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Remarks by

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It is a genuine pleasure to welcome you all to our meeting on small business banking -- a subject that is crucial to our nation's continued economic vitality and opportunity.

To understand how crucial, just look at the facts and figures. By Small Business Administration standards, more than 99 percent of our nation's businesses qualify as "small." The vast majority are very small -- two-thirds of them employ fewer than five people. But they make an outsized contribution to our nation's well-being. Small businesses employ more than half of the private nonfarm workforce and, combined, generate 51 percent of our private gross domestic product. Today they produce almost two-thirds of all new jobs.

The small business community is a big part of the reason why we have enjoyed an unparalleled economic expansion of the past five years -- an expansion driven very largely by small business people like yourselves, especially in the service and technology areas.

Small business men and women, in short, are the vehicles for the nation's initiative and creative imagination. We count on all of you here to support that initiative and imagination and to put it to work -- as you always have. Small firms produce twice as many product innovations per employee as larger firms. From small businesses have come innovations as complex as the artificial heart valve and the optical scanner and as prosaic as the zipper. From small businesses will undoubtedly come the product breakthroughs of the future. That will enhance the American standard of living and ensure the nation's continued economic success.

Notwithstanding the strength and ingenuity of the small business sector, we live in turbulent times. The financial turmoil that today besets so many of the nations of Asia -- nations which not many months ago were hailed for their economic successes -- reminds us that the future is essentially unknowable. And yet, I believe that we have much reason for optimism. The reason is sitting right in this room. Our forum today shows that we are not resting on our laurels. We came here today because we recognize that there remains a rich mother lode of ideas and enterprise in our people -- ideas and enterprise waiting to be recognized and waiting to be financed. We came here today

because, despite all that many of our financial institutions have done already, lack of credit or capital is still an obstacle that may prevent tomorrow's small business success stories from being written. And we are here -- all of us together -- because we understand that through partnerships between financial providers and small entrepreneurs, all things are possible for ourselves and for our people.

I believe we have proved that over the past five years. Five years ago, we were in the midst of a credit crunch. Many in the small business community were unable to get the loans they needed and deserved. Some firms undoubtedly failed as a result. Yet, as painful as it was for many, the credit crunch experience reminded us of something terribly important: that financial institutions and small business need one another -- and so does the national economy.

That lesson was on everyone's mind when I became Comptroller of the Currency, and it led us immediately to develop and implement a four-point plan to restore the flow of credit into the small business community. First, we went over our regulatory rule book with a fine-tooth comb, weeding out or modifying those rules that seemed to unduly complicate fair access to small business credit. Second, we developed innovative new programs to encourage financial institutions to make those loans. Third, we conducted research into the systemic problems that interfere with the whole process of small business lending. Finally -- and the one that made all the others possible -- we sought to stabilize and strengthen the national banking system, so that banks were once again in position to lend.

Let me give you some specific examples.

We liberalized the rules requiring a small business owner to obtain a real estate appraisal from a licensed appraiser whenever personal real estate was used as collateral for a business loan -- a change whose benefits, for those who qualify, can be measured not only in savings of dollars but also in savings of time -- weeks sometimes, critical weeks when loans can be held up awaiting the completion of an appraisal.

We adopted a low documentation loan program to allow highly-rated and well-capitalized banks to make a portion of their loans to small and medium-sized businesses -- loans that examiners would review solely on the basis of performance and not on the basis of the documentation in the file. These are loans made on the basis of character that may not necessarily meet standard requirements for collateral or detailed performance plans.

But nothing, I think, has done more to highlight and promote that constructive partnership between small business and financial institutions than our revisions in the Community Reinvestment Act. Much has been said, and rightly so, about the new CRA's emphasis on performance as opposed to paperwork. What is just as important, in my mind, is that the new CRA takes a far broader, more holistic view of what really constitutes community development. It recognizes that small business lending

can be an important component of financial institutions' commitment to the communities they serve.

Stimulated by CRA and their own good business sense, financial institutions have lately demonstrated a renewed commitment to small business lending. One of the most auspicious developments in recent years has been the growth of small business finance intermediaries for institutions that lack the expertise or the resources to establish special small business lending programs of their own. Their variety is truly impressive -- and encouraging. Lending consortia, loan pools, bank-owned or affiliated community development corporations, small business investment companies, community-based micro-enterprise loan funds -- all these institutional devices are helping to fill the gaps in the small business lending market.

Thanks to constructive regulation and innovations by lenders and community development partners, we have made impressive progress over the past five years in small business finance. Our nation's banks have reaffirmed their traditional role as a major source of funding to the small business community. Small business lending dominates the loan portfolios of many community banks. As of late last year, more than 60 percent of all small business credit was originated by commercial banks. Commercial banks also provided more than half of all loans used to finance the purchase of equipment and vehicles by small firms. These days, fewer and fewer small business people are reporting difficulty in obtaining credit. And bankers, for their part, are finding that, as a rule, small business loans perform just as well, if not better, than other components of the loan portfolio.

