Remarks by

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Good morning. It's a pleasure to be here at the National Community Investment Fund's annual conference and I'd like to thank you, Saurabh, for that generous introduction. This gathering of community development leaders gives all of us the chance to take stock of what you have been able to accomplish. It is also a good opportunity to look forward and to share ideas for building on such a firm foundation.

Today, I would like to focus my remarks on the importance of documenting the impact of your work as a way of helping Community Development Financial Institutions obtain grants and capital from funders and broaden partnership opportunities. I would also like to discuss some of the favorable treatment available for community development activities in recently-issued regulatory guidance.

Galileo once said, "Measure what is measurable, and make measurable what is not so." That quote sums up the groundbreaking work that NCIF has done in developing its Social Performance Metrics. Using concrete metrics, these reports quantify the impact that an institution's banking services and mortgage lending deliver in low- and moderate-income areas. One such metric, Development Deposit Intensity, evaluates the percentage of an institution's branch locations in low- and moderate-income areas. Mortgage lending is gauged by a

Development Lending Intensity-HMDA score that measures HMDA-reported lending to borrowers living in low- to moderate-income areas.

There is a very practical use for this information. To illustrate this point, NCIF's 2012 report indicates that the Development Deposit Intensity score for the median CDFI is four times higher than the median for the group of "All Banks." Similarly, the median CDFI bank has a Development Lending Intensity-HMDA score of 47.1 percent, in contrast with a 16 percent score for All Banks. This shows that CDFI mortgage lending is nearly three times higher in low- and moderate-income areas. As CDFI managers, these types of social impact metrics can arm you with compelling evidence to market your effectiveness to current and prospective investors.

This information is also valuable for your own strategic business analysis. You can use these analyses to identify new markets to penetrate and benchmark your own work against that of your peers. Reading NCIF's most recent quarterly report on CDFI financial and social performance, it also struck me how valuable this standardized information is for making the industry's case to policy makers. I applaud the NCIF for its leadership in developing these tools and making them widely available.

As bank managers that influence the direction of the CDFI industry, you deserve enormous credit for your success in serving low- and moderate-income communities, identifying urgent financial needs, delivering unique financial services to underserved consumers, and revitalizing economically distressed communities. This is difficult work that requires both ingenuity and dedication. The theme of this annual conference—"CDFI Bank 2.0: Innovations in Impact"—is particularly apt.

NCIF's most recent strategic planning paper identifies the top three critical issues facing your industry—raising more capital, increasing asset quality, and meeting regulatory requirements. With regard to asset quality, I was pleased to see in NCIF's latest report on the CDFI banking sector that the trend line for non-current loans continues to decrease steadily and that the ratio of median net charge-offs to average loans has also improved substantially. These are positive signs of the improving economic environment.

Although compliance with new capital and mortgage regulations may present challenges, in many instances Congress and the regulatory agencies recognized the unique nature of community-focused institutions and took steps to preserve affordable credit opportunities and promote community and economic development. In some cases, lawmakers and regulators have decided that new regulatory requirements should not apply to community-focused institutions based on their unique nature. In other cases, the types of transactions in which you engage have received more favorable capital treatment. These provisions have the potential to help CDFIs better compete and innovate.

The ability-to-repay requirements and the qualified mortgage provision of Dodd-Frank are intended to ensure that all lenders responsibly provide loan products that are appropriate for their borrowers. An exemption from the ability-to-repay regulation is available to CDFIs—whether they are supervised or non-supervised—as well as other specified types of lenders. This exemption recognizes that community-focused lenders have a special role and, in many cases, substantial experience in providing responsible loan products to low- and moderate-income borrowers. Therefore, CDFIs and other exempted institutions are not required to comply with the specified underwriting requirements of the qualified mortgage regulation and are not subject to the civil liability provisions of the ability-to-repay rule because they are exempt. Exempt lenders can continue to offer flexible underwriting for their affordable mortgage products, such as grant programs that cover closing costs or soft second down payment assistance. Furthermore, exempted lenders are free from any loan transfer restrictions that the regulation imposes on certain types of qualified mortgages, so they can choose to either hold loans in portfolio or sell the loans. Purchasers of loans originated by CDFIs or other exempt lenders do not need to qualify for the exemption.

