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Remarks by
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before

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Thank you, Harry. It is a pleasure to join you at your annual convention and it's an honor to salute the National Black Chamber of Commerce and the work of its 180 local chapters, representing 62,000 black-owned businesses all across our nation.

Let me first commend you on the insight expressed in the theme chosen for this year's convention. As you say, the face of entrepreneurship in America is changing today -- changing in ways that increasingly reflect our nation's racial, ethnic, and gender diversity. Look at the numbers. Between 1987 and 1992 -- the most recent period for which these statistics exist -- there was a 62 percent increase in the total of minority-owned business; a 43 percent increase in women-owned firms; a 46 percent increase in the total of black-owned businesses; and comparable increases in revenue growth in all these firms. When the Department of Commerce publishes the results of its latest Survey of Minority Business Enterprises later this year, I believe it will show continued steady progress in making the face of entrepreneurship an even more representative reflection of America.

This is all promising. But there is much work still to be done. So, having mentioned the progress we've made so far, let's now talk about the progress we can and must make if we are to accomplish the goal of full economic opportunity for all.

We are not there yet, and the numbers unfortunately reflect that, too. African-Americans make up 12.6 percent of the population and yet own only four percent of all businesses. Moreover, although no segment of the black-owned business community has grown faster than the one with revenues of over $1 million annually, black-owned businesses still tend to generate lower revenues and profits than the average small business. According to the Commerce Department data, over the period studied, African-American-owned firms on average generated annual revenues of less than $52, 000 -- compared to $193,000 for all firms generally -- and employed only half as many workers. That disparity can be explained in large part by the fact that black business owners were nearly twice as likely as all small business owners to operate in the retail and personal services field --

traditionally, the smallest and least profitable of all business segments. Clearly, not all small business opportunities are equal.

When we ask why blacks are over represented in these emphatically worthy but generally less remunerative fields, a clear answer emerges. Capital -- human and financial -- is the key to small business prosperity. Education, training, and finance -- together, they make small businesses work. What the national banking system can do to help advance that goal is what I would like to discuss with you this morning.

Unlike large firms that can raise capital directly from the money markets, small business must rely on personal resources and institutional intermediaries for their financing needs. Although many kinds of financial institutions supply credit and related services to small business, commercial banks remain the most important source of small business funding today. Between 1989 and 1994, small business loans by commercial banks grew from $71 billion to $99 billion annually, and 87 percent of small business owners reported that they had purchased financial products and services from banks. Indeed, for small businesses, funding obtained from banks, whether in the form of direct small business loans, second mortgages, or unsecured credit, exceeds the next three sources of small business finance -- family, friends, and former business owners -- combined.

Bank loans are especially important to the minority small business person because in minority communities, family net worth -- the second most important source of small business funding overall -- tends to be lower than for the population at large. For most would-be minority entrepreneurs, then, the choices are limited. Without a bank loan, the dream of business ownership may never be reached. We know that when entrepreneurs proceed without adequate financing, the odds that they will survive beyond the first year or two, if they get off the ground at all, drop precipitously.

And even though more black businesspeople are getting bank loans than ever before, the evidence clearly shows that black entrepreneurs lag significantly behind other minority groups and the population as a whole both in their ability to obtain bank loans and in the size of the loans that they do obtain. Shortfalls in bank financing may help to explain why blacks tend to be over represented in the personal service and retail fields, primarily serving local markets, and under represented in the potentially more lucrative, broader-market, but more capital intensive fields of construction, finance and insurance, wholesaling, and manufacturing. And that, in turn, explains why black-owned businesses tend to generate fewer jobs than nonminority small businesses.

So what stands between black entrepreneurs and the bank financing that is so crucial to their success? Whenever one asks that question, the possibility of discrimination must be addressed. Certainly a widespread perception exists among female and minority entrepreneurs that, despite the provisions of the

Equal Credit Opportunity Act, some financial institutions unlawfully discriminate in underwriting applications for small business credit. In addition, academic studies have shown that female and minority business owners do in fact face unfair obstacles in obtaining business-related credit.

In addition to vigorous enforcement responses throughout the government, another important thing we can do to obtain better compliance with anti-discrimination laws is to gather better and more timely data about the loans that are being made. As part of the OCC-encouraged reforms of the Community Reinvestment Act, we instituted a system to collect small business loan origination data. This is information that we can use to track where small business loans are going -- and, just as importantly, where they are not going. But these data reveal only where loans are going geographically by census tract; they don't tell us the race, gender, or national origin of the recipients of the loans. In fact, lenders are currently forbidden by the Federal Reserve Board's Regulation B from inquiring about the race, color, sex, religion, or national origin of an applicant for a non-mortgage loan. The OCC and other Federal agencies, including the Department of Treasury, Justice, HUD, the Federal Trade Commission and the Small Business Administration, have urged the Federal Reserve Board to change Regulation B so that creditors could collect such information, on a voluntary basis. Such a change would permit bankers and regulators to better monitor small business lending patterns and would materially assists us in the fight against discrimination in the small business market. As such, we believe this change would improve access to credit. It is not too late for you to express your views to the Federal Reserve Board, and I would encourage you to join us in supporting this change to Reg. B.

