

Remarks by

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Before the

Women's Self Employment Project
Breakfast Meeting for Bankers

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Good morning. It's a pleasure to join you this morning in celebrating the tenth anniversary of a remarkable institution -- The Women's Self-Employment Project. For a decade, WSEP has worked relentlessly to open the doors of opportunity for thousands of families in this city, reaching into some of Chicago's poorest communities, and helping individuals and neighborhoods alike to become more self-sufficient. You've kept the American Dream alive through trying times and in difficult places ... giving urban entrepreneurs a reason to believe in the free enterprise system, and the support they need to see dreams realized.

WSEP has involved remarkable leaders from the very beginning -- Mary Houghton and Ron Grzywinski, who first envisioned the Project . . . Muhammad Yunus, who developed in his native Bangladesh the peer lending methodology that WSEP has adapted to Chicago realities . . . and Connie Evans, the founding executive director who has wisely guided the organization over the past decade, and who has been honored with nationwide leadership roles, including a Presidential appointment to the advisory board of the new Community Development Financial Institutions Fund.

I am very pleased to see this turnout of so many Chicago bankers interested in microenterprise finance and development. The past few years have shown a noticeable shift in bank support of economic development -- as a necessary complement to affordable housing efforts, and even as the leading edge of truly sustainable community development. These new economic development efforts include micro-finance and other small business lending, business training and technical assistance, job training, business incubators, and business-to-business mentoring.

Much has been accomplished, yet we all know that community revitalization and development is an unfinished work. It is a work of progress, that remains a work in progress. So I applaud all of you who are committed to helping our citizens become economically self-sufficient through innovative methods of lending, training, and asset building and, in the process, helping to rebuild and revitalize Chicago communities.

The Democratization of Credit

As we all know, there are many parts to the puzzle that must be solved to 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 morning, 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.

The credit democratization process has brought the American people vastly enhanced opportunities. Yet, it is essential that we all work hard and in partnership to ensure that this process continues, because equal opportunity for all Americans is dependent upon the continued democratization of credit.

Today, Americans 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 today, only a handful of people in Chicago would qualify for a bank loan. Even 125 years ago, it was still anathema for national banks to make home mortgage loans.

Before World War I, and even for many years thereafter, consumer lending was viewed as disreputable -- as were those who sought such loans. Loan sharks and pawnshops were the main source of consumer credit, often on extortionate terms. But that was before the American consumers proved their creditworthiness. Bankers learned that it was good business -- and 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.

Consider the parallels to low-income lending today. I think the most recent HMDA data demonstrate how history is repeating itself.

Between 1993 and 1994 alone, 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.

National bank investment in community development corporations and CDC projects has quadrupled since I began my term as Comptroller three years ago. Last year alone, national banks made more than \$400 million in CDC investments, which will leverage over \$1 billion in additional resources.

And to their credit, banks have stepped up to the mark. Clearly, banks are embracing this market with increasingly open arms. I'm proud of the banking system in achieving these goals, working to build partnerships with groups like WSEP, and making these commitments to our communities.

These examples emphasize how banks that are both responsible

lenders and innovators remain dedicated to the credit democratization process and devise sound programs that will strengthen both their bottom lines and the communities they serve.

In addition to mortgage lending, the democratization of credit throughout this century has brought advances in areas such as auto loans and credit cards. And it is not just individuals and families that have benefited. We also know that consumer loans are one of the major sources of credit for the very small businesses of America: 28 percent of all home equity lines are used for small business purposes, and over 40 percent of all small businesses with fewer than five employees -- or with less than \$100,000 in annual sales -- use personal credit cards for business purposes.

Increasingly, innovative banks are taking advantage of new technology -- the Internet, home computers, credit scoring technology -- to marry new methods of consumer lending with those for small business lending. Five years ago, we saw very few large banks offering small business loans of less than \$50,000. Now, increasing numbers of banks provide certain segments of the small business market with loans of \$5,000, or even less. Many of the pioneering banks have already found these relationships generate solid profits.

And once a bank has begun to service a new market segment, or expand its product offerings, or test a new kind of product, it can learn from that experience. Its enhanced understanding can yield a succession of new financial services at lower development costs than for those banks that hesitate to enter the market. These pioneer banks can gain a competitive edge, and can be better positioned to offer the market a succession of even better new financial services.

Community lenders: R&D laboratories in the democratization of credit

But let us not lose sight of the fact that banks are not alone in new financial product development. Community lenders such as WSEP have been true leaders in the work of extending economic freedom and opportunity to more Americans. They have continued to develop and provide loans and other financial services to under-served neighborhoods that bankers have not yet figured out how to serve. Community lenders then work unstintingly to improve the efficiency and usefulness of these services.

