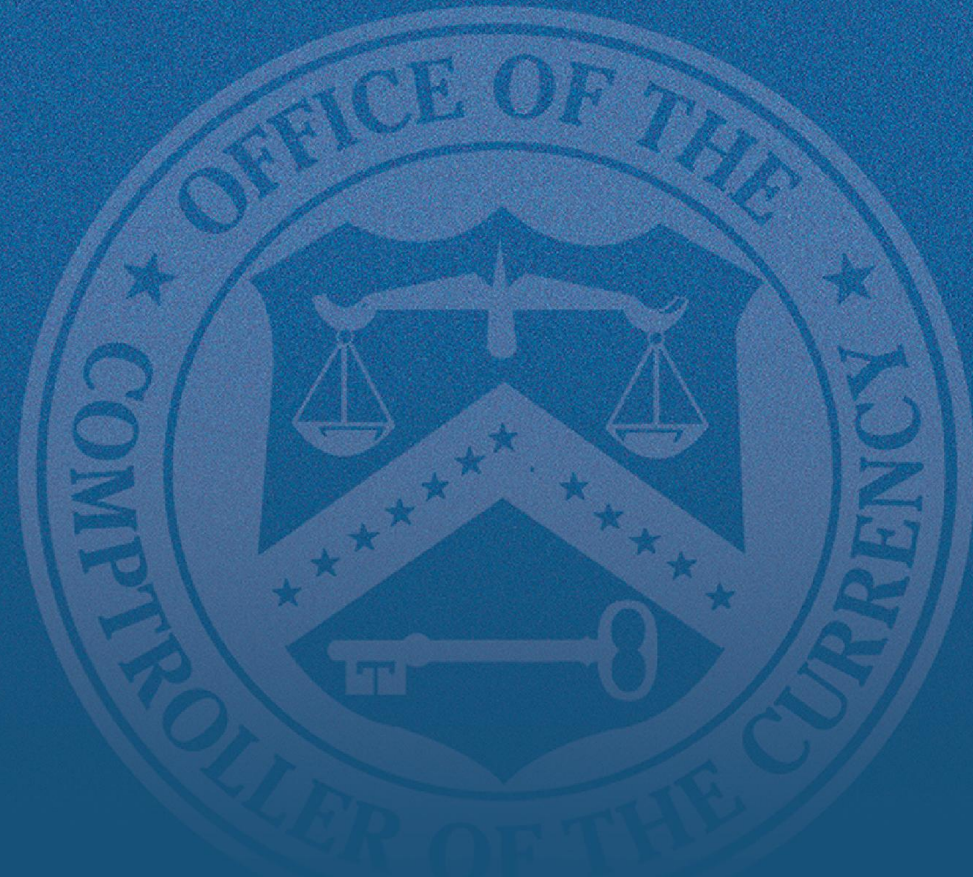


Rebuilding Homeownership: Lending in Financially Underserved Communities



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Office of the Comptroller of the Currency

- The OCC charters, regulates, and supervises all national banks and federal savings associations as well as federal branches and agencies of foreign banks.
- Mission—To ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

Financing Properties in Distressed Communities

- Lending products for purchase and/or rehabilitation
 - Home equity and construction/rehabilitation lending by financial institutions
 - Federal Housing Administration Section 203(k)
 - Fannie Mae HomeStyle Renovation
 - Freddie Mac Construction Conversion and Renovation
- Challenges and barriers
 - Low financing activity
 - Lack of comparable sale valuations
 - Cost to renovate structure exceeds market value
 - Distressed sales, including short sales and foreclosures, often negatively affect community home values

Supervisory Loan-to-Value Limits for Residential Loans

- SLTV guidance
 - Requires appropriate credit enhancement for mortgages above 90% LTV
 - Permits loans above SLTV on exception basis

OCC Proposed Guidance on Higher Loan-to-Value (HLTV) Lending in Communities Targeted for Revitalization

- OCC proposed risk management guidance
- Will allow banks to establish programs to originate HLTV loans above 100% LTV

Objective: Stabilize home ownership and home values by encouraging financing and rehabilitation of abandoned or distressed housing stock

Higher LTV Lending Program Criteria

1. Loan must meet eligible loan standards
2. Property must be located in eligible community targeted for revitalization
3. Bank must have Board-approved program
 - Approval by Board includes by appropriately designated committee, e.g. Credit Risk Committee
4. Bank must give prior notice to the OCC and receive approval to go forward with program

Higher LTV Lending Program Criteria: Eligible Loans

- May have LTV of 100 percent or more without mortgage insurance or other collateral
- Permanent first-lien mortgage for:
 - purchase
 - purchase/rehabilitation, which includes:
 - purchase of property, plus projected rehabilitation costs
 - amount of purchase consummated no more than 6 months before date of bank's loan commitment, plus projected rehabilitation costs
 - Not available for home equity loans, lines of credit, or refinancing
- Owner-occupied property
- Original loan balance of \$200,000 or less

Higher LTV Lending Program: Eligible Community

- Area must be targeted for revitalization
 - by a federal, state, or municipal governmental entity or agency, or
 - by a government-designated entity such as a land bank
- Banks will need to:
 - Define geography of eligible community
 - Maintain documentation indicating community is targeted for revitalization by a government entity or agency
 - Provide the specific revitalization criteria used by the government entity or agency
 - Describe how bank program will support revitalization efforts
 - Describe the type of financing and other support, if any, that governmental entity or agency provides to the community

