



Office of Thrift Supervision
Department of the Treasury
Street, Washington, D.C. 20506

Director

RESCINDED

May 7, 1993

Any attachments to this document are rescinded only as they relate to national banks and federal savings associations.

TO THE CHIEF EXECUTIVE OFFICERS OF SAVINGS ASSOCIATIONS:

These are dynamic times for the financial services industry. Competition for investment, for certain types of lending, and for savings is fierce. The thrift industry, having emerged from the recent traumatic period in strong financial condition, now faces new challenges, as well as new opportunities.

A major challenge and opportunity involves making affordable housing credit available to meet the needs of low and moderate income individuals. This is a national challenge, and I believe the thrift industry is in a good position to fill this need.

The thrift industry has the unique skills and experience to provide credit for the housing needs of low and moderate income individuals. Some of you already have seized the initiative and have found that providing affordable housing financing is a viable business.

While there is a substantial legal obligation under your community investment responsibility to take an active role in affordable housing, I prefer to focus in terms of new business opportunities. In my view, government and the thrift industry can work together to help meet this pressing need in your communities and in our nation, while maintaining the safety and soundness of the thrift industry.

Over the past several months, staff at OTS have held extensive discussions with a variety of groups and organizations with an interest in affordable housing. We have also undertaken a review of our internal processes and practices. We have become aware of successes already achieved by thrifts and other financial organizations in providing such financing. We also recognize the existence of various regulatory and other barriers that work to impede your ability to provide such credit. Out of these deliberations have emerged initiatives for OTS that we plan to carry out over the next six months. Let me describe our agenda briefly.

- o Review of risk and returns -- Drawing from the experience of thrifts, banks, and others, we will review the risk profile and profitability of affordable housing lending over the past several years, and identify particular techniques or characteristics that have been associated with successful programs. Our review will assist agency staff in understanding and evaluating affordable housing lending, and in making informed and intelligent regulatory decisions with regard to such lending.
- o Examiner training -- We will develop a specialized program for safety and soundness examiners to help them more effectively evaluate and understand affordable housing lending.
- o Regulatory barriers -- We will continue working with an interagency affordable housing task force that is, among other projects, examining regulatory and other barriers to affordable housing lending. We also will consider what measures we can make, consistent with safety and soundness, to encourage affordable housing lending.
- o Affordable housing lending performance -- We will explore methods to better understand the affordable housing lending performance of the thrift industry using HMDA data and other tools. We also are reviewing methods to recognize outstanding performance.
- o CRA examination -- OTS is committed to improving the CRA examination process and exploring how it can be made more objective and focused on lending performance. Documentation cost and burden that hinder the delivery of credit to underserved communities is in no one's interest; the CRA examination process must evaluate the record of actual lending and provision of credit. We will actively support efforts directed toward that goal.
- o Consultation with Community Groups and Industry -- We will meet with industry and community groups to solicit ideas and input on our initiatives. We are very much interested in suggestions and reactions from all who have an interest in this important issue.

I urge you to comment on our initiatives and on ways to improve the performance of the thrift industry in this area. In the months ahead, we look forward to working with you to make the system work better and to pursue the goal of effectively extending financing for affordable housing in communities all over America. We will be attempting to do our part. We will expect that you will do the same. Together, I believe we can succeed.

Sincerely,

Jonathan L. Flechter
Jonathan L. Flechter
Acting Director