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Remarks of Eugene A. Ludwig
Comptroller of the Currency
before the National Urban League
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I'd like to thank Hugh Price for inviting me to take part in this impressive gathering. In recent months, Hugh and I have developed a friendship and a partnership that mean much to me. As we have worked together to advance our common goals, I have come to know and admire the qualities of steadiness and vision that Hugh possesses in such rich abundance. I look forward to continued cooperation -- and continued progress -- in service to the causes we hold so dear.

It is a particular pleasure to join Secretary Cuomo this afternoon in paying tribute to the distinguished record of accomplishment of the National Urban League since its founding in 1910. Over the nearly nine decades since, the Urban League has waged a sometimes lonely struggle at the grass roots to achieve social and economic justice for African Americans and all Americans -- recognizing, as Martin Luther King Jr. put it, "that injustice anywhere is a threat to justice everywhere." I applaud your efforts to build a better America.

I thought I would begin my remarks with a few words about the agency I head. Most bankers are conversant with the work of the Office of the Comptroller of the Currency, but those who are not members of the financial fraternity will recognize the OCC -- if they recognize it at all -- as just another acronym entry in the back pages of the federal directory.

In this case, our full name does not even describe the agency's business. While the OCC was originally the custodian of the nation's money supply, today we no longer have currency to control -- nor to dispense.

But the monetary function, while certainly important, was in a way peripheral to the mission President Lincoln assigned the office when he established it in 1863 -- a mission that is still central to the OCC today. While the rebellious Confederacy pinned its economic hopes on King Cotton -- surely an important commodity -- the future Lincoln foresaw rested on King Capital, the commodity that commanded all others. It followed that if the federal government was to regulate any sector of the private economy -- and at the time, none of it was regulated -- the government should regulate the banking system, which had the power to make or break all business enterprises. That was the job Lincoln assigned to the OCC: the job of safeguarding the public interest in the allocation of private credit and other bank services so vital to economic opportunity.

The concept of opportunity permeated Lincoln's thought and animated his hatred for slavery, which he defined as the denial of opportunity. When he issued his famous warning about the dangers of a House Divided, he was speaking not only in a literal sense, about a nation half-slave and half-free, but also about one that pitted haves against have-nots.

If Lincoln had coined it himself, he could not have improved on the motto adopted by the National Urban League in 1921: "Not Alms, But Opportunity."

Obviously, in the 132 years that have passed since Lincoln's death, the public interest in bank regulation has been defined and redefined. At the start of my tenure as Comptroller of the Currency, the OCC rededicated itself to the historic principles upon which the agency was founded: achieving a safe and sound banking system built on the full and fair access to financial services so important to the well being of our nation's communities.

I will be the first to admit that when I became Comptroller in 1993, the performance of the banking system fell conspicuously short of that ideal. The industry was not nearly as sound and stable as it is today. And too many of our urban neighborhoods and rural communities were starved of the investment they needed for growth and renewal.

As I traveled from inner city to inner city, talking to people, I heard the same story again and again. Whether in Los Angeles, New York, Chicago, or the District of Columbia, it was the same story of entrepreneurial initiative inhibited and hope diminished for lack of bank services and bank credit. In Detroit, a prominent banker told me that in 1990, his city saw exactly two housing starts. Two housing starts. There were whole neighborhoods without so much as a single bank to be found -- and, therefore, no safe place for people to save, to obtain professional financial advice, or to set up a checking account with which to pay their bills.

The irony was that laws already on the books -- laws the Urban League championed decades ago -- were supposed to prevent or correct this unjust state of affairs. But violations of the Equal Credit Opportunity Act, which bars discrimination in lending, were rarely prosecuted by bank regulators. The Community Reinvestment Act, which requires financial institutions to assess and address their communities' credit needs, had largely lapsed into an ineffectual paperwork exercise.

Reviving and enforcing those statutes was among my first priorities upon becoming Comptroller. My oath of office demands no less. Accordingly, the OCC adopted new ways to examine banks for compliance with the fair lending laws and -- essentially for the first time -- started referring cases to the Justice Department for prosecution. In fact, over the past four years, we have conducted more than 3,000 fair lending examinations, and referred 24 cases of fair lending violations for prosecution.

