Comptroller of the Currency
Administrator of National Banks

Community Developments

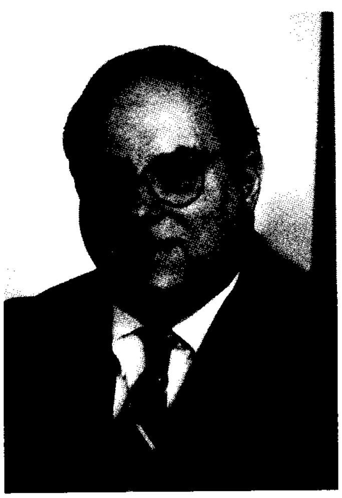
from the Community Development Division

Meet the New Comptroller of the Currency

–by Janis Smith, Press Relations Division

On December 8, 1998, John D. Hawke Jr. was sworn in as the 28th Comptroller of the Currency. For three and a half years prior to his appointment as Comptroller, he served as Under Secretary of the Treasury for Domestic Finance, where he oversaw the Treasury Department's Electronic Funds Transfer '99 project and the development of policy and legislation in the areas of financial institutions, debt management, and capital markets. As Comptroller, Hawke also sits on the boards of the Federal Depository Insurance Corporation, the Federal Financial Institutions Examination Council, and the Neighborhood Reinvestment Corporation.

Since becoming Comptroller, Hawke has hosted two outreach luncheons with representatives from the community and economic development industry to discuss such topics as the Community Reinvestment Act (CRA) and community development. Additionally, he has met with numerous community development heads to discuss the concerns of their constituents.



Comptroller Hawke

Hawke sees an important role for the OCC in encouraging national bank involvement in community development lending and investment. The OCC can do this by removing barriers, whenever

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possible, and by providing a range of technical assistance and information to banks that make it easier for them to lend and invest, in a safe and sound manner, in community development.

Hawke is also concerned about the issue of consumer access to financial services. In a speech to the Neighborhood Housing Services of New York (NHS), he indicated that he is encouraged at seeing lenders discovering opportunities in community development and the low- and moderate-income housing market to build new and profitable business relationships. As a result, government encouragement is no longer the sole force driving the community development process.

At several recent forums, the Comptroller expressed concern about the rise and negative impact of predatory lending practices on low- and moderate-income populations. He believes that sunshine is the best antidote to predatory and discriminatory lending practices. That means conspicuous disclosure of terms to potential borrowers. The lack of such information plays directly into the hands of financial predators.

Of particular concern to the Comptroller is the failure of lenders to report payment activities to credit bureaus—a practice that threatens both consumer access and the safety and soundness of banks. He told NHS that failure to report is unfair to customers, unfair to competition, and ultimately inconsistent with the values of our national economy.

Before joining Treasury, Hawke was a senior partner at the Washington, D.C. law firm of Arnold & Porter, which he first joined as an associate in 1962. At Arnold & Porter he headed the Financial Institutions practice, and from 1987 to 1995, he served as chairman of the firm. In 1975, he left the firm to serve as general counsel to the Board of Governors of the Federal Reserve System, returning to the practice in 1978. From 1970 to 1987, Hawke taught courses on federal regulation of banking at the Georgetown University Law Center. He has also taught courses on bank acquisitions and financial regulation and is currently the chairman of the Board of Advisors of the Morin Center for Banking Law Studies.

CDC Capitalization with Equity Equivalent Investments

–by Andrew W. Gordon, president of Arizona MultiBank Community Development Corporation

Arizona MultiBank Community Development Corporation (MultiBank) is a partnership among 15 Arizona banks (investing banks) and the community. An initiative of the Arizona Bankers Association, the nonprofit MultiBank is certified by the Department of Treasury as a community development financial institution (CDFI).

