

Remarks by
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Comptroller of the Currency
Before a Conference
on
Reviving Homeownership
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Good morning. It's a pleasure to be here with you today as you explore the important and timely subject of the role of reviving homeownership for communities of color. I've been Chairman of the Board of NeighborWorks America for almost seven years, and in that capacity, I've been focused broadly on issues of homeownership. During that time, I became keenly aware that, for many Americans, acquiring and keeping a home involves a real struggle. Low- and moderate-income borrowers have been hit hard, not just by weakened economic conditions, but by the lending practices of some mortgage lenders that failed to properly evaluate borrowers' ability to repay or obscured the payment obligations of their loans.

But while I was invited to speak today in my capacity as NeighborWorks chairman, I am actually appearing in my new role as Comptroller of the Currency. The Office of the Comptroller of the Currency, as you know, is responsible for the supervision of the banks and thrifts that service the majority of the outstanding mortgages in America. Although I've been at the OCC for less than two weeks, I've already devoted a significant amount of time to mortgage issues.

And while this is a time of transition for me, it's also very much a time of transition for the OCC. It's been less than a year since the Office of Thrift Supervision was integrated into the OCC, adding responsibility for the nation's savings associations to the agency's mission. Traditionally, thrift institutions have been focused on meeting the nation's housing finance needs, and so the OCC's responsibility for mortgage lending has been greatly expanded.

This expanded responsibility shows up in a number of ways. The OCC publishes a quarterly Mortgage Metrics report, which provides an extraordinarily rich and comprehensive overview of the 34 million mortgages serviced by large national banks and thrifts. The OCC tracks more than 100 data points for each of those mortgages each month and compiles that data publicly and provides a report to Congress each quarter. That's more than 3.4 billion loan level data points each quarter. As a result of that work, the OCC has a deep reservoir of knowledge and data about the state of mortgage lending in America.

And, of course, the OCC has been deeply involved in fixing problems that came out of the foreclosure processing mess. I was engaged in this issue while a Director on the Board of the Federal Deposit Insurance Corporation, but my involvement will be ratcheting up considerably now, given the leadership role that the OCC has taken in fixing these problems. The issue is sometimes thought of as the "robo-signing" scandal, but the problems run much deeper than that. The critical deficiencies we found in bank and thrift servicer practices constituted unsafe and unsound banking practices, and also resulted in violations of applicable federal and state laws and requirements. That is simply unacceptable, and our enforcement orders require extensive reforms in servicer practices and internal governance.

These enforcement actions are intended not only to fix the parts of the process that were broken, but also to compensate borrowers harmed financially by the deficient practices identified

in the OCC's orders. This will be a long and expensive process for the banks and thrifts involved, and it will require a great deal of work on the part of the agencies to ensure that it is done correctly. But the steps we are taking are absolutely necessary to restore faith in the system.

With that as background, I'd like to focus the remainder of my comments on the topic of this conference, which is homeownership for people of color. And I'd like to start by thanking the sponsors of the conference for focusing on this question. To me, it's one of the most important and difficult issues facing those of us involved in home lending—and for that matter, one of the most crucial issues facing our nation. Homeownership has been a key element of the American dream, but unfortunately, that dream has never been equally shared by all Americans, and the economic downturn that followed the financial crisis affected people of color disproportionately.

That's truly unfortunate because homeownership provides many important benefits for individuals and our communities. It can be an important asset-building tool for low- and moderate-income and minority families and provide them with a special measure of economic security, particularly if they lock into a fixed rate mortgage that spares them from the kind of annual increases in housing costs that renters face. Over the last 15 years, a number of studies have found that there are benefits associated with homeownership, from increased civic participation to more stable neighborhoods.¹

But while there are clear benefits to homeownership, there are some critical public policy issues that I believe need our collective wisdom and insights to address as we work to help restore the mortgage and housing markets. First, while homeownership does have important

¹ See, for example, William M. Rohe, Shannon Van Zandt and George McCarthy, "The Social Benefits and Cost of Homeownership: A Critical Assessment of the Research," Joint Center for Housing Studies of Harvard University, October 2001. <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/liho01-12.pdf>

benefits to families and communities, we must recognize that homeownership cannot be the only means for affordable and safe housing for families and communities. Attractive and affordable multifamily housing also has an important role to play. Second, in restoring the housing market, it's essential that we avoid the lax underwriting practices that fueled the unsustainable run-up in house price appreciation that characterized the go-go years leading up to the housing market collapse. Instead, we should emphasize prudently underwritten mortgages, with terms that borrowers understand and have the ability to meet. The bursting of the housing market bubble in 2006 and the financial crisis and recession that followed illustrates the toll that lax and in some cases abusive mortgage lending practices can have on families and communities—and the national economy. For minority communities, this effect has been especially pronounced.

According to a Pew Research Center report² released July 26, 2011, inflation-adjusted median wealth fell 66 percent for Hispanics, 54 percent for Asians, and 53 percent for black households between 2005 and 2009, compared with just 16 percent for white households. The wealth gap between black and Hispanic households and white households is the highest since the government started publishing this data more than 25 years ago.