This process continues ceaselessly, so that at any point in time, community lenders are probing to find new ways to service still under-served groups, to open up opportunity for still more Americans, where others have given up. WSEP and other microenterprise lenders are the R&D laboratories of community development finance. Their new financial products empower communities with the resources needed for growth and jobs, which permit the hard work and determination of people to pay off.

In fact, WSEP embodies the three essential truths of the democratization of credit. First, the importance of character. WSEP's work demonstrates emphatically that character is almost

always more important than wealth in determining good credit risk. Character is at the very core of its lending methods, including the innovative group lending method WSEP borrowed from the Grameen Bank and adapted to its own Chicago customers.

Second, the timeless power of a vision. WSEP's use of innovative methods such as step-up lending has created low-risk ways of extending credit to tiny businesses owned by individuals who were not previously served at all by the financial system. They are proving before our eyes that credit can be extended well beyond what our current skeptics deem feasible.

And WSEP continues to innovate. They are a pioneer in introducing Individual Development Accounts: long-term savings accounts that give the poor a stake in the system, and a route out of poverty. IDAs are, even now, beginning to demonstrate that poor women, provided with appropriate products, will do what they can to invest in assets, and thereby a hopeful future of home ownership, business ownership, and secure retirement.

As Professor Michael Sherraden of Washington University has put it:

"Income only maintains consumption, but assets change the way people think and interact in the world. With assets, people begin to think in the long term and pursue long-term goals. In other words, while incomes feed people's stomachs, assets change their heads."

Third, the strength of partnership and community. WSEP has created a spirit of partnership and cooperation among its clients, the women who own these small businesses and encourage and push each other, each to do her best. WSEP also operates in partnership with prominent local banks, such as we've just heard from the Harris Bank. Through such partnerships, WSEP links some of the major banking organizations of this great metropolitan area with the individual women who, despite remarkably few resources, struggle every day to maintain hope and to succeed.

Encouraging community development partnerships

Fortunately, WSEP is not alone in its recognition that more can be done by building community than by people working apart. All across the country, microenterprise lenders are forming partnerships with banks, linking some of the high-tech capabilities of banks with the micro-lenders' new methods of outreach, loan underwriting and collection technologies, and programs for asset development. These partnerships are breaking new ground and yet -- in a sense -- they are offering the same route to the American Dream that people have trod for many years now: through small businesses.

These partnerships combine the strengths of banks with the skills of microenterprise organizations. Banks are pros at raising capital in the marketplace, local and national. They provide much of the financial raw material -- often at market rates, sometimes even secured with loan guarantees -- to micro-lenders, which then on-lend the funds in small amounts to their own customers. Many

banks provide the micro-lenders with indirect access to technology that drives down costs of processing and monitoring loan repayments. Daily modem or fax transmissions enable the micro-lenders to carry out very good management practice at very low cost. Banks also allow their employees to serve on micro-lenders' boards, or on their loan committees. Particularly after these bankers have learned the micro-lending methodologies, they provide valuable support in overseeing the organization's management, or in reviewing their larger loans.

In turn, micro-lending organizations provide the essential training, ongoing technical assistance, and loans to the microenterprises that banks still cannot -- or have not yet figured out how to -- take on as customers. The micro-lenders are able to reach well into poor and disadvantaged communities to identify good prospective clients that banks don't yet serve. Microenterprise organizations continue to develop and refine their training and lending methodologies that, every day, transform the previously worthless promise of poor Americans into a credible promise -- and that help to build a public credit record that will gain these customers wider access to credit in the future.

These partnerships of micro-lenders, banks, and other businesses are also working together to create new breakthroughs and to extend economic opportunity further. Some are designing alternative credit scoring models to help systematize and improve our understanding of microenterprise credit risks; others are developing methods for better measuring the costs of each step of the credit delivery process to guide the development of profit centers; and still others are exploring the possibilities of packaging and securitizing micro-loans, with the aim of eventually creating a secondary market for small business and microenterprise loans. In these and other ways, bankers and community lenders have become allies in the process of product innovation.

Conclusion

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 community lenders, and as regulators

I believe that the OCC has a role to play in democratization of credit process by helping to create community development partnerships that build on the bedrock of safety and soundness. That is one of the reasons the OCC has hired community development specialists in all of our district offices. Many of you have already met Roosevelt Washington, who works out of the OCC's Central District in Chicago. Roosevelt, please stand for those here who have not yet met you.

You've come to this breakfast honoring WSEP because you want to be partners and leaders for the cause of greater economic opportunity today and tomorrow. Leaders must have the vision and the conviction that a dream can be achieved. And leaders inspire the

power and energy to get it done. This morning, let all of us renew our commitment to discover new ways to extend credit to creditworthy borrowers and into neighborhoods of all types and income levels.

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