

The attached remarks were delivered by Comptroller of the Currency Eugene A. Ludwig yesterday at the Fourth National Urban Economic Summit of the Organization for a New Equality. Mr. Ludwig received O.N.E.'s Pioneer Award for excellence in the public service.

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Remarks by
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Comptroller of the Currency

Before the
Organization for a New Equality's 4th
National Urban Economic Summit
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Good afternoon, and thank you for asking me to help open the 4th National Urban Economic Summit. Reverend Stith, you've once again put together a program that is focused on the most pressing issues facing our nation's cities today. This summit is a tribute to the leadership of the Organization for a New Equality and O.N.E.'s mission of bringing people together to tackle the tough problems.

And I'm particularly honored to join you on Martin Luther King's birthday to both celebrate the life of this great man and to address the issue of community revitalization and development. Martin Luther King rightly understood that at the core of building a better life in our country was the task of bringing economic opportunity to low- and moderate-income Americans in our cities, towns and rural communities.

Clearly, but sadly, community revitalization and development is one of Martin Luther King's unfinished works -- an unfinished work for all of us. It is just plain wrong when American neighborhoods are ravaged by hunger, homelessness and hopelessness because they lack economic opportunity. It is just plain wrong when an American citizen is denied the chance to realize their potential and achieve a better life. And it is just plain wrong when -- in one of the richest nations on earth -- any child must go without the love, nutrition, security and education that they so desperately need to survive and succeed.

So I applaud this organization that is working tirelessly to right wrongs, to gain a new equality for your fellow citizens, and to rebuild and revitalize communities across this country. You are following in the footsteps of the man we celebrate today, continuing his work and striving to achieve his hopes for this great nation. As we all know, there are many parts to the puzzle that must be solved to right these wrongs and provide economic opportunity to all our citizens. I am here today to talk about the one piece of that puzzle that I know best -- credit and banking services. This afternoon, I'd like to focus on a historical process in American banking and

finance that I have talked about for several years: the democratization of credit.

I want to focus on this process for two reasons. First, I believe that the credit democratization process has brought the American people -- including, importantly, low- and moderate-income citizens -- vastly enhanced opportunities. Second, I believe it is essential that we all work hard and in harmony to ensure that this process continues. Martin Luther King's dream of equal opportunity for all Americans is dependent upon the continuous democratization of credit. We must maintain the march toward a truly open banking and credit system that is inclusive -- inclusive for all of this nation's citizens and neighborhoods.

While much remains to be done, the nation has made significant strides, and today, American families and businesses enjoy access to credit and financial services that earlier Americans could never have imagined. Just consider this -- if the credit terms of 1776 still applied in today's Washington, only a handful of people would qualify for a bank loan. Even 125 years ago, well after the birth of this nation -- and approaching the dawn of the 20th century -- it was still anathema for national banks to make home mortgage loans.

Some found ways to circumvent restrictions of the time, but the vast majority of home and agricultural loans were obtained privately -- if they could be obtained at all. Loan sharks and pawnshops were the main source of consumer credit, often on extortionate terms. Before World War I, and even for a number of years thereafter, consumer lending was viewed as disreputable, and those who sought such loans were frequently seen similarly. But that was before the American consumers proved their creditworthiness, particularly during the lean years of this century -- before economists, bankers and policy makers discovered the importance of the consumer in fueling economic growth. Bankers learned that it was good business -- as well as good public policy -- to expand their portfolios of consumer loans. And to the surprise of most bankers of the time, consumer installment loans outperformed business loans during the Great Depression, providing an unexpected saving grace for many. Interesting, isn't it, that a market that banks deemed risky and considered untouchable proved -- not only to be profitable -- but became their market of the future.

In the wake of the Depression and World War II, consumers saw other innovations that expanded credit's reach. A federally-initiated secondary market for housing loans not only increased the quality of housing in the country and provided a boon to the construction industry, but it also helped banks obtain greater retail experience and encouraged them to expand their offerings of other consumer products. And as consumer lending has become more competitive, innovation in this area has accelerated and loan pricing has also become more competitive.