Discrimination still has by no means been banished from the national banking system. I was disappointed, as I know you were, to learn about the disparity in denial rates for home mortgage applications contained in the statistics released yesterday. Until we have completed our analysis of these data, we cannot say for certain why this disparity continues to exist. Some economists suggest that these numbers may mean that lenders are willing to consider applications from more individuals who would never gotten to the application stage just a few years ago. Other economists suggest that minority applicants may be more likely to lack a positive credit history or, perhaps, any credit history. That last hypothesis especially troubles me, for it says that the discrimination of the past continues to perpetuate itself. But whatever the explanation, I can tell you this: we will not rest in our efforts to identify and eradicate lending discrimination wherever it exists.

Let there be no doubt about it: we have zero tolerance for lending discrimination. And, while recent data does show impressive gains in lending to Hispanic Americans and native Americans over the past year, and while lending to African Americans is up 54 percent in the last three years, I am still quite troubled that African American lending rose more slowly in 1996. Accordingly, I have directed my staff to begin an immediate in-depth effort to get to the bottom of the weaknesses in the last year's numbers. I expect a report on my desk within the next 60 days, so that we can immediately take whatever corrective action may be necessary. I will also be asking all the relevant agencies and departments to join us in this effort.

Obviously, we have a long way to go, both in fair lending enforcement and in community reinvestment. But we are making real progress in both areas. In 1993, President Clinton ordered the banking regulators to rewrite the Community Reinvestment Act regulations to make them more effective and more results-oriented. So we did.

The results of our emphasis on CRA have been encouraging. In the past three years, we have obtained new commitments for low and moderate income loans totaling $215 billion. Since 1993, home mortgage loans to low and moderate income census tracts have risen by 33 percent. Mortgage loans to minorities are up almost 38 percent, with African Americans and Hispanics accounting for most of that gain. In the past four years, banks have invested four times as much in community development projects as they did in the whole previous 30 years. During 1996 alone, national banks and their community partners invested almost $1.5 billion in community development corporations and community development projects -- funds used to produce affordable housing, finance small business, and develop retail and commercial revitalization projects. Our anti-redlining efforts have clearly begun to pay off. But more can and must be done.

I must tell you that, at first, these initiatives won us few friends among the national banks the OCC supervises. I was called a closet social engineer -- and worse. But these critics missed the point. It was our belief then that greater lending to low and moderate income borrowers and minority Americans was not only the right thing to do, it was fundamentally good business for the bankers. Nothing that has happened since then has caused us to change our minds. In fact, everything we have learned in the past four years reinforces the conviction that lending to low and moderate income and other underserved Americans is consistent with a safe and sound banking system. In fact, it's indispensable. We have found time and again that loans to so-called marginal borrowers are no less safe -- indeed, sometimes safer -- than loans to more traditional borrowers. We have found, as have the bankers themselves, that profitable, long term banking relationships often begin in modest ways: with a savings account, a checking account, or a credit card.

When I have returned to cities like Chicago and Los Angeles over the past four years, the cold numbers have taken on a human face. I have spoken to people who never thought the day would come when they would own their own home. But the day did come. When I recently visited Detroit, I met people who had never thought they'd see real reinvestment in their community. But the day did come. In 1995, a consortium of Detroit banks pledged more than a billion dollars in new investment over ten years. In the first year, they made loans totaling $285 million, or almost three times what had been pledged. That's $285 million in loans for business, loans for homeowners, and loans for development. That's hope for thousands of our fellow citizens.

We can take pride in these results even as we build upon them. For I am convinced that there are an almost limitless number of rich possibilities for banks and other financial institutions to make profitable contributions to the rebuilding of America -- both under the law and beyond it.

Today, few doubt our commitment to CRA and fair lending -- nor should they. CRA and the fair lending laws will remain important components of our strategy to bring more opportunity to our neediest and worthiest citizens. Indeed, we can significantly expand CRA's positive impact by considering ways to extend its reach to the growing nonbank sector of the financial services industry -- to the insurance and securities firms, the pension and investment houses, the mortgage and finance companies -- that are custodians for the bulk of the household assets in this country today. At the end of 1996, for the first time, the dollar volume of mutual funds exceeded the dollar volume of bank deposits. In these circumstances, I think you will agree that it makes sense to start thinking about how these financial powerhouses can shoulder some of the public responsibilities that banks today must assume.