Higher LTV Lending – Bank Program Requirements:

- Consumer protections—
 - Bank must provide notice to inform borrower of:
 - Market value of property is less than loan amount at origination
 - Likelihood market value less than original loan amount after rehabilitation
 - Possibility market value will remain less for loan duration
 - Potential financial implications if borrower seeks to sell
 - Incentives, if applicable, that may be available to borrower

Higher LTV Lending – Bank Program Requirements:

- Risk management requirements and limitations:
 - Describe:
 - Loan characteristics—e.g. loan structure, credit terms, interest rate and fees, and maximum loan
 - Underwriting standards and approval processes
 - Real estate appraisal and evaluation criteria
 - Credit administration requirements, including detailed guidelines for rehabilitation phase (contracts, disbursements, inspections, project management)
 - Limit amount of financial commitment and duration of program
 - Limit aggregate level of loans to no more than 10 percent of tier one capital
 - Comply with applicable laws and regulations
 - Monitoring and internal reporting to assess performance, impact, trends, and success of program

OCC Annual Evaluation of Banks' Programs

- Extent to which banks' programs contributed to revitalization efforts in eligible communities. OCC's evaluation will consider:
 - Effect on housing market and other economic indicators in targeted communities
 - Whether programs adequately control various risks
 - General performance of higher loan-to-value loans
- May take multiple years before revitalization efforts produce material changes in eligible communities

Community-based Partnerships to Support Higher LTV loan programs

- Conduct pre-purchase and program-specific borrower counseling
- Provide down payment or other financial support
- Refer homeowners to responsible, pre-vetted rehab specialists
- Help homeowners manage rehabilitation phase
- Purchase/rehabilitate properties for sale

Community Reinvestment Act (CRA) Consideration for Activities Related to HLTV Lending Programs

- Community development includes loans to:
 - LMI borrowers for affordable housing rehabilitation and construction
 - Financial intermediaries:
 - Community Development Financial Institutions or Community Development Corporations, community loan funds or pools
 - that primarily lend to promote community development, including affordable housing for LMI
- Community development includes grants or investments in:
 - Organizations engaged in affordable housing rehabilitation and construction
 - Financial intermediaries, such as Community Development Financial Institutions or Community Development Corporations, community loan funds in order to promote community development
 - Not-for-profit organizations that provide counseling on credit, homeownership, home maintenance

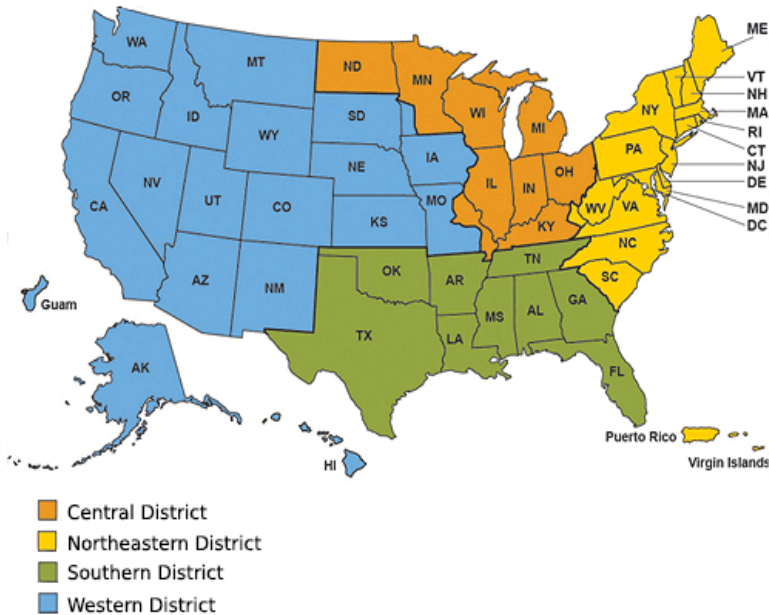
Community Reinvestment Act Consideration for Activities Related to HLTV Lending Programs

- Higher LTV lending program may revitalize or stabilize low- or moderate-income (LMI) areas
 - Activity helps to attract new or retain existing residents
 - Presumption that lending activity revitalizes or stabilizes LMI area if activity is consistent with Federal, state, or local government plan for the area

Community Reinvestment Act Consideration for Activities Related to HLTV Lending Programs

- Community development performance criteria
 - Higher LTV lending may be responsive in helping to meet credit needs in community, particularly if there is a financial education component [CRA Q&A § __.22\(a\)–1](#)
 - Innovative and flexible lending practices
 - Lending test applicable to large institutions evaluates innovativeness or flexibility of lending practices and the complexity and innovativeness of community development lending
 - Extent to which innovative or flexible terms or products augment success and effectiveness of community development loan programs or address credit needs of LMI individuals or areas

OCC District Community Affairs Officers



OCC District Community Affairs Officers are located across the country

- Outreach activities
- Assist with connections to form HLTV program-related partnerships
- Discuss CRA consideration for banks' HLTV programs and related activities