decisions, with acceptable rates of return, consistent with their business plans, in their own communities.

Given recent public discussion, it is appropriate to ask about the role that CRA plays in the credit challenges we face on so many fronts. In my view, it plays a very positive role. Unfortunately, however, current market disruptions have clouded the accomplishments that CRA has generated, many of which we recognized last year during its 30th anniversary. There are even some who suggest that CRA is responsible for the binge of irresponsible subprime lending that ignited the credit crisis we now face.

Let me squarely respond to this suggestion: I categorically disagree. While not perfect, CRA has made a positive contribution to community revitalization across the country and has generally encouraged sound community development lending, investment, and service initiatives by regulated banking organizations.

CRA is not the culprit behind the subprime mortgage lending abuses, or the broader credit quality issues in the marketplace. Indeed, the lenders most prominently associated with subprime mortgage lending abuses and high rates of foreclosure are lenders not subject to CRA. A recent study of 2006 Home Mortgage Disclosure Act data showed that banks subject to CRA and their affiliates originated or purchased only six percent of the reported high cost loans made to lower-income borrowers within their CRA assessment areas. [2]

Over the last ten years, CRA has helped spur the doubling of lending by banking institutions to small businesses and farms, to more than $2.6 trillion. During this period, those lenders more than tripled community development lending to $371 billion.[3]

Overwhelmingly, this lending has been safe and sound. For example, single family CRA-related mortgages offered in conjunction with NeighborWorks organizations have performed on a par with standard conventional mortgages.[4] Foreclosure rates within the NeighborWorks network were just 0.21 percent in the second quarter of this year, compared to 4.26 percent of subprime loans and 0.61 percent for conventional conforming mortgages.[5] Similar conclusions were reached in a study by the University of North Carolina's Center for Community Capital, which indicates that high-cost subprime mortgage borrowers default at much higher rates than those who take out loans made for CRA purposes.[6]

Of course, not all single-family CRA mortgages performed this well, because these loans have experienced the same stresses as most other types of consumer credit. Nevertheless, a number of studies have shown that when these loans are made in conjunction with a structured homebuyer counseling program, mortgage performance is substantially improved.[7] Affordable CRA multi-family projects utilizing low-income housing tax credits have also performed well, with an average foreclosure rate through 2006 of 0.08 percent on the underlying mortgages.[8]

During the community tours I have taken over the past three years, I personally witnessed the positive impact that CRA partnerships have had in transforming communities, expanding homeownership, and promoting job creation and economic development. These partnerships between communities and financial institutions have also helped house senior citizens and people with special needs, built community facilities, and assisted small businesses serving low-income areas.

In the Anacostia community of D.C., an area of economic resurgence that I have toured on several occasions, Enterprise's Wheeler Creek project was a critical link in stabilizing a neighborhood that had been plagued by a troubled public housing project. Wheeler Creek involved development of for-sale homes in conjunction with a bank community development corporation, as well as a bank's purchase of low-income housing tax credits for rental housing.

CRA projects also act as catalysts for other investments, job creation, and housing development. Such infusion of capital into these markets leverages public subsidies, perhaps as much as 10 to 25 times, by attracting additional private capital. Many of these CRA equity investments can be made under national banks' public welfare investment authority. These bank investments have grown significantly over the years – totaling more than $25 billion over the past decade. Indeed, the OCC recently held its Managers Conference at the Grand Masonic Lodge on North Charles Street here in Baltimore, a public welfare investment funded by a national bank. To meet the demand to invest in similar types of projects, OCC successfully sought legislation last year to raise the cap on public welfare investments from 10 to 15 percent of a bank's capital and assets. This rise will enable the amount of such investments to increase by as much as $30 billion.

Interpreting national bank public welfare investment authority, OCC recently issued an approval related to energy conservation that may be of interest to Enterprise. This approval clarifies that such authority extends to bank investments in renewable energy tax credits primarily benefiting low- and moderate-income individuals and areas, government revitalization areas, rural underserved and distressed middle-income areas, and designated disaster areas. The investing bank can claim the credits and, in some

instances, receive positive CRA consideration under the investment or community development tests.

