

Remarks

By

Keith A. Noreika

Acting Comptroller of the Currency

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Thank you for the kind introduction. I am pleased to join you today, and am happy to see so many OCC-supervised banks represented among the leadership of the National Association of Affordable Housing Lenders (NAAHL). I am also proud of the role national banks and federal savings associations play in community reinvestment discussions throughout the country. When I travel across our nation to visit with bankers, businesses, and community leaders, I am struck by the quality partnerships working to restore and revitalize our neighborhoods. I was born and grew up near Pittsburgh and saw for myself the lasting, transformative effects of banks and communities working together to restore a city. Today, my hometown is a shining example of what we can do together. That experience is one of the reasons I personally share NAAHL's commitment to renewing communities and stimulating the nation's economy.

At the OCC, we are continually looking for ways to remove unnecessary barriers that put limits on how banks can help and invest in their communities. It makes no sense to have rules that hurt banks' ability to lend in neighborhoods that in return would make those neighborhoods better places to live, better places to do business, and better places to lend. In the few minutes

that I have with you today, I want to focus on what the OCC is doing to help banks lend to people who want to rehabilitate homes in distressed communities. I know I stand between you and hors d'oeuvres; so I promise to be brief.

Let's start with understanding the problem we were trying to solve. In cities and towns like Detroit, one obstacle to healthy, livable neighborhoods is the quality of housing stock itself. Older homes often require special love and care, even in well-off communities. Pipes leak, wires fray, and roofs need replacement. Doors and bathrooms need greater accessibility for those with physical challenges. In communities with higher rates of foreclosure and vacancies, these problems become exacerbated. In distressed areas, repairs to a dilapidated house can cost more than its appraised value. That situation means that even when motivated and creditworthy buyers find a house in this condition and they recognize its promise, they may not be able to get the loan they need to purchase and restore it. Traditional underwriting requires lenders to obtain appraisals or evaluations to finance loans and that can be complicated by the difficulty in identifying comparable values given the often limited home sales in distressed areas.

One impetus for our guidance is that interagency rules<sup>1</sup> generally provide that lenders should originate residential loans with a loan-to-value limit in excess of 90 percent of a property's value *only* if there are appropriate credit enhancements. Together, the underlying condition of the properties and regulatory guidance itself act as obstacles for creditworthy buyers to obtain financing and help rebuild communities.

Recognizing this particular challenge to lending and revitalizing communities, the OCC finalized guidance in August that gives OCC-supervised banks and thrifts more flexibility to

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<sup>1</sup> For national banks, refer to 12 CFR 34, appendix A to subpart D, "Interagency Guidelines for Real Estate Lending Policies." For federal savings associations, refer to 12 CFR 160.101, appendix to 12 CFR 160.101, "Interagency Guidelines for Real Estate Lending Policies."

offer rehabilitation financing in distressed communities with depressed home values. The guidance for certain higher-loan-to-value mortgage loans,<sup>2</sup> commonly called higher-LTV loans, explains how banks can establish lending programs to originate home mortgages greater than 100 percent of the home's value. The guidance applies to programs to originate mortgages in areas officially targeted for revitalization by government agencies that do not exceed \$200,000, support the purchase or purchase and rehabilitation of owner-occupied residential properties, and do not exceed 10 percent of the bank's tier 1 capital in aggregate.

The guidance did not happen overnight. You can imagine the difficulty of convincing safety and soundness regulators that a loan that exceeds the value of collateral can be a good idea. A visit to Detroit in 2015 helped staff get past their reservations. During that visit, a group of senior OCC staff members experienced firsthand the need for rehabilitation financing while touring blighted neighborhoods. The goal of the meeting and tour, arranged by an OCC-supervised bank and the Detroit Land Bank, was to start the search for solutions to the impediments homebuyers faced in getting mortgages in the Motor City. At that time, Motown lagged behind the rest of the country and was still struggling with the effects of the housing market downturn and foreclosures. In the year before that meeting took place, only 490 purchase mortgages and 21 home improvement loans were made in the entire city.<sup>3</sup> Detroit provided an excellent example of a community in need of revitalization. A number of banks and community groups wanted to do more to renew blighted neighborhoods, but could not overcome the obstacles to financing the work.

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<sup>2</sup> OCC Bulletin 2017-28, "Mortgage Lending: Risk Management Guidance for Higher Loan-to-Value Programs in Communities Targeted for Revitalization."

<sup>3</sup> "Detroit Housing Tracker, Q4, 2015," the Housing Finance Policy Center (Urban Institute).

That meeting provided former Comptroller Curry and OCC staff the reasons they needed to start developing a solution. During this process, the OCC received input from NAAHL's own Buzz Roberts, member organizations such as the Community Reinvestment Fund USA, and interested bankers. Input helped the agency determine how such loans could be made without adding significant risk to the bank and while ensuring borrowers understood their risks in obtaining a loan for more than the collateral is initially worth.

