

**Remarks by Donna Tanoue
Chairman
Federal Deposit Insurance Corporation
Before a
Small Business Investment Company Workshop
Sponsored by the
Small Business Administration
Dallas, Texas
May 17, 1999**

Thank you for that introduction. We all know that for the economy to do well, small businesses need to do well. But there is a shortage of venture capital going to small businesses, especially in low- and moderate-income areas. That is why I am pleased that we at the FDIC are co-sponsors of this workshop.

This workshop, and others around the country, are part of an effort by the Small Business Administration to open the doors of opportunity in new markets, an effort to ensure that entrepreneurs continue to flourish in this country—everywhere. These workshops really make a difference.

After a recent workshop in Chicago, a venture capitalist approached one of the FDIC's Community Affairs Officers to discuss plans for his Small Business Investment Company (SBIC), which had been approved by SBA. The SBIC will provide access to capital to small companies in five Midwestern states. Before the SBIC workshop, the venture capitalist had sent letters to the majority of the banks in the Chicago area to see if any had an interest in investing with the SBIC. The company was seeking \$15 million to \$20 million in private capital from banks and individual investors. The venture capitalist said that not one bank responded. At the Chicago workshop, however, he had the opportunity to meet and network with various lenders. Subsequently, he arranged meetings with five lenders to discuss their interest in investing in the SBIC. And at least three of the lenders will be going to their investment committees for consideration. The workshop had credibility because it was sponsored by the banking agencies.

I'm here today to talk about how banks can help open the doors of opportunity working through Small Business Investment Companies. And I want to discuss three issues: one, SBICs are an opportunity for banks; two, the interest the FDIC has in being here; and, three, an update on how banks are meeting the Year 2000 computer challenge.

First, let's look at why these companies can be a good investment for banks, and particularly why in low- and moderate-income areas. The Small Business Administration created the SBIC program 40 years ago to close a gap in long-term financing for small, growth-oriented companies. Over the last 40 years, the companies have provided more than \$20 billion in financing—about half during the 1990s. And several major companies—such as Apple Computer, Federal Express, and Intel—can trace their

origins to initial financing by SBICs. You never know how far the entrepreneurial spirit will carry you. How would you like to have been on the ground floor when Federal Express was created?

During the last fiscal year, SBICs invested \$3.2 billion. But only 17 percent of these investments were made in low- and moderate-income areas. There is tremendous opportunity there. A recent study by Competitive Inner City, a Boston-based nonprofit group that promotes urban investment, estimated that inner-city retail buying power is about \$85 billion a year. And a recent edition of Demographics USA estimates buying power in rural areas at nearly \$700 million. Those are numbers that should impress any banker, as should an article in the most recent issue of Inc. magazine. In it, Harvard Business School professor Michael Porter writes that inner cities offer businesses four competitive advantages: one, strategic locations at the hubs of the nation's transportation and communications systems; two, an underutilized workforce; three, underserved local markets; and, four, opportunities for companies to link up with and provide outsourcing for local economies. He notes that in Chicago alone there are approximately 15,000 inner-city companies generating \$50 billion in annual revenues and employing about 250,000 people. The inner cities are an economic frontier.

What interest, then, does the FDIC have in being here at this workshop? For years, we have taken an active role promoting communication and partnerships among financial institutions, government organizations and community organizations to help increase credit to low- and moderate-income individuals—and to small businesses. Just recently, for example, we brought together bankers, people who provide technical assistance to small businesses, government officials and community organizations to develop a revolving loan fund for small businesses in Kent County, Michigan. Banks had told us of their difficulties in making and servicing small loans to microenterprises, but they also expressed a strong desire to find ways to jump-start young companies so that, once in business, they could qualify for conventional lending down the road. The loan fund being developed would do just that. Money has been committed, and articles of incorporation have been drafted. It is scheduled to be up and running next month. This project would not have happened without our taking the initiative.