To capitalize MultiBank, the 15 investing banks committed $10.2 million through one of the earliest forms of an equity equivalent (eq^2) investment instrument. In the OCC's original opinion letter regarding the investment in MultiBank, the capital debt security was described as "a substitute for equity capital to capitalize the nonprofit CDC." The capital debt security provides a stable funding source during the long term, which is essential to MultiBank's capacity to build partnerships in the community and to identify new lending opportunities.

MultiBank often closes the gap between a borrower's credit needs and funding available through traditional lending sources. Innovative direct-financing products facilitate conventional lending, and leverage other private and public funds whenever possible.

Since 1993, MultiBank has provided $12.5 million to 200 projects throughout Arizona. It has provided 56 percent of its loan dollars to small businesses, 28 percent to nonprofit organizations, and 16 percent to affordable

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CDC Capitalization . . . *continued from p. 2*

housing projects. By subordinating its collateral interests in 30 percent of these projects, MultiBank leveraged another $23 million of financing from its investing banks.

MultiBank's approach to underwriting loans integrates credit-assessment discipline with decision-making flexibility. Loans range from $500 to $500,000, including: a $500 "circle of lending" loan to a home-based day care business, a $50,000 line of credit to a locally published magazine dedicated to the arts and lifeways of Native Peoples and supported by the Smithsonian Institution's National Museum of the American Indian, and a $400,000 loan to a start-up, minority-owned wire manufacturer supplying a Fortune 100 company.

A balanced portfolio mix, by loan amount, is important to the financial sustainability of MultiBank; income from larger loans helps offset the disproportionate expense of originating and administering the smaller loans. For example, although 86 percent of MultiBank's small business loans is in this $50,000-or-less category, 50 percent of the dollars provided to small business is in loans of $150,000 or more.

MultiBank's brand of lending is almost always "high-touch" in nature (i.e., requiring financing and technical assistance partners) and, through MultiBank, the investing banks collectively distribute the expense and risk associated with the earnest enterprise of addressing legitimate community credit needs in Arizona that might otherwise go unmet. MultiBank's financing products are responsive and dynamic, as dynamic as the ever-changing needs and vibrant dreams in the community.

MultiBank's investing banks include Wells Fargo/Norwest, Bank of America, Bank One, Community First National Bank, National Bank of Arizona, Arizona Bank, Johnson Bank, Harris Trust Bank, Northern Trust Bank, Pacific Century Bank, Community Bank of Arizona, Heritage Bank, Imperial Bank Arizona, Mohave State Bank, and Rocky Mountain Bank.

Arizona MultiBank was highlighted in "Guidelines for Establishing Multi-Bank Community Development Corporations," which was researched and prepared by Shorebank Advisory Services for Bank of America Community Development Banking in May 1998. Andrew W. Gordon, president of Arizona MultiBank, can be reached at (602) 594-2978 at the Arizona MultiBank Community Development Corporation, 101 North 1st Avenue, 18th Floor, Phoenix, Arizona 85003.

Report: Mortgage Foreclosure Prevention

–by Letty Shapiro, community development specialist, Community Development Division

The Family Housing Fund of Minneapolis, MN (FHF) recently published a six-year study of their Mortgage Foreclosure Prevention program (the MFP program), established in 1991. According to the report, *Mortgage Foreclosure Prevention: Program and Trends*, the MFP program has three objectives: 1) to stabilize homeowners at risk of losing their home to foreclosure; 2) to stabilize neighborhoods by preventing vacant and boarded houses; and, 3) to save public and private dollars by preventing foreclosure-related losses. The report summarizes the accomplishments of the program, offers strategies to increase homeownership rates and manage mortgage defaults, describes a variety of foreclosure prevention counseling programs, and makes recommendations for the future.