Your Green Communities initiative, and others like it, may be able to take advantage of these tools to obtain additional resources under the public welfare investment authority, CRA, and other available incentives to build many more sustainable homes and communities across the country. The research and examples described on your Web site demonstrate that moving to a green economy can generate a significant number of jobs, stimulate economic growth, and create a healthy environment in communities that Enterprise serves.

As the credit market stabilizes, CRA-driven initiatives can also help us tackle challenges such as the preservation of homeownership opportunities and rental housing development. Opportunities also lie ahead for bank partnerships with Enterprise affiliates and other nonprofits to help mitigate the impact of foreclosures in communities across the country.

The National Community Stabilization Trust, which Enterprise and other national housing intermediaries recently formed, is an important new initiative to help coordinate the transfer of foreclosed properties from financial institutions, servicers, investors, and government-sponsored enterprises to local housing organizations funded by the Neighborhood Stabilization Program. The Trust has developed standardized transaction formats and valuation and pricing models to assist local programs in making acquisition decisions and sales efficiently.

For our part at the OCC, we have sought to clarify how banks might receive CRA consideration for the donation and discounted sales of foreclosed properties in

conjunction with these initiatives. We co-hosted a conference earlier this summer that highlighted many effective strategies employed by nonprofits and public agencies for coping with the rising number of foreclosures. We now have a Neighborhood Stabilization page on the OCC's Web site, which will serve as a resource to nonprofits and public agencies seeking to purchase foreclosed properties in your communities.

We have also hired a Community Affairs Officer, Vonda Eanes, to specialize in working with nonprofits and public agencies across the country to focus on neighborhood stabilization and serve as a resource for banks and communities developing initiatives regarding foreclosed property.

Vonda joins the OCC's Community Affairs department, headed by Barry Wides. The responsibilities of this department include sharing best practices, providing guidance on regulatory issues, and explaining to bankers how these initiatives can help their CRA performance. I encourage you to introduce yourself to Vonda, Barry, and the other OCC representatives attending this conference. They hope to learn more about how the OCC might assist your efforts.

Our nation has accomplished much since CRA's passage. Perhaps even Jim Rouse could not imagine how much the flow of CRA-related capital and credit has contributed to affordable homeownership, jobs and business development, and healthy neighborhoods. In today's challenging economy, the need for the positive results that CRA has generated are even greater, and the same is true for organizations like Enterprise.

Thank you very much.

[1] "OCC and OTS Mortgage Metrics Report: Disclosure of National Bank and Federal Thrift Mortgage Loan Data," January-June 2008. View the report at http://www.occ.gov/ftp/release/2008-105a.pdf.
[2] Glenn B. Canner, Senior Advisor, Federal Reserve Board, "2007 HMDA Data: Identifying Trends and Potential Regulatory Concerns," presentation at the Consumer Bankers Association's 2008 CRA and Fair Lending Colloquium, October 27, 2008.
[3] "Findings from Analysis of Nationwide Summary Statistics for Community Reinvestment Act Data," *FFIEC Fact Sheets*, July 1999 – July 2008.
[4] "Low-Income Mortgage Borrowers with the Benefit of Homeownership Counseling Do Substantially Better than General Market, According to New Foreclosure Analysis," NeighborWorks America, *News Release*, September 25, 2008.
[5] *Ibid*.
[6] Lei Ding, Roberto G. Quercia, Janneke Ratcliffe, Wei Li, "Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models," University of North Carolina, Center for Community Capital, October 2008.
[7] "Measuring the Delivery Costs of Prepurchase Homeownership Education and Counseling," NeighborWorks America, May 2005, pp. 11-15.
[8] Ernst and Young LLP, "Understanding the Dynamics IV: Housing Tax Credit Investment Performance," 2007.