Lending discrimination undoubtedly still exists, and where it does, I promise you that we will do whatever we can to root it out. But another -- and more pervasive -- obstacle to the consummation of mutually profitable relationships between bankers and minority entrepreneurs today is unfamiliarity and misunderstanding. The communications gap that keeps bankers and minority entrepreneurs apart is a gap that we must begin to close if both sectors are to use each other to achieve their full potential for growth. Banks and minority small businesses need one another.

To help bring them together, the OCC launched a project called Banking on Minority Business. Harry, you were there, in a meeting with Comptroller Gene Ludwig in January of last year, when the idea was conceived. With the good advice he got from you and others at that meeting, Gene visited eight cities across the country and met with hundreds of national bankers, minority small business owners, and local business development officials to discuss access to credit and financial services for minority-owned small businesses. I have continued these meetings in additional cities. We learned a great deal, and next week we will be issuing an OCC advisory to share what we learned with bankers, bank examiners, and the rest of the financial and regulatory world. But I thought I would take just a few moments to give you an advance look at what we will be saying.

We learned that -- fundamentally -- the difference between successful minority small business loan programs and less successful ones can often be summed up in one word: attitude. A positive attitude is the hallmark of the banker who sees minority small business lending not as a legal "compliance" or political responsibility, but as a business opportunity waiting to be seized upon. In other words, bankers who are successful treat minority small business loans as a profit center, not as a compliance cost.

Success, we have found, requires targeted research and outreach. Some bankers cultivate business contacts in the minority community, as the banks' own suppliers and contractors. This can actually prove to be a win-win-win situation. Banks receive quality work and products from motivated entrepreneurs. Minority businesses obtain business opportunities. And, importantly, banks gain relationships and perspectives on the minority small business community in their areas that can help bankers to better understand the needs of minority entrepreneurs and the opportunities that exist in that community.

Other bankers staff their minority small business lending sections with seasoned loan officers who speak the language of their ethnic clients and have the authority to tailor loan products to fit their customers' distinctive needs -- more flexible loan products like small business lines of credit accessed by check drafts or loans that are principally underwritten on a cash-flow basis with non-traditional approaches to secondary sources of repayment.

The right attitude on the bankers' part means taking the time to explain loan requirements and credit criteria, working with denied applicants to improve their creditworthiness, and preparing written materials in the language of the applicant. It may mean providing counseling to applicants who lack extensive experience in running a small business -- for some would-be entrepreneurs need training as much as they need capital. Many banks work in partnership with nonprofit organizations and with SBA-sponsored Small Business Development Centers, which provide loan application preparation and management assistance to businesses that banks cannot provide themselves. Some offer instruction in starting and operating a small business and provide continuing assistance after the business is up and running.

All these activities are well established, but they take extra effort. However, for the bank, the payoff comes in the form of expedited approvals, solidly performing loans, and lifelong and growing banking relationships.

Banks with successful minority small business programs also often take advantage of loan guarantees extended by the SBA, U.S. Department of Agriculture, and other federal, state, and local agencies. The best banks use these programs strategically to mitigate risks in some loans and expand lending to minority small businesses. These guarantees may allow a bank to focus more on cash flow than collateral. Subordinated debt may shore up an otherwise undercapitalized minority small business borrower. In addition, the portion of a loan guaranteed by the SBA is likely to be more saleable on the secondary market.

Some national banks have also formed subsidiaries -- banks within banks -- which specialize in forming partnerships with businesses located in low and moderate income census tracts, disadvantaged businesses, minority- and women-owned business, and worker ownership arrangements. Sometimes they make traditional loans; other banks, using the OCC's Part 24 rule, provide equity financing, either directly, or, when dealing with very small or start-up businesses, through third-party organizations, including Small Business Investment Companies, community development corporations, and minority-owned financial institutions specializing in lending to minority businesses. By working through these third-party intermediaries, banks in effect become "partner's partners" -- pooling their risks while providing both loans and equity capital to businesses that have generally had limited access to the financial mainstream.

Now, of course, a positive attitude cannot be a one-way street, so I need to mention that misconceptions on the borrower's part can be just as damaging to the banking relationship as insensitivity on the banker's. The borrower has to understand that the banker is a business person, and must be mindful of the bank's fundamentals -- both in terms of the basics of a loan application and the bank's bottom line. Moreover, the banker, even at the most senior levels, has both a board of directors and government regulators to answer to in case things go wrong.

Let me close by emphasizing the need to work together. The businesses you head may be small, but, together, your impact on our national economy is and will remain very large. Your success is crucial to the continued success of our nation's economy and to the health of our nation's communities. The potential is nowhere richer than in the minority community. More than ever before, America's commercial banks are positioned to become your partners in this endeavor. We at the OCC will do our best to make sure that this promise is realized.

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