



February 22, 2016

Stuart E. Feldstein  
Legislative and Regulatory Activities Division  
Office of the Comptroller of the Currency  
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**RE: Risk Management Guidance for Higher Loan-to-Value Lending in  
Communities Targeted for Revitalization**

Dear Mr. Feldstein:

On behalf of many of the participants in the Detroit Home Mortgage (DHM) program, we appreciate the opportunity to share our views on the proposed guidance regarding higher loan-to-value mortgage lending in communities targeted for revitalization as published in the *Federal Register* on December 24, 2015. The participants represented in this letter include the following:

- Community Reinvestment Fund, USA
- The Huntington National Bank
- Flagstar Bank
- FirstMerit Bank, National Association
- Talmer Bank and Trust
- The Kresge Foundation



## DETROIT HOME MORTGAGE

The DHM participants wish to thank the Comptroller of the Currency and Agency staff for their efforts to foster responsible, prudent lending by national banks that can restore market forces in communities struggling with blight and high vacancies. This new guidance enables national banks to address the serious mismatch in some economically distressed communities and some of our largest cities between the cost of acquiring and / or rehabilitating a home and the appraised value of that home based on existing and comparable sales. This impacts the price at which that home can be sold in the marketplace, and is able to be addressed with innovative but appropriate mortgage products specifically designed for new (and existing) homeowners in neighborhoods hard hit by the financial crisis. We commend the Comptroller for this new guidance as it creates a path for depository institutions to finance the type of homeownership that will ultimately stabilize and revitalize places suffering from significant disinvestment.

### **BACKGROUND**

In collaboration with Community Reinvestment Fund, a national Community Development Financial Institution (CDFI) and a leader in channeling resources from the capital markets to support community economic development and helping mission-driven organizations improve efficiency and build capacity, the Kresge Foundation, and the Michigan State Housing Development Authority (MSHDA), five Detroit banks have agreed offer a standard mortgage product, the “Detroit Home Mortgage” that will be offered exclusively within the city of Detroit.

Detroit’s housing market is challenged in a variety of ways. Disinvestment in the Detroit residential market has resulted in a massive number of vacant homes, many with substantial rehabilitation required before they can be occupied. The decrease in Detroit’s population, which has fallen twice as much as the number of housing units in the city, has led to an abundance of available housing. Home prices are at historically low levels in many neighborhoods; however, many of these homes require extensive rehabilitation, yet property values are suppressed not allowing borrowers to obtain the financing they need in order to purchase the home and make



the necessary improvements.

Related to Detroit's housing stock challenges, potential homeowners face the daunting challenge of qualifying for appropriate financing. Currently, the biggest contributor to Detroit's blight is the inability for qualified borrowers to get mortgages, as appraised values cannot support purchase plus rehabilitation in the normal course of residential mortgage finance. As noted<sup>1</sup> by Mayor Duggan, "The single biggest problem to restoring blight is that we can't get mortgages." According to recent reports including the data reported in 2013 and 2014 by institutions under the Home Mortgage Disclosure Act (HMDA), borrowers in Detroit requesting mortgages are twice as likely to be denied due to a collateral shortfall as they are for poor credit. This is due to the high loan-to-value ratios caused by homes with low appraised values and high rehabilitation costs. In these reports and data, denial rates for home improvement loans in Detroit were noted to be very high, with nearly 80 percent of applications for FHA-backed home improvement loans denied in 2013. In 2014, 88 percent of the homes purchased in Detroit were acquired for cash and a mere 12 percent were financed with a mortgage. These statistics demonstrate that the Detroit housing market is currently dominated by those who have the liquidity to purchase a home with cash, denying a large segment of the population homeownership opportunities, further exacerbating Detroit's housing challenges.

The Detroit Home Mortgage (DHM) program looks to address this. It is a three-year program to provide \$40 million in second mortgages to fund necessary repair and rehab activities for 1,000 homebuyers in Detroit. To operate at this scale, nearly twenty local, regional and national partners are involved. Of these partners, the banks include: Flagstar Bank, Talmer Bank and Trust, Huntington National Bank, FirstMerit Bank, and Liberty Bank and Trust, all of which will originate conventional first mortgages up to 96.5% loan-to-value consistent with FHA guidelines, and originate second mortgages for the difference between the appraised value and the

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<sup>1</sup> <http://www.crainsdetroit.com/article/20140918/NEWS/140919680/we-cant-get-mortgages-duggan-asks-expats-to-help-solve-detroit>



costs of rehabilitating homes to livable standards.

In order to ensure that homebuyers understand the potential complexities of a higher loan-to-value mortgage as well as the process of renovating a home, a borrower education component has been created for the program that will be provided in addition to standard HUD approved homebuyer education and related counseling programs. The educational programming has been further tailored, with each homebuyer receiving mandatory education for the higher loan-to-value aspect of DHM. Currently, six non-profit counseling agencies have committed to providing borrower education services for DHM, including: Southwest Solutions Housing Corporation, U-SNAP-BAC Non-Profit Housing Corporation, Central Detroit Christian Community Development Corporation, Wayne Metropolitan Community Action Agency, the Family Tree Agency, and National Faith Homebuyers.

### **COMMENTS AND RECOMMENDATIONS**

Our commitment to addressing the financing needs of low-income or underserved people and communities informs our interest in this new guidance proposed by the Office of the Comptroller of the Currency (the OCC or Agency). The preamble accurately describes the challenges facing distressed communities and reflects the situation in many cities around the country such as Detroit. At the same time, the Agency understands the constraints banks face when trying to extend credit in markets where the appraised values of homes remain far below the cost of purchasing and / or rehabilitating a new or existing home.