The study indicates that almost 1,700 homeowners were counseled and more than half were able to reinstate their mortgages. The intensive counseling program that was offered proved to be a cost-effective and viable way to stabilize homeowners at risk of losing their home through foreclosure. On average, it cost the MFP program $2,800 to help a

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Mortgage Foreclosure . . . *continued from p. 3*

homeowner reinstate a mortgage. This figure compares to average foreclosure losses that range between 4 and 10 times this cost. FHF credits the positive results of the MFP program to early delinquency intervention and to working closely with homeowners and servicers to explore loan workouts.

Finally, the report makes five recommendations that grew out of the study, and that can be addressed:

- The mortgage industry players need to *document* and *share* the results achieved by the implementation of loss-mitigation tools.
- *Fund* foreclosure prevention counseling programs by benefiting institutions.
- *Encourage* cooperation between mortgage loan servicers and foreclosure prevention counselors in offering their special skills and strengths to the needy borrower.
- *Start* preventing true foreclosure before a house is bought, especially for low-income and first-time homebuyers, and *include* a continuum of support and counseling services well into stable ownership.
- *Offer* careful foreclosure prevention counseling to *avoid* subprime lending for debt consolidation, which can have a negative impact on affordable-mortgage homeowners.

The report can be obtained from the Family Housing Fund, 801 Nicollet Mall, Suite 1840 Minneapolis, MN 55402. You can also learn more about the Family Housing Fund by visiting their Web site at: www.fhfund.org.

New Deputy Comptroller for Community Affairs

The OCC announced on March 29 the appointment of Jeanne K. Engel as the OCC's new deputy comptroller for Community Affairs. In this new position, Engel manages the Community Development Division, the Community Relations Division, and the Minority and Urban Affairs Division. In addition, she is responsible for the agency's contacts with national and regional community leaders and with consumer and community organizations. Comptroller John E. Hawke Jr. commented that, "The OCC is deeply committed to ensuring that banks serve the needs of their communities. Jeanne will make sure that community affairs issues continue to receive the attention of senior management at the OCC, day in and day out."

Engel sees her new role as an opportunity to expand national banks' opportunities for community development lending and investments. In addition, she will encourage her staff to reach out to all community partners to learn about changing financial needs and innovative products and programs that are working. Engel brings to the OCC almost 25 years of experience in community affairs work. Most recently she has worked as a consultant to public and private sector clients in the areas of housing finance and community development. In 1993, Engel was appointed general deputy assistant Secretary/ Deputy Commissioner for the Office of Housing/Federal Housing Administration within the U.S. Department of Housing and Urban Development. Prior to that, she was director of Policy and Program Development for the Rhode Island Housing and Mortgage Finance Corporation, and previously held positions at the Enterprise Foundation and at the Trenton Department of Planning and Development.

The Community Development Division has enthusiastically welcomed Engel on board and hopes readers will have a chance to meet and welcome her as well.

Community Developments is published four times a year by the Community Development Division of the Office of the Comptroller of the Currency. To be placed on the mailing list, send your name, organization, and mailing address by mail to Comptroller of the Currency, Community Development

OCC News

Guidance on Subprime Lending

On March 1, the OCC, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision jointly issued "Interagency Guidance on Subprime Lending," OCC Bulletin 99-11. The term "subprime lending" is defined by the four regulatory agencies as *extending credit to borrowers who exhibit characteristics indicating a significantly higher risk of default than traditional bank lending customers*. The issuance explains that risk of default can be measured by traditional credit risk measures (credit/repayment history, debt-to-income ratio levels, etc.) or by alternative measures such as credit scores. Because of the perceived higher risk, the guidance notes, subprime loans command higher interest rates and loan fees than those offered to standard risk borrowers. The document acknowledges that with careful management and pricing, these loans can be profitable. In addition, the ability to securitize and sell subprime portfolios at a profit, while retaining the servicing rights, has made subprime lending attractive to a growing number of institutions, and further increased the number of subprime lenders and loans. This expanded interest in subprime lending has raised supervisory attention and resulted in the issuing of this guidance.

