

Remarks of
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Before the
Veterans Association of Real Estate Professionals
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Good morning. Thank you for inviting me back to speak again this year. A week ago we observed Memorial Day, a day when we commemorate the 1.8 million Americans who have given their lives in service to this country. Although we reserve our most solemn thanks for those who made the ultimate sacrifice, we hold all servicemembers and veterans in high esteem for their willingness to put themselves in harms' way in order to protect our great country. And I would like to start my remarks by thanking you for your service to our nation.

Seventy-two years ago, in recognition of military service, Congress enacted the Veterans Administration home loan guaranty program, which I'd like to discuss today. But first, I'd like to tell you briefly about the mission of the Office of the Comptroller of the Currency – OCC for short – and how our work potentially affects veterans and active duty members of the military. Then, I would like to give you a brief snapshot of the mortgage market, provide some background on the Community Reinvestment Act, or CRA, and how it encourages banks to serve mortgage credit needs, including support for counseling to help more buyers prepare for homeownership and avoid foreclosure. Then I will wrap up with a discussion about the role of community-based organizations in supporting access to mortgage credit.

The OCC is an independent bureau within the U.S. Department of the Treasury that charters, regulates, and supervises all national banks and federal thrifts. The OCC's mission is to ensure that the financial institutions we supervise operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. The banks and thrifts that OCC supervises hold 68 percent of all assets in the U.S. banking system and service more than 40 percent of first-lien mortgages.

Although the mortgage market's recovery has been long and difficult, market trends continue to show improvement. Mortgage originations accelerated in the second half of 2015, driven primarily by an increase in new originations and are up 53 percent over 2014. This upward trend in new originations, as well as an increase in new construction for single-family housing, is encouraging news but the numbers remain well below historical averages.

Many of you are aware that the inventory of for-sale homes is low by historical standards. For one thing, foreclosure sales are not contributing significantly to the stock of homes coming into the market. The OCC tracks default and foreclosure trends in our quarterly Mortgage Metrics report. That report collects data on the mortgage performance of first-lien residential mortgage loans serviced by eight national banks with large mortgage-servicing portfolios. Our most recent Metrics report indicated that the percentage of mortgages that were current and performing at the end of the fourth quarter of 2015 was 94.1 percent. Both newly initiated and completed foreclosures in the last quarter of 2015 stood at about half the levels that we reported in the last quarter of 2013. Also, home forfeiture actions—completed foreclosure sales, short sales, and deed-in-lieu-of-foreclosure actions—have decreased 23.4 percent from a year earlier. The improvement in mortgage performance is attributable to a number of factors, such as more

sustainable mortgage products, tighter underwriting, and, of course, a healthier economy with lower unemployment.

Although tighter underwriting has made it more difficult for some potential borrowers to qualify for mortgages, the VA's home loan guaranty program continues to offer an attractive option for active duty military and veteran borrowers. As proof of its effectiveness the VA has guaranteed nearly 22 million loans since the program's inception, and the program is still going strong today. Lenders originated 631,000 VA loans in 2015. The total dollar volume of VA home purchase loans has increased steadily over the past five years, while the VA reports that on average interest rates on VA loans are one-quarter point below conventional loan rates. VA loan processing time is also competitive with processing times for other loan types. The VA recently testified that the time from application to closing for a VA loan was 49 days in 2015, which is only several days longer than the typical processing time for conventional loans.

As you know, the VA home loan guaranty program provides one of the few opportunities for a no down payment loan. We are seeing that low down payment loans with loan-to-value ratios over 95 percent are still in high demand, especially among borrowers who are looking at Federal Housing Administration and VA loan programs. Since 2009, FHA/VA products have accounted for over 90 percent of all low or no-downpayment originations every year, even with the GSEs' having reintroduced their own 97 percent LTV products. The VA home loan program remains an important program, now and into the future. The National Association of Realtors, or NAR, noted in a recent report that active military and veterans represented one-in-five of all home buyers in 2015, and looking ahead, NAR stated that the pool of veterans eligible to buy homes is increasing.

Banks and thrifts are vital to the success of the VA loan program, although nonbank lenders are increasingly competitive players in the mortgage marketplace. According to *Inside Mortgage Finance*, in the first quarter of 2016, federally regulated banks, thrift institutions, and credit unions issued half of the Ginnie Mae securities backed by VA loans. The VA home loan guaranty is healthy and future strength is expected, but there is always room for growth. So, I'd like to talk about how CRA not only encourages banks and thrifts to make loans but also supports counseling efforts to educate future borrowers about their mortgage options, including VA loans, and to prepare them for the additional financial responsibilities of homeownership.