And the evidence suggests that many of our bankers are not sitting back passively and waiting for small business customers to walk through the door. The recent Federal Reserve report to Congress on the availability of credit to small businesses shows a new aggressiveness on the bankers' part in seeking out small business customers, by offering better terms, additional products and services, and more direct marketing. Even while striving to meet their CRA obligations, bankers are moving beyond mere compliance to a recognition that partnerships with small business make good business sense.

Now the time has come to build on our successes and to consider new approaches where we have been less successful than we would like. Unfortunately, many of the gains I have just described have been distributed less evenly than we would like. For years we have heard anecdotes about the special obstacles facing minority small business people in obtaining credit. Considering the importance of small business as an engine for job creation and upward mobility, it is incumbent on us to ensure that small business does not face special handicaps just when small business's contributions are most needed.

To help us determine the nature and extent of the problems that minority small business people face -- and to begin formulating workable remedies -- we have moved aggressively on several fronts. First, as part of CRA reforms, we have begun to collect

information -- for the first time -- on small business originations on a national basis from every large bank and thrift -- information that we can use to determine where small business loans are going -- and, just as important, where they are not going. This was an important breakthrough. But the data we have collected tells us nothing about the recipients of those loans -- information that we need to determine whether illegal discrimination is preventing some potential small business borrowers from obtaining credit. In fact, lenders are forbidden by the Federal Reserve's Regulation B from inquiring about the race, color, sex, religion, or national origin of an applicant for a non-mortgage loan. If the Fed changed Reg. B so that creditors could collect such information -- on a voluntary basis -- it would materially assist us in the fight against discrimination. I would urge you to support such a change.

Fact-finding was an important part of the rationale for the OCC's Banking on Minority Business program, which we launched last year in Washington and took on the road to cities all over America. This cross-country dialogue brought together community leaders, minority small business entrepreneurs, and bankers, to discuss how to break down barriers and build mutually profitable relationships that will bring economic opportunity to our neglected and ignored communities. As I listened and learned during these visits, a number of points became clear -- points whose relevance goes beyond minority small business to the small business community at large.

First, there is a need for improved communication between bankers and potential small business borrowers. In the home mortgage area, a field we have studied intensively, we have found again and again that simply making the loan to first-time borrowers may not be enough for the loan to work. It turns out that the best performing affordable mortgage loans are those which are accompanied by education and counseling -- helping borrowers to negotiate the application process, helping them understand what lenders expect of them, helping them to manage a budget, and so forth.

The same thing appears to be true in the small business field. Based on what I have heard around the country, there continues to be considerable misunderstanding between lenders and small business borrowers on what is expected of both. Some would-be entrepreneurs have minimal experience with all the intricacies of running a financial operation. They need counseling and education almost as much as they need capital. For their part, some lenders have limited familiarity with small business markets generally and with market conditions that prevail in minority communities. If the relationship is to succeed, both parties need to think about their partnership in the broadest sense -- as one that involves an investment of time and expertise as well as financial capital.

Second, what I heard in my discussions around the country convinces me that we regulators can do more to encourage banks to use those programs that are currently available. Take our low-documentation program. At last count, only about 200

national banks are using it, because, I am told, the others continue to believe that examiners will criticize them later for inadequate documentation. Let me assure those of you here today that you can take full advantage of that program without fear of adverse criticism.

The same thing is true of the public welfare investment authority embodied in the Part 24 of the OCC's regulations. Certainly the amount of Part 24 equity investments used by banks generally, and for small business lending and investing specifically, has increased in the last few years. But most national banks are not at their 5 percent of capital threshold for self-certification of qualifying investments, and only a handful are at their aggregate statutory 10 percent limit. It is in your interest -- and in the small business community's interest -- for banks to take fuller advantage of this program. I encourage you to do so.

Although we certainly have obstacles to overcome in the years ahead, the dominant impression I took away from my meetings across the country was one of energy, pride, and optimism. I met many lenders and small business people who, through creativity and perseverance, have become allies in common partnerships.

I learned about organizations like TELACU -- the East Los Angeles Community Union -- a one-stop resource for minority small business people which provides counseling and arranges loans -- loans with some of the lowest delinquency rates in the entire industry.

I heard about innovations in lending such as second- and third-look programs, whose operative philosophy reflects a dogged determination to find ways to make loans to worthy borrowers who might not qualify by traditional standards.

I heard about encouraging developments in the use of credit scoring models to reduce the costs of reviewing and monitoring small business loans, while at the same time paying attention to the potential problems of inadvertent discrimination in these models. The reduced costs from using these models should help lenders make more of them. And when they do, it may open the door for the development of a secondary market for these loans, with all that implies for increased availability and better pricing.

Most of all, I saw evidence of genuine long-term commitment to community development, broadly defined. In our discussions today, I expect to hear and learn more about these innovations and how we can use them to address the problems that persist.

When I became Comptroller of the Currency five years ago, I made a commitment to do everything in my power to promote fair access to credit and other financial services for all of our people. I think we have made significant progress to that end. One reason we are meeting here today is to help ensure that the momentum continues to build, so that, one year from now, we will have even more striking progress to report. Wherever the future takes me personally, let me assure you that the cause of financial

democratization will always be special to me.

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The OCC charters, regulates and supervises more than 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 56 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.