But I am thinking less today about obligation than about opportunity. It is precisely because of our positive experiences under CRA -- experiences that have proved that such lending makes sense purely as a business proposition -- that we are now poised to move beyond enforcing a compliance obligation, to work in concert with the Urban League and other organizations committed to economic opportunity, to take advantage of exciting possibilities for partnerships between banks and traditionally underserved Americans -- partnerships with the power to transform lives, whole communities, and our urban centers.

One of the most promising new frontiers for partnership is in the field of small business lending and support of entrepreneurial enterprises. Nothing is more crucial to our nation's economic future. Small business generates more than half of all jobs in America and more than half of the nation's gross domestic product. No form of economic activity has greater potential for revitalizing our cities -- for turning mean streets into main streets -- than tapping the entrepreneurial spirit of the people who live in them. And nothing, therefore, is a higher priority for me personally and for the OCC than finding ways to stimulate bank lending to small business, especially minority small business.

We know the need is there. All across the country, I've met and spoken to small business people who tell me that they cannot get the credit they need for start-up and expansion or can only get it on prohibitive terms. Studies show that minority entrepreneurs have a particularly tough time of it. We know that while African Americans make up about 12 percent of the general population, they own less than 4 percent of U.S. businesses. Something is clearly amiss.

Soon we will have the hard numbers we need to begin to quantify the problem -- and measure our progress. For the first time this fall, as the result of our CRA reforms, we will be getting information on small business loan originations from every large bank and thrift. This data, which will be made available to the public, will tell us where the small business loans are going -- though not necessarily to whom. When this policy change was being discussed, I argued that it was important to have numbers on the race and gender of small business borrowers to help us identify possible patterns of discrimination. But other financial regulatory agencies said no.

One day we will have all the information we need. But it is not the OCC's intention to sit on our hands until it arrives. As a society, we have already waited long enough. Good intentions count -- but not as much as good results.

That's why the OCC launched a program earlier this summer called "Banking on Minority Business." This program is a series of forums all across the country that bring together bankers, representatives of the small business community, and leaders of minority business and community organizations, including local chapters of the Urban League. So far, I have taken part in forums in Cleveland, San Francisco, and here in Washington. Later this year, I will be participating in similar meetings in St. Louis, Boston, Houston, and New Orleans.
Through this cross-country dialogue, we have already learned much about the specific obstacles that keep minority small business borrowers and lenders apart. And through this

dialogue, we are coming up with ideas for getting around those obstacles. Sometimes the solution is no more than a matter of educating borrowers about a program they may not have known about. Sometimes, the answer is more complex -- for example, how to restructure a loan in an unconventional way to meet some special need. In our Washington, D.C. forum this past June, Hugh Price pointed out the importance of applying our experience from the mortgage lending arena to small business lending. He emphasized the importance of micro loans to stimulate small business start-up.

New ideas for new partnerships -- that's what our outreach efforts are all about.

When the outreach process has identified regulatory obstacles in the way, we have moved aggressively to correct them. Let me pledge to you here and now that the OCC will continue to do everything in its power to eliminate unnecessary regulatory barriers to the consummation of productive partnerships between banks and the small business community. With small business lending as with home mortgage lending, we will not rest until we begin to see the results that are so long overdue.

Many years ago, in 1915, Ruth Standish Baldwin, wife of the one of the founders of the Urban League, closed a letter to a friend with words that for years appeared on each sheet of the organization's stationery. "Let us work," she wrote, "not as colored people nor as white people for the narrow benefit of any group alone, but together, as American citizens, for the common good of our common city, our common country."

I can think of no finer cause to inspire our dedication today.

Let us work to form more partnerships between businesses and Urban League chapters.

Let us work to form more partnerships with banks and other financial services industries.

Let us work to empower entrepreneurial businessmen and women.

Together we can and will make progress for the common good of our common country.

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