One of the greatest leaps forward in the democratization of credit was something we all take for granted today -- but was revolutionary at the time -- the auto loan. When our grandparents started to drive, very few institutions would lend them the funds to purchase a car. But between 1930 and 1940, auto loans outstanding for U.S. commercial banks would increase from \$40 million to over \$600 million.

The growth of credit cards, which enabled consumers to gain revolving credit without collateral, is equally staggering. In 1954, for example, only 41 banks in the country offered their customers charge cards and less than 500,000 consumers used this product. Thirty years later, over half of all families in the United States -- 42 million households -- would have at least one credit card account, 3,000 institutions would offer them, and over two million merchants worldwide would accept them. Other revolutionary ways of extending credit efficiently and at lower cost followed, quickly becoming mainstream bank products, and today, the borrowing public's menu of credit options include products such as adjusted-rate mortgages; balloons; and home equity loans.

This democratization of credit -- truly dramatic when considered as an historic trend -- did not happen all at once; it has been a series of advances and innovations made possible because someone or some company had the courage to push the bounds of conventional wisdom and find new ways to reach new borrowers ... economic opportunity extended because someone or some company had the vision and the determination to set out in search of profitable opportunities where others had either failed or feared to tread.

But why the history lesson? Because you are a very important part of that historic trend. In recent years -- again, because dedicated individuals, businesses and organizations like O.N.E. have provided the leadership -- the democratization of credit has continued -- this time in service of those low- and moderate-income families, those entrepreneurs and those neighborhoods that have been under served by the country's financial services providers. Just consider what, together, we have seen accomplished in the past few years.

Perhaps the most dramatic evidence of the progress we've witnessed is reflected in the most recent HMDA data. The numbers demonstrate an industry -- and a country -- rising to the challenge of expanding access to credit. Between 1993 and 1994 alone, the last year for which we have data, there was a 27 percent increase in conventional home purchase loans to low-income households. Loans to African-American families rose 55 percent, and mortgages made to Hispanic-American families made a 42 percent jump. That's significant, particularly at a time when the market as a whole was growing at about 18 percent.

In addition, national bank investment in community development corporations and CDC projects has quadrupled since I began my

term as Comptroller nearly three years ago. That's remarkable -- a four-fold increase in less than four years. Last year alone, national banks made more than \$400 million in community development corporation investments -- investments that will leverage over \$1 billion in additional private and public resources.

And, within the last year, for the first time in the Office of the Comptroller's history, we've issued charters to national banks that have a community development focus -- the first one in San Diego, and most recently here in Washington, D.C.

Clearly, banks have begun to embrace this market for low- and moderate-income lending with increasingly open arms. The realization that this can be good business and good public policy has given rise to the tens of billions of dollars of commitments we've seen from institutions all over the country. I'm proud of the national banking system in achieving these goals and making these commitments to our communities.

And I'm confident that the two-year effort to move the Community Reinvestment Act rule from a process-based regulation to one squarely focused on bank performance will have an additional positive impact on community development. The new rule will prove more effective in meeting community credit needs and less burdensome on financial institutions because we've replaced the 12 old assessment factors with three tests -- lending; service; and investment.

Further, the new regulation makes clear that small business lending is a critical component of meeting community credit needs, and -- as you know -- the Organization for a New Equality was a strong voice in advocating the importance of the business lending data collection requirement.

We certainly have much to be proud of. But it's not enough to simply count our successes and recognize our achievements.

On this -- Martin Luther King Jr's birthday -- we must build on this past progress to extend economic freedom and opportunity to more Americans and to honor the legacy he left for all Americans.

Let me suggest three essential truths that the democratization of credit has taught us.

First, that in the area of credit, character is almost always more important than wealth in determining good credit risk. And, of course, there are not racial or ethnic boundaries to good character.

Second, there is almost always an opportunity to innovate, to find new ways to safely and profitably extend credit to individuals and businesses that were not previously served or served effectively. The American penchant for innovation and experimentation has long proved that credit can be extended well beyond what skeptics at any given time in our history deemed feasible.