The silver lining in all these dark clouds is that, with the deep decline in housing prices since the downturn and interest rates hanging around their historic lows, homeownership would seem more affordable than ever. However, mortgage lending to low- and moderate-income and minority areas and lending to minority borrowers, in particular, have declined significantly from 2006, according to data published by the Federal Reserve.³

As you would expect, underwriting has tightened considerably since the financial crisis. Data in the OCC's Mortgage Metrics report and the Federal Housing Administration's monthly

² <http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>

³ http://www.federalreserve.gov/pubs/bulletin/2011/pdf/2010_HMDA_final.pdf

outlook reports⁴ show that the median credit score for conforming GSE mortgages has risen to the high 700s, and even FHA mortgages now exceed 700, while other data show that the average national credit score fell eight points last year to 660. These data points suggest that the difficult economy and weak employment may prevent many people from taking advantage of lower rates and more affordable housing.

Because of the unique challenges facing communities of color and the strains of our present economic cycle, it is important 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. Mortgage lending practices that ignore fundamental principles of sound lending or that mislead borrowers about the obligations they are taking on have no place in this nation's mortgage finance system. And I can personally assure you they have no place in the system of national banks and federal savings associations regulated by the OCC. Thus, the safety and soundness regulators, such as the OCC, together with the Consumer Financial Protection Bureau, and groups such as yours all have an important role to play in this regard. I know that many of you made that goal your life's work, and it's the reason we are all here today.

Your work has had an impact. Because of the extraordinary efforts of the organizations represented here, many more families are well-prepared for homeownership. Homebuyers who receive upfront homeownership education, counseling, and assistance from trusted independent advisors learn how to obtain sustainable mortgages and learn to manage budgets, credit, and home maintenance. As homeowners, these families and individuals find themselves facing foreclosure far less frequently than other homeowners and making greater contributions to the vibrancy of their neighborhoods.

⁴ http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/ooe/olmenu

If I can put on my NeighborWorks America hat for a moment, I want to share a little about what this important organization is doing to promote homeownership. As you know, NeighborWorks includes a network of organizations helping to meet local needs in communities across our country. Last year, these organizations helped more than 260,000 families with their housing needs, by providing pre- and post-purchase homeownership counseling, as well as loan modification assistance for troubled borrowers.

Among these 260,000 families, NeighborWorks organizations counseled 96,000 on homeownership last year, and specifically helped 13,800 families achieve their dreams of homeownership. While that figure represents a drop from the 19,000 new homebuyers helped in 2007, it is still a significant number in light of the factors working against homeownership today. All of you should be commended for taking on this important mission.

In my new role as Comptroller of the Currency, my job is to ensure that national banks and thrifts are safe and sound, and treat their customers fairly. Our objective is to ensure that they have the capacity to provide credit, including mortgage finance, to communities throughout the nation, including communities of color, and that their customers have reason to believe that the system will serve them fairly.

In that regard, as I mentioned earlier, the consent orders we took along with the Federal Reserve against the 14 large mortgage servicing banks and thrifts are intended not only to fix the problem, but, in my view, to restore confidence in the system. I won't go into all of the details of those orders or the work that has been done over the past year to implement them, but I would like to put in a plug for one key initiative in this process—the Independent Foreclosure Review.

As you may know, the orders cover about 4.3 million borrowers who were in some stage of foreclosure in 2009 and 2010. The process may have started much earlier than 2009, but if it

was continuing during that year, the borrower is eligible for a review if the servicer of their loan was one of the companies supervised by the OCC or the Federal Reserve. Likewise, if the borrower lost their home in foreclosure after 2010, they are still eligible if the process started before the end of that year.

Our enforcement orders required the servicers to retain independent consultants who agree to work at the direction of the regulatory agencies, and not the servicers, even though the servicers will foot the bill. Their job is to determine whether errors, misrepresentations, or other deficiencies occurred in foreclosures that were in process in 2009 or 2010, to determine whether financial injury resulted from those errors, and then to recommend remediation for that financial harm. Then, the servicers are accountable for remediating that financial injury based on plans the OCC or the Federal Reserve must approve.

Until this process is completed, we will not know the magnitude of financial harm borrowers suffered as a result of flawed practices, and that brings me to a part that you can help play in this process.

I want people to know this process is free to eligible borrowers who ask for a file review, and that they give up absolutely none of their rights in asking for the independent review of their case. All eligible borrowers who request a review can be assured that their file will be reviewed professionally and evaluated fairly to determine whether errors resulted in financial injury. The deadline for requesting a review is July 31, 2012, and later this month an additional round of outreach and advertising will begin to help increase awareness of this important opportunity. So my request is simply this: help spread the word, however you can, to encourage borrowers to evaluate their experience and, if they believe they suffered specific financial harm, to take advantage of the process. If they don't like the results, they don't have to take it and they can

choose to pursue whatever other legal remedies may be available. But if they believe they truly did suffer financial harm as a result of flawed mortgage servicing practices, I encourage them to explore this process.

I hope to have time for a few questions, so I will close by repeating that, especially in this difficult environment, homeownership remains an important and worthy goal for many families and individuals. There are distinct benefits to homeownership—for individuals, for communities, and for our broader economy. Ensuring that we have an inclusive mortgage industry that operates in a safe and sound manner is a full time job that involves everyone in this room. So, I'd like to close by thanking all of you for that work and what you are doing each day to ensure the goal of homeownership remains attainable for everyone, and particularly for communities of color.

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