In addition, the OCC has published its own guidance on the topic: *Risks and Rewards*, OCC Bulletin 99-15, dated April 5, 1999. This publication urges national banks to engage cautiously in this type of lending and to establish safeguards to ensure prudent management of the risks. A copy of both documents can be read or downloaded from the OCC Web site at: http://www.occ.treas.gov/bullst99.htm.

Expanding Access to Credit

On March 19, Comptroller John D. Hawke Jr. said that while great progress has been made in expanding access to credit, more needs to be accomplished. In a speech to the National Community Reinvestment Coalition, the Comptroller stressed the need for expanding consumer credit and community investment.

He said, "Information and education are critical to correcting weaknesses in access to traditional payments systems – just as they were critical in our previous efforts in the consumer credit and community reinvestment arenas." He continued, "Educating the currently unbanked about the advantages of dealing with financial institutions – and the responsibilities that come with it – can help overcome the prejudice and misconceptions that have been major barriers to their participation in the past." To read the complete speech, visit the OCC Web site at: http://www.occ.treas.gov/ftp/release/99-25a.txt.

Notice of Proposed Rule

The Part 24 notice of proposed rulemaking, "Community Development Corporations, Community Development Projects, and Other Public Welfare Investments," was published June 10, 1999, in the *Federal Register* at 64 FR 31160. Comments are due by August 9. *See* http://www.occ.treas.gov/ftp/release/99-54a.txt.

Capitol Views

SBA Plans to Target Lower-Income Areas

In March, the Small Business Administration (SBA) announced a pilot program that is aimed at increasing lending in low- and moderate-income communities. Under the program, called *Community Express*, eight banks are being permitted to use streamlined procedures to make loans to small businesses in certain lower income neighborhoods. The maximum amount of the loans is $250,000.

The SBA, which usually guarantees 50 percent of the loans under other express-lending programs, will guarantee 75 percent to 80 percent of the loans under the five-year pilot program. The banks participating in the program will also fund technical assistance for each borrower in the program. Commenting on the program, Malcolm Bush, president of the nonprofit Woodstock Institute in Chicago, indicated that *Community Express* should help target underserved communities, strengthen fledgling businesses, and make it more likely that borrowers will repay the loans.

The eight banking companies involved in the program are BankAmerica Corporation, Bank One Corporation, BankBoston Corporation, Chase Manhattan Corporation, European American Bank, Mellon Bank Corporation, Wachovia Corporation, and Wells Fargo & Company. Each of the banking companies will choose several metropolitan areas in which to operate and will have exclusive lending rights to those areas. In addition, the banks will form relationships with nonprofit organizations in the metropolitan areas.

For additional information, contact Charles Thomas at the SBA at (202) 205-6490.

Treasury Issues Report on Capital Access Programs

The U.S. Treasury Department recently issued a report on state-run Capital Access Programs (CAPs), which have been operating in states for more than 12 years. The CAPs encourage small-business lending in a cost-effective and relatively risk-free way. In forming a CAP, the state or local municipality establishes a reserve fund, which is held at the originating banks. The bank and the borrower pay an up-front insurance premium of between 3 percent and 7 percent of the loan amount, and the state matches the combined bank and borrower contributions into the same reserve fund. The reserve fund allows the lending bank to make higher risk loans than conventional underwriting because it has the CAP reserve fund for its entire pool of CAP loans.

The banks use their own credit underwriting standards, without governmental approval of the loan-making decision. CAPs require little administrative costs for all involved and almost all small businesses are eligible for the CAP. The state's up-front payment can be leveraged from 10 to 30 times the amount of the combined contributions.

Twenty states and two municipalities currently operate CAPs. Total lending since 1986 is approximately $1 billion, with the average loan size of $58,000. CAPs have been effective in reaching minority-owned small businesses and low- and moderate-income communities. CAPs also create and retain a significant number of jobs, and can be used to fund start-up businesses and working capital. For additional information, contact Clifton Kellogg at the U.S. Treasury at (202) 622-0016.