Third, the credit process works best when the borrower and lender work in a spirit of partnership and cooperation. This truth is reflected in your organization's guiding philosophy that real progress only occurs by bringing people together, not dividing or polarizing them. Like Martin Luther King's legacy,

the democratization of credit process teaches us that when we all work together hard enough there is appreciable progress to be made -- progress that can serve all of society. But history also teaches us that progress never comes easily and cannot be squandered.

Three truths -- the importance of character, the timeless power of a vision, and the strength of community -- legacies all of Martin Luther King, Jr's life.

As I thought about today's event and the challenge before those of us who want to see the democratization of credit continue in what I believe is a pivotal period for this trend, I was reminded of the words of Longfellow that Martin Luther King was fond of quoting in the darkest days of the civil rights movement:

The heights by great men reached and kept were not attained by sudden flight.

But they, while their companions slept, were toiling upward in the night

In 1996, as the women and men of O.N.E. strive for economic rights and greater opportunity for the families and neighborhoods you serve, you must keep toiling upward -- as we all must -- even when political winds buffet your cause or when the wisdom of your undertaking and the strength of your resolve is questioned. Greater heights will not be attained by resting on laurels or allowing unrealistic expectations to impede real progress. And we cannot forget that as new heights are achieved, the responsibilities -- as well as the opportunities -- increase.

So today, we all have increased responsibilities to keep the pace of change and innovation going in a safe, sound, responsible manner. Because the democratization of credit's momentum can be slowed if we fail to act responsibly -- as banks, as regulators and as organizations.

For banks, that means being responsible lenders -- remaining dedicated to the credit democratization process and devising sound, innovative programs that will strengthen both their bottom lines and the communities they serve. Banks must continue to keep a keen eye on safety and soundness and profitability, because we all know that, today, those are the keys to long-term, sustainable community development credit. Easy credit not based on sound banking principles -- and the scars it leaves in its wake -- is just as devastating for a community and a family as too little credit.

For regulators, it means understanding that innovation and advances in credit can be periods of transition, perhaps showing spotty initial results with slimmer margins. We have a responsibility to stay attuned with how new products are performing in the marketplace and keep a firm hand on the tiller to ensure safety and soundness. We also must be relentless in ensuring that our rules don't get in the way of

progress. But indeed, we can go farther than merely not getting in the way. I believe that we can help in the democratization process by helping to create private/public partnerships, which is one of the reasons the Office of the Comptroller has hired community development specialists in all of our district offices. In addition, the OCC has a role to play in helping an expanding, evolving market work more effectively. That is the thinking behind our best practices program to identify common characteristics of quality community development lending and share this insight with the banks we supervise. Further, the Office of the Comptroller will host a Community Development Conference in February. This conference will also explore what is working well to extend credit for under served individuals and neighborhoods and to aid small businesses in cities and rural communities.

And finally, for community groups and non-profit organizations, this new era of heightened responsibility brings new opportunities to forge productive partnerships and provide the spark that leads to greater innovation in areas such as post-purchase counseling. I look to you to be valued allies for the lending community in stimulating product innovation and helping address safety and soundness concerns. You also can be instrumental in bringing more players to community development's table, broadening, for example, private sector participation beyond the banking community. And I know that the women and men of O.N.E. believe that it is partnership -- not confrontation -- that brings greater benefits and opportunities to the communities you represent.

That's why you've come to Washington and this summit -- because you want to be partners and leaders for the cause of greater economic opportunity today and tomorrow. It's been said that leaders have the vision and the conviction that a dream can be achieved. And leaders inspire the power and energy to get it done. Today, on the birthday of one of America's greatest dreamers and leaders -- a man who inspired so many during his all-too-brief lifetime and a person who continues to provide a source of inspiration and energy to millions today -- let us renew our commitment to get it done for families, for businesses and for communities that have yet to achieve the American Dream.

Let all of us renew our commitment to get it done and discover new ways to extend credit to creditworthy borrowers and into neighborhoods of all types and income levels. Let all of us renew our commitment to make a difference and demonstrate that one dedicated individual, one thoughtful innovation, or one energetic organization like O.N.E. can help keep the democratization of credit process marching forward for years to come.

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