The DHM participants strongly support the OCC's efforts to address the challenges of mortgage lending in these distressed communities significantly affected by the financial crisis and the decline in housing values. Home values in these communities continue to lag making it nearly impossible to finance home purchase and / or repairs and upgrades to residential properties with conventional mortgage products. The guidance proposed by the OCC will enable banks to offer innovative mortgage financing for purchasing and /or rehabilitating, one- to four-unit residential



properties where the loan amount may exceed supervisory loan-to-value (SLTV) limits. It is in the context of our strong support for this proposal that we wish to offer specific comments and seek clarification on several aspects of the new guidance.

- 1. Oversight and Monitoring.** The DHM participants support the Agency's approach to oversight and monitoring of the policies and procedures banks must adopt and implement in order to offer mortgage products for purchase and / or rehabilitation that exceed supervisory loan-to-value limits. It is important that these credit products be both responsible and appropriate for the borrowers or customers who receive them. For these products to be effective in revitalizing targeted communities they must be safe and produce the intended outcomes. Assessing whether these programs are in fact contributing to revitalization efforts while simultaneously ensuring that banks are effectively managing their risks are the two key elements required for success. We commend the OCC for recognizing both elements are essential and must be carefully balanced.
- 2. Confirmation of Second Liens.** One area where clarification would be helpful relates to the role of second lien loans. We would strongly encourage the Agency to include clarification in *Section A. Eligible Loan* indicating that second liens (and/or combined first and second liens) would be acceptable or covered as a part of this guidance. As currently written, this section is silent on the lien position of the mortgage loans being originated while specifically excluding home equity loans, lines of credit, or refinancing loans. This language may be interpreted by some as making *all* second lien loans ineligible under the proposed guidance for higher loan-to-value lending in targeted communities limiting creative mortgage products that make use of a first and second lien loan structure. We encourage the Agency to consider simply adding language clarifying that second lien loans designed to help close the "appraisal gap" between the cost of acquiring and / or rehabilitating a home resulting from depressed home values and the appraised value are eligible under this new guidance.



3. **Confirmation of Eligible Maximum Loan Amount.** With respect to the stipulation that an eligible loan must have an original loan balance of \$200,000 or less in *Section A. Eligible Loan* (and elsewhere), we urge the Agency to consider increasing the amount of an “*eligible loan*” to be consistent with FHA guidelines on maximum loan amounts (which are calculated at the county level nationwide) to accommodate homeowners who choose to make substantial renovations to a home or make larger investments in already renovated homes located in eligible communities. Moreover, in the case where a mortgage product consists of a combined first / second lien loan and a borrower is seeking to acquire an historic property, it may be difficult for the loan balance to remain at or below the \$200,000 limit. Therefore, we suggest that the guidance clarify that eligible loans include the combined first and second line loan with a total principal balance equal to or less than the FHA maximum loan amount.
4. **Compatibility with Distressed Property Purchases, and Support for Existing Homeowners.** In addition, we respectfully request a clarification in *Section A. Eligible Loan* that mortgage products should include not only those used to purchase, or purchase and rehabilitate a new home as described, but also include mortgages used for rehabilitating properties currently owned by a homeowner (and which may involve refinancing). In our experience, we find that including existing homeowners is necessary to ensure compatibility with other programs in the local housing market. For example, a homeowner might purchase a property from a land bank or at auction, often for a *de minimis* amount, with the intent to rehabilitate it using financing available through another program (such as the DHM program) for which they may already be prequalified. In addition, we believe it would be beneficial to support existing homeowners who have been unable to finance deferred maintenance of their property necessary for safety and livability (e.g. roof repairs, etc.), due to depressed real estate values. In some cases, an eligible loan may be used to refinance an existing loan and, in addition, the new loan may finance rehabilitation costs. However, we do not believe refinancing should be permitted without a rehabilitation component.



5. **OCC Supervisory Considerations.** *Section B Overall Evaluation of Program* requires the Agency to evaluate overall impact of banks' programs in communities targeted for revitalization. Although we appreciate the need for and value of evaluating the overall impact of these lending programs on an annual basis, we would encourage the OCC to clarify what examiners will be looking for in terms of "*the effect such lending has had on the housing market and other economic indicators in...*" these communities. As organizations engaged in community revitalization and economic development, the DHM participants know that making demonstrable progress in communities suffering severe dislocation requires time. While examiners may see small improvements in the local housing market from one year to the next, it is far more likely that measurable change will take several years at the very least. We encourage Agency examiners to set realistic and appropriate expectations for progress when evaluating the performance and/or the benefits of innovative residential mortgage and rehabilitation financing products, especially in the early years of these programs.

### CONCLUSION

In closing, we wish to thank the OCC for their effort to provide banks with supervisory guidance that allows them to develop creative financing solutions to normalize distressed housing markets in communities battered by foreclosures and the fallout from the financial crisis. Implementation of this proposed guidance is a critical first step in enabling banks and community-based organizations to work together to restore market forces in struggling neighborhoods across the country. It is our hope that your colleagues at the Federal Reserve and the Federal Deposit Insurance Corporation will adopt similar guidance for the depository institutions they supervise.

We are grateful for the opportunity to share our views and recommendations as to how this guidance may be strengthened. Please do not hesitate to contact any of the respondents with any questions regarding comments included in this letter.



## DETROIT HOME MORTGAGE

Sincerely,

Frank Altman  
President and CEO  
Community Reinvestment Fund, USA

on behalf of the Detroit Mortgage Fund, and the following participants:

The Huntington National Bank  
Flagstar Bank, FSB  
FirstMerit Bank, National Association  
Talmer Bank and Trust  
The Kresge Foundation

cc: Barry Wides