The final guidance, which the OCC issued in August, explains our risk management considerations for banks establishing this type of program. Banks should clearly inform borrowers of the potential risks associated with these loans. A program may also allow for situations in which a buyer may pay cash for a property and secure financing later, provided that the buyer receives a bank loan commitment within six months to cover the purchase price plus projected rehabilitation costs. This flexibility allows buyers to compete more effectively for residential properties against investors or to bid at property auctions that require cash payment.

In establishing their programs, banks should define the geographies where the loans would be made and how the loans will support community revitalization. They should establish governance for loan terms and internal credit administration. The policies should include any provisions that address incentives and assistance qualifying borrowers may have, such as assistance and grants for down payments, closing costs, and borrower counseling.

While OCC approval is not required before a bank establishes a higher-LTV program, banks should notify the agency in writing 30 days before they begin originating these loans. That notice should include the program's policies and procedures. Examiners will review the submission to assess whether the program is consistent with safe and sound lending practices. Thereafter, examiners will monitor the bank's program during regularly scheduled supervisory

activities. At least annually, the OCC will evaluate the extent to which participating banks' programs are contributing to the revitalization of targeted communities.

This guidance and the programs being established as a result of greater flexibility are beginning to make differences in communities that need reinvestment most. I am pleased with the response from a number of banks that have contacted us for more information, and staff members look forward to assisting other banks interested in establishing these sorts of programs.

While programs established under the new OCC guidance are helpful, the agency will consider other bank efforts to support revitalization that fall outside the scope of this guidance. These efforts will be considered on a case-by-case basis and must be consistent with safe and sound lending practices, promote fair access to credit and fair treatment of borrowers, and comply with all applicable laws. One Midwestern bank discussed such plans with the OCC and has already established a program that is making loans to its community.

First-time homebuyers, unable to afford more expensive new homes, often shop for existing homes in older communities. These value shoppers looking for affordable housing explain why more than 40 percent of the existing homes sold in May were priced between \$100,000 and \$250,000.<sup>4</sup> Many buyers also contribute their own hard work to fixing up these homes. Sweat equity can be an incentive to remain in their rehabilitated homes and enjoy the community they helped revive.

All of these programs improve communities, and, at the same time, they expand economic opportunity. In fact, community rehabilitation *is* a tremendous economic opportunity considering that demographic and market forces are driving up overall demand for rehabilitation

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<sup>4</sup> "Summary of May 2017 Existing Home Sales Statistics," National Association of Realtors.

financing. A recent Harvard study shows that home-improvement spending will grow by more than \$50 billion a year between 2015 and 2025.<sup>5</sup>

That is a significant expansion in opportunity that can benefit banks of all sizes, particularly community banks. Community banks, like many of you, know your neighbors in ways other lenders do not. You wear your local school's colors and share your customers' pride in your the hometowns. The OCC wants to help you by assisting banks interested in offering or considering higher-LTV lending programs. OCC staff are here to support your efforts to serve the rehabilitation financing needs of your customers. Contact your OCC supervisory office to learn more about our guidance and to discuss your plans. Our Community Affairs department, including our 11 locally-based District Community Affairs Officers, are excellent resources for you as you consider ways to lend and invest in your communities. Our District Community Affairs Officers can help identify local community partners, and help you educate the staff of government agencies and community development organizations on the revitalization needs of your communities.

Efforts like these produce real results that *literally* enrich neighborhoods. A recent study of blighted neighborhoods in Memphis showed that a local community development corporation increased home values \$6 for every \$1 invested in fighting blight. Fixing just one blighted house raised surrounding property values by 3 percent. Fixing multiple distressed homes multiplied the effect and raised nearby values by as much as 15 percent.<sup>6</sup> This is a good way to turn a higher-LTV loan into a more conventional mortgage, and shows how benefits can ripple well beyond an initial action.

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<sup>5</sup> [“Demographic Change and the Remodeling Outlook,”](#) Joint Center for Housing Studies of Harvard University, 2017, page 4.

<sup>6</sup> “The Frayser Model-Reinvesting in Blight,” Frayser Community Development Corp, Memphis, Tennessee.

If banks needed even more of a reason to explore these programs, these programs are also eligible to receive Community Reinvestment Act (CRA) consideration. Lending activities that revitalize or stabilize low- to moderate-income areas may be considered to meet the CRA's definition of community development. Additionally, grants to support the work of nonprofit counseling agencies that serve borrowers may be considered to be CRA-qualified investments.

This is happening now in Detroit, where banks, community groups, and city officials are teaming up to spark a mini-renaissance in some neighborhoods. Detroit has a way to go, but there is hope and evidence that things are improving—home by home, and block by block. These are welcome changes for Detroit, and can happen in other cities and towns, too.

In closing, I ask for your continued support in renewing and revitalizing distressed communities and stimulating our economy. The OCC urges you to use our new guidance in your efforts to transform blighted neighborhoods, and make our communities more vibrant. I am sure your actions will lead by their example and attract others who do not want to be left out when they see the positive effects of your good work. Thank you for your continued support, and I wish great success to NAAHL and to you in all of your future efforts. Now, I'm happy to take your questions.