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Remarks by

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Having listened to our panelists over the last day and a half, I think two things should be clear to all of us: we've come a long way in community development lending, achieving some truly impressive results and demonstrating that community development is good, sound business. But it's also become evident that there are still many profitable market opportunities that are yet to be realized -- much more work that remains to be done to further community development's evolution and extend its reach.

Clearly, for community development lending to succeed in this country today and in the future, it must be safe, sound and profitable. The potential benefits afforded banks who enter this young market have already proven worthwhile: new customers, new commercial opportunities, and the stabilization of existing assets. Those are the quantifiable benefits. There is also the enhanced quality of life in the neighborhoods that profit from community development lending.

Growth and good business is a process of recognizing and adapting to change. To be successful in the coming century, banks must adapt to the changing face of America, both in terms of who the industry's new customers are and how they can best be served -- including, importantly, the use of new technologies.

Today's intense interest in community development lending and investing represents just the latest phase in a historical trend I like to call the "democratization of credit." It is and has been the direction of change in the banking industry since the birth of this country. So I'd like to take a few minutes this afternoon to first discuss what this trend has meant for the banking industry and the national economy, and then talk more specifically about how it affects the evolution of profitable community development lending.

Fundamentally, the reason credit has become steadily more democratized in this country is that innovations and evolutions in the technology of lending have allowed the banking industry to expand gradually its understanding of who is creditworthy and what markets are profitable opportunities. Because of the democratization of credit, yesterday's under-served have become today's core business customers.

We often fail to appreciate that the average American today enjoys access to credit and financial services 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. Moreover, those who would be lucky enough to warrant credit would find that they'd be expected to pay back that loan within a month or two.

Even 125 years ago, it was still anathema for national banks to make home mortgage loans. As a result, the vast majority of home as well as agricultural loans were obtained privately -- if they could be obtained at all. A survey of the time, for instance, found that of the more than $7 billion in mortgages outstanding in the U.S., three out of four were held by individual investors.

Further, 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 in a similar light. Not surprisingly, loan sharks and pawnshops were the main source of consumer credit -- often on extortionate terms.
But that was before American consumers proved their creditworthiness, particularly during the lean years of this century.

As it turned out, expanded portfolios of consumer loans were both good business as well as good public policy. And to the surprise of most financial experts of the time, consumer installment loans outperformed business loans during the Great Depression. Interesting, isn't it, that a market deemed risky and considered untouchable proved -- not only to be profitable -- but became a vital market of the future.

In the wake of the Depression and World War II, credit continued to democratize as 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 also helped banks obtain greater retail experience and encouraged them to expand their offerings of other consumer financial products. And as consumer lending became more widespread, innovation in this area accelerated and loan pricing also became more competitive.

One of the greatest leaps forward in the democratization of credit was something we all take for granted today -- but was quite revolutionary in its time -- the auto loan. When our grandparents started to drive, very few institutions would lend them the funds to purchase a car.

In fact, a few months ago, a banker from Illinois told me that his father was one of the first bankers in the U.S. to make auto loans, but that our examiners -- along with many in the public -- gave his dad a hard time, questioning his business sense and suggesting that auto lending was unacceptably risky. Fortunately, that didn't dissuade this banker from offering auto loans, and very quickly others joined him in serving this market. Between 1930 and 1940, auto loans outstanding for U.S. commercial banks increased from $40 million to over $600 million, to the benefit of consumers, the auto industry, and, of course, banks.

In the second half of the twentieth century, the democratization of credit has brought us credit cards -- enabling consumers to use revolving credit without collateral. The growth of this market alone has been staggering. Beginning with cards that could be used initially to charge not much more than restaurant meals, in just a few decades -- within the lifespan of probably most of us here today -- the product has evolved to include national and international bank credit cards used to purchase products and services all over the world. In 1954, for example, only 41 banks in the country offered their customers charge cards and fewer than 500,000 consumers used this product. Twenty years later, credit cards were used to finance $13 billion worth of business annually in the U.S. By 1984, over half of all families in the United States -- 42 million households -- had at least one credit card account, 3,000 financial institutions offered them, and over two million merchants worldwide accepted them.

The democratization of credit is the story of once novel, revolutionary ways of extending credit becoming part of the mainstream. Because of it, today's home buyers have a menu of mortgage options that include products such as adjustable-rate mortgages, balloons, and home equity loans -- credit options that provide choices to homeowners with varied needs and diverse financial backgrounds.

This democratization of credit -- truly dramatic when considered as a historic trend -- did not happen all at once. Rather, it has been a series of advances and innovations made possible because someone or some company pushed the boundaries of conventional wisdom and found new ways to reach new borrowers ... economic opportunity extended because there was a vision and a determination to find profitable opportunities where others had failed or feared to tread.

Community development lending and investing continues this trend of extending credit and developing new profitable markets through innovation.

I think the most dramatic evidence of the progress we've witnessed is reflected in the most recent Home Mortgage Disclosure Act (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, and provides further evidence that the standard profile of a typical financial institution's customer is changing.

You, the banking industry and community leaders -- many in this room -- made that possible, and you have a right to be extremely proud of this achievement.

In addition to improved HMDA results, national bank investment in community development corporations and CDC projects has quadrupled in less than four years. Last year, national banks made more than $400 million in community development investments. When leveraged with additional private and public resources, new community development investments exceed $1.5 billion in 1995. Moreover, within the last 3 years alone, banks have committed nearly $100 billion in loans and investments to low and moderate income neighborhoods. Let me repeat -- $100 billion.