Regulators have also recognized the different characteristics of community development finance by providing more favorable capital treatment under Basel III for investments in CDFI banks. The general rule under Basel III is that investments in the capital of unconsolidated financial institutions are subject to deduction from the investing bank's capital; however, we have not imposed this requirement on investments in CDFI banks.

Other provisions in Basel III provide special capital treatment for certain community development activities. We heard from CDFI banks that the initial Basel III proposal to apply 150 percent risk weighting to so-called High Volatility Commercial Real Estate loans with high loan-to-value ratios could negatively affect financing for community development projects, which often are structured using contributions from public or philanthropic funding sources. In the final rule, we maintained a 100 percent risk weighting, or 8 percent capital level, for these higher loan-to-value High Volatility Commercial Real Estate loans, provided that the financing meets certain requirements of a qualified investment in community development under applicable law, including the Community Reinvestment Act regulations.

Many of you are involved in community development investing, so you will be pleased to know that Basel III also provides preferential capital treatment for equity investments your institutions make under the public welfare authority. These investments will generally have a

100 percent risk weight and be subject to an 8 percent capital level, unlike other equity exposures, which could receive risk weights as high as 400 percent.

Regulatory provisions like the ones I've just mentioned recognize the special character of your industry. Our goal is to encourage more innovation in community and economic development lending and investment.

Still these provisions do not solve a key challenge that many of you face—how to attract new capital from a broader array of sources. Many of the best prospects for extending the reach of your organizations' work depend on the partnerships you forge with financial institutions, philanthropic organizations, and local, state, or federal government agencies. Consistent with your creative approaches to getting things accomplished, you may want to explore ways to boost your reach and effectiveness by seeking out new partners, so that you can forge pathways into markets that are not being adequately served. CDFIs should not have to shoulder the challenges of distressed communities alone; forging successful partnerships can offer added vibrancy to your industry and can maximize your impact in the communities you serve.

As you know, banks and thrifts can receive Community Reinvestment Act consideration for making a grant to, or purchasing shares of stock in, a CDFI. This is one way to bolster an institution's capital. CRA consideration is also available for providing loans to or investments in CDFIs that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development.

The OCC recently took a significant step to make it easier for minority-owned institutions, many of which are CDFIs, to raise capital. In June, we adopted a policy statement outlining how the OCC could exercise more discretion when considering situations in which accepting a capital contribution would result in a minority institution no longer meeting the strict criteria for minority ownership. Of course, we wanted to stay true to the original intent of giving special consideration to legitimate minority-owned institutions, so we established criteria that must be met. First, the institution must have previously been designated as a minority depository institution. Second, it must primarily serve the credit and other economic needs of the community in which it is chartered. And third, that community must be predominantly minority. We recently used this new policy to allow one of our banks that met all of these criteria to accept a capital infusion from a non-minority investor and still maintain its minority depository institution status.

There is a significant track record of lending and investment partnerships between CDFIs and banks or thrifts. There are many examples of partnerships banks have forged with CDFIs that received New Markets Tax Credit allocations. In fact, we recently highlighted in one of our publications a transaction where a CDFI bank used its New Markets Tax Credit allocation to partner with a larger bank on an investment in a community-scale wind energy project. By building on their synergies, each institution brings something of value to share with the other partner: perhaps a tax credit allocation, a client with an economic development plan, an equity infusion, or greater technical expertise regarding complex transactions.

In closing, I want to recognize once again the important work done by CDFIs. Cooperative engagement and active partnerships will strengthen your institutions and expand the resources available to help your institutions continue to serve low- and moderate-income individuals and communities. You play a vital role in strengthening the financial and economic underpinning of these communities. Whether you are developing affordable rental housing, financing community facilities, or offering innovative savings and credit products, CDFIs have a measurable impact on consumers and communities. As Comptroller, I pledge the OCC's continuing commitment to making that impact grow. Thanks very much for the opportunity to speak to you today.