We'd like to hear from you!

We are updating our *Community Developments* mailing list. We can only do this with your help. If the name on the mailing label is incorrect, or if you receive a newsletter copy for someone who is no longer a member of your organization, please let us know by returning the label with the incorrect information crossed out and any updated information inked in. Please include your phone number in case we have any questions. Mail it to: OCC, Communications Division, Attn: Felicia Belton, 3-1, Washington, DC 20219. Or fax it to: 202-874-5263, Attn: Felicia Belton.

SBIC Granted Additional Authority

One of the first pieces of legislation passed by the House of Representatives this year was H.R. 68, the Small Business Investment Company Technical Corrections Act. It was signed into public law on April 5 (PL106-9). The legislation is designed to improve Small Business Investment Companys' (SBIC) ability to provide equity investments, long term loans, and hybrid loan packages that give small businesses more financing options.

SBICs, the venture capital arm of the SBA, have loaned more than $13 billion to more than 77,000 small businesses across the nation. They have helped grow small businesses, such as Staples, Inc. and Outback Steakhouse, Inc., into big companies. The legislation helps SBICs offer small businesses increased opportunities to expand their companies, and will provide more flexibility for the small businesses applying for funds.

For further information on H.R. 68, contact Don Christensen, Investment Division of SBA, at (202) 205-6510.

National Housing Trust Establishes Predevelopment Revolving Loan Fund

The National Housing Trust (NHT) has established a $2.25 million predevelopment revolving loan fund to provide up to $150,000 towards redevelopment costs, to help preserve affordable multifamily housing. The fund is being sponsored by three NHT partners, the Ford Foundation, Bank of America, and the Fannie Mae Foundation.

Eligible properties include Section 236, Section 515, and properties that receive Section 8 or other federal subsidies. The maximum loan term is 30 months, with quarterly payments of interest only. The rate on the loans is 6 percent. All outstanding principal and interest must be paid at the point of permanent financing or termination of the project, whichever occurs first. The 1 percent origination fee can be funded from loan proceeds.

Eligible borrowers are Section 501(c)(3) IRS designated nonprofits, limited partnerships with a nonprofit serving as managing general partner, or limited partnerships with co-general partners that are nonprofits or wholly owned and controlled subsidiaries of nonprofits. Loans will be unsecured, but the borrowers must guarantee the loans and have a demonstrated ability to repay from other organizational assets.

For information contact Michael Bodaken at (202) 333-8931.

National American Housing Council Creates Education Program for Indian Housing Leaders

Indian country is in the midst of an incredible change from federally run housing to tribal run housing. In response to this change, the National American Indian Housing Council (NAIHC) has begun a new educational program for Indian housing leaders, called the NAIHC Leadership Institute. The institute will provide professional certification in management and other new areas. These certification programs are funded under the Native American Housing Assistance and Self-Determination Act.

The institute offers four tracks of study, which lead to professional certification in a specific area of Indian housing management. Participants who complete all of these tracks may be certified as professional Indian housing managers. The four tracks are housing management services, administration and planning, development and modernization, and model activities. In the model activities program, the emphasis is on skills that will expand mortgage lending in Indian country. The courses included in the program are low-income housing tax credit financing, tax-exempt bond financing, and homebuyer

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education. NAIHC staff and consultants will offer training in Indian housing management, including courses on how to manage financial resources, personnel, and every aspect of operating the tribal housing department or tribally designated housing entity. For information contact Tom Yellow Wolf, NAIHC at (800) 588-7603.

To obtain a list of available OCC publications, send a written request, to: Comptroller of the Currency, PO Box 70004, Chicago, IL 60673-0004. The list is also available on the OCC's Information Line at (202) 479-0141. Many OCC publications, including advisory letters, are available on the OCC's Web site at: http://www.occ.treas.gov.

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