



# **OCC Guidance on Higher Loan to Value Lending in Communities Targeted for Revitalization**

**Housing Works Conference  
Raleigh, NC  
October 25, 2017**



## **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 through financing and rehabilitation of abandoned or distressed housing stock
- **Challenges:**
  - Valuation of collateral in distressed communities
  - Finding comparable property sales is challenging in communities with minimal sales activities
  - Distressed sales, including short sales and foreclosures, often negatively affect home values in communities
  - Difficulty securing adequate financing for older or distressed properties to cover renovation costs required to make the properties habitable
  - Supervisory Loan-to-Value limit potentially inhibits lending

# 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 appropriate designee
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
    - Does not apply to 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

# Higher LTV Lending – Bank Program Requirements:

- Define geography of eligible community
- Describe how bank program will support revitalization efforts
- Notice to clearly inform borrower that:
  - Market value of property is less than loan amount at origination
  - Market value of property likely will be less than the original loan amount even after rehabilitation
  - Market value may remain less for loan duration
  - There may be 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

## Notice to OCC

- Notify OCC supervisory office in writing at least 30 days before program begins or to make any substantive changes to program, such as:
  - Addition of new eligible community
  - Increase in financial commitment or duration of program
  - Material changes to program loan characteristics or underwriting standards

## 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

## Other Revitalization Efforts

- The OCC encourages banks to continue to develop responsible, innovative lending strategies intended to meet the credit needs of individual borrowers to support revitalization efforts in their communities.
- The OCC will consider other bank efforts to support revitalization in distressed communities that fall outside of the scope of this bulletin, as long as such efforts are consistent with safe and sound lending practices, promote fair access to credit and fair treatment of borrowers, and comply with all applicable laws.

## **Partner with bank HLTV programs**

- Assist in the origination and underwriting of eligible loan applicants
- Conduct pre-purchase and program-specific borrower counseling
- Provide downpayment or other financial support

## **Community Revitalization Support**

- Undertake home purchase and/or rehabilitation of home
- Refer homeowners to responsible, pre-vetted rehab specialists
- Assist homeowners in managing rehabilitation phase