Community development banks and loan consortia have been developed across the country, and new products and services are implemented every month: low down-payment mortgages; housing counseling programs; creative underwriting techniques; home ownership programs such as mutual housing; micro-finance programs for small businesses; and expanded partnerships that bring together new players from the public and non-profit sectors.

All of this has helped to democratize credit. In the past, the democratization of credit helped create the American middle class, fueled economic expansion and enabled the housing, manufacturing and retail industries to prosper because consumers were ready, willing and able to buy their products. Now, we are seeing the impact of this process on lower-income Americans and in urban communities. And, I believe its effect will be similarly transforming.

But this will only happen if the credit process continues to blend innovation with responsibility.

For banks, that means devising sound, innovative programs and financial instruments that will strengthen both the bottom lines and the communities you serve. Banks must continue to keep a keen eye on safety and soundness and profitability, because we all know that those are the keys to long-term, sustainable community development credit. If we give easy credit not based on sound banking principles, the scars it leaves in its wake are just as devastating for a community and a family as too little credit.

For regulators, it means continuing to insist on safe and sound practices, but at the same time being thoughtful and open to new ideas and new innovations that permit additional individuals and additional businesses to safely participate in the credit process To increase the OCC's support for the industry's community development initiatives, we recently hired district community development specialists in each of our district offices.

These specialists will serve as a resource for bankers and their community partners as they strive to implement profitable community development lending and investment programs. We also have begun a best practices program to identify common characteristics of quality community development lending and share this insight with the banks we supervise.

And finally, for community institutions, it means continuing to professionalize the partnerships that have proved so important to making community development profitable.

How do we rise to these challenges as an industry, as regulators, as community institutions and as a society? I am hopeful that conferences like this one will help. While today's challenges are different, the fundamentals are essentially the same: innovation, safety and soundness, long-term profitability and responsible partnerships.

Having said this, there is one important new tool in community development lending that we must take advantage of -- powerful technologies and telecommunications that earlier generations did not have at their disposal. While infant technologies spawned advances like credit cards, the power of today's technology surpasses anything that existed just a few years ago.

Now I realize that there are those who are concerned about the rapid introduction of technology into banking and finance. But let me make several points which though they will not allay all fears, will, I hope, allay some of them, and will also put this subject in some perspective.

First, the fact is that technological change is a fact of life. And while the pace of change may be faster than ever, people have always lived with technological change. Trying to stop it is somewhat akin to old King Canute trying to push back the seas. And while I'm sure some will disagree with me, my own view is that we should not want to stop it. Change in the technology of lending, after all, has a lot to do with the fact that so many of us here today and throughout America own homes and cars. You cannot separate the democratization of credit from the technology of banking.

Second, on the question of whether technological change will exacerbate access to credit inequalities, let me say this. To be sure, the potential exists for some portions of our society to move even farther outside the financial system than they are today as technology advances. But advances in technology also bring with them the potential to move people into the financial system. One thing is clear. This country has a long history of concern about access to the financial system for low and moderate income. That concern has survived a lot of evolution in the technology of banking already. I expect it to survive the next round of evolution as well. Working together, I am confident that we will find a way to ensure that access to the banking system continues to expand. As Secretary Cisneros so eloquently put it yesterday, we will, because we have to.

Third, although technological change presents community development with new challenges, it also presents it with new opportunities. Putting a brick and mortar branch in a low and moderate income neighborhood is expensive. It can cost millions of dollars. But most people, even low and moderate income Americans, have telephones. And new technologies will allow people to bank, and indeed even obtain electronic money, wherever there is a telephone. And let me be clear, the use of telecommunications has the potential to go way beyond the telephone banking of today. At yesterday's session on alternative delivery systems and community development, we caught a glimpse of ways new technologies can be used to originate loans with laptop computers and to bring traditional banking services more efficiently to low- and moderate-income consumers and neighborhoods.

Moreover, the cost of new technologies will continue to decrease in the foreseeable future. And, what may seem prohibitively expensive now, is likely to prove quite affordable in the reasonably near future. Just remember the cost of computing has been halving every 18 months for the last

20 years, and there is no end in sight.

In addition, we all know that one of the challenges to community development lending is scale. CD loans are smaller, and hence typically, with conventional technology, more costly to make. But technology has a way of driving down unit costs. The costs of applications, lending documents, even disbursement can all be reduced through the use of technology and that should benefit smaller loans.

Finally, think of the important advisory component of CD lending. Computer technology potentially offers a lower cost, higher quality way of providing advisory services. And I do not just mean in written form. These technologies even now can provide voice-based services. In the fairly near future, there will be interactive voice-based systems that will provide access to expert advice at genuinely modest cost.

To be sure, these new technologies do present challenges. It will take effort and focus to translate the potential benefits of the new technologies into realities. And there are potential consumer issues that will in the end have to be addressed. But I am rather hopeful that these problems will be addressed and that banks, community leaders and government will in the end use these technologies to enhance access to credit and community development lending opportunities.

And it is not just with respect to the benefits of technological change that I am hopeful.

Community development lending does present all of us with many challenges ... challenges to continue to innovate, challenges to continue to keep this lending safe and sound and profitable, and challenges to have technology work with the process not against it. But as I noted earlier, community development lending is part of the democratization of credit process, a fundamentally American process, a process that is as much about our democracy, and our American spirit, as it is about banking.

Every generation of Americans, from our founding fathers forward has risen to this challenge. So far, this generation of Americans -- this generation of bankers and community leaders -- has risen to the challenge. And, I am confident,

as
I hear our speakers at this conference and as I look out at
this audience, that we will continue to meet the challenges
for
this and for future generations.