The opportunity to receive CRA consideration may act as an incentive for banks and thrifts to engage in certain types of responsible lending. Mortgages, including government guaranteed mortgages such as VA loans, are considered under the CRA lending test. In a CRA evaluation of a bank's mortgage lending, OCC examiners analyze whether the bank is making mortgage loans to borrowers and in areas with different income levels (including to low- and moderate-income borrowers). One third of one-third of veteran households had incomes within the CRA low- or moderate-income threshold.

Under CRA, OCC examiners also consider favorably the use of innovative and flexible lending practices implemented in a safe and sound manner. Offering flexible mortgage loans like VA loans can both contribute positively to an institution's CRA performance evaluation, and help banks and thrifts to better serve their entire communities, including servicemembers and veterans.

Most banks and thrifts that are also evaluated for their community development activities that may be provided to veterans and servicemembers, including financial education and training about homeownership opportunities and the potential advantages of using their VA loan

eligibility. CRA consideration is available for community development services, such as providing or supporting opportunities to educate servicemembers and veterans, particularly those who are low- and moderate-income. Counseling services teach financial management and budgeting basics and prepare veterans and servicemembers for homeownership with pre-purchase and home maintenance counseling. Some banks provide financial counseling directly, while others make these services available by providing grants to, or investments in, counseling organizations. Financial counseling services can be particularly helpful for younger veterans as they transition to civilian life.

There are many community-based organizations that offer counseling services and mortgage programs to help expand access to mortgage credit. One of the leading organizations providing housing counseling services is NeighborWorks America. I would like to tell you a bit about their activities and our involvement with NeighborWorks. In addition to his role as head of the OCC, Comptroller Curry is NeighborWorks's Chairman of the Board, having served on their Board for the past ten years. If he were here today, he would tell you about the incredible impact that NeighborWorks' network members have on individuals and communities.

NeighborWorks has a robust program designed to support veterans housing needs. Of the more than 245 community-based nonprofit affiliates in the NeighborWorks network, over 60 percent served veterans by providing housing, counseling, or supportive services in the past two years.

Even today as memories of the mortgage crisis fade, NeighborWorks and other community-based organizations are still helping clients get loan modifications. But increasingly, counselors are providing financial coaching to help families rebuild their credit. The "tail" effect of the economic downturn has had a particularly severe and long-lasting impact on the credit standing of households that experienced financial difficulties. Financial and budget counseling

is helping some of these households regain their economic footing and work their way back into the financial mainstream.

One of the lessons we learned is the importance of preparing future homebuyers—even those with good credit—for the financial challenge of purchasing and owning a home. As you know, when mortgage credit underwriting tightens, credit scores take on increasing importance. As a result, the counseling industry is placing greater emphasis on pre-purchase counseling services because it is essential for homebuyers to put their “financial house” in order before they begin to navigate the home purchase and mortgage process. To borrow a phrase, an ounce of preparation is worth a pound of cure.

Housing counseling and financial education are the main activities of many NeighborWorks organizations. They offer financial capability planning to help veterans develop, and work toward, long-term goals like homeownership, saving for education, or starting a business. Foreclosure counseling and loan modification assistance also help veterans keep their homes.

NeighborWorks America trains housing counselors on the unique characteristics of the VA home loan guaranty program. This training is embedded in the Lending Basics course taught at the NeighborWorks Training Institute, or in local training events, many of which are held on or near military bases. To further expand its efforts, in 2015, NeighborWorks launched an e-learning course—Housing Counseling Services for Military Members and Veterans. This training is also offered as a half-day in-person course that counts toward a professional certificate.

Over the years, many banks and thrifts have voluntarily supported the important work of housing counselors, including NeighborWorks affiliates. Another source of funding for

counseling agencies is the Department of Housing and Urban Development (HUD), which provides an online list of each state's approved housing counseling agencies at hud.gov. In addition, HUD's Office of Housing Counseling publishes an online magazine called *The Bridge*, which features articles pertaining to military servicemembers and veterans in its May and November issues. The Consumer Financial Protection Bureau, at cfpb.gov, also has an online list of organizations that provide financial coaching for veterans who are facing economic challenges, including transition from military service into civilian life.

In conclusion, the OCC strongly encourages banks and thrifts to support the needs of servicemembers and veterans. The OCC is doing its part to inform the national banks and federal thrifts we supervise about opportunities to address veterans' needs by supporting financial education, as well as providing mortgage credit and small business lending opportunities.

The men and women serving in our nation's military have sacrificed greatly for us, and we owe a debt of gratitude to every active duty servicemember and veteran. We at the OCC thank them for their service and are striving to help to repay that debt. Thank you for inviting me to join you today.