At the same time, we also have an interest, as supervisors, in bank compliance with the Community Reinvestment Act. One of our Community Affairs Officers, Eloy Villafranca, spoke at a session this morning on how the Community Reinvestment Act relates to the SBIC program. I want to underscore that banks can help meet their CRA obligations by investing in SBICs, and to note that one of our institutions recently received an "outstanding" CRA rating based, in large part, on its developing an SBIC and making qualified investments in two others.

We recognize that many of the smallest banking institutions do not have the investment dollars to form an SBIC on their own, but if you are one of them, you have other options open. For example, you could partner with other banks to create a new, multi-bank SBIC, or you could approach an existing SBIC to create a new, multi-bank investment

fund. In both cases, you could generate investments in low- and moderate-income areas.

The officers in our Community Affairs Program are ready to work with any of the banks we supervise to explore how you can use the SBIC program to create opportunities in low- and moderate-income areas. If you think that is an invitation, you're right. We want to help you open the door of opportunity to the entrepreneurs who need opportunity the most, the smallest of the small businesses.

I would be remiss in my duties as a bank regulator today if I did not talk about the Year 2000 and banking—the most immediate challenge facing banking today. The Year 2000 issue—or Y2K as it is commonly known—is the challenge of reprogramming computers so they don't mistake the year 2000 for 1900. Most people don't understand how this programming flaw will affect their lives, and what people don't understand, they fear. But there are three reasons why the public should have confidence in the banking system:

One, bankers have spent years preparing to become Y2K ready; Two, federal and state regulators are aggressively supervising the Y2K preparations of banks; and Three, money is safe in an FDIC-insured account—no ifs, ands, or buts. The Year 2000 issue has no effect on our guarantee. Under the watchful eye of regulators, banks have been working on the Year 2000 issue since 1995. They have assessed their systems to find programming flaws. They have tried to address the flaws where they have found them, and now they are testing their systems to see if the fixes have worked. They are also developing contingency plans to ensure that customers have access to their money and accurate account information should any glitches occur—and no one can guarantee that they won't.

In addition to what the banks are doing, you can take comfort from what the regulators are doing. Bank examiners have visited every bank and thrift institution in the country not once, but twice, to make sure that banks are on track in preparing for the date change. If banks are behind schedule, we will take strict supervisory action.

But consumers need information to make good decisions. So we have encouraged, and continue to encourage, banks to explain the Y2K issue to their own customers, discuss the institution's own plan to address the issue, and describe its progress. Any banks should be able to answer questions such as: What does the Y2K issue mean to the bank? Has the bank reviewed all of its systems to determine which ones need to be fixed? Have the systems been tested to ensure they will work? When do you expect to complete your preparations? How will you serve customers if there is an unanticipated problem from Y2K? What are you doing to ensure that people in your community will have access to their money? And what are you doing to ensure that customers continue to receive accurate information on their accounts? This information will help people keep the Y2K rollover in perspective. It will help people realize that Y2K is just one more challenge that we, as a nation, will meet.

Most people are not expecting everything to be perfect come January 1. After all, everything is not perfect now. So we're telling bankers not to overpromise. But do provide information—complete, accurate, and reliable information.

Third, and finally, beyond the fact that bankers and bank regulators have been working on Y2K since 1995, there is the FDIC guarantee. Money is safe in an FDIC-insured account—no ifs, ands, or buts—because no one has ever lost a penny of an FDIC-insured deposit. No one. This is true whether the bank is small or large, whether it is in Maui or Manhattan.

If anyone knows about money, it's the financial writer Jane Bryant Quinn. In writing about the Y2K issue recently, she asked: "Would I take savings out of the bank, lose the interest it's earning and risk total loss if I had a fire?" And she answered: "My money stays put, where it's FDIC-insured." Jane Bryant Quinn knows that we stand behind our guarantee.

In short, the bottom line on banking and the Year 2000 is this: No one can promise that there won't be glitches, but we at the FDIC have confidence that the overwhelming majority of banks will be prepared for the century date change.

In closing, I want to stress that we at the FDIC are committed to doing everything we can to make sure banks are prepared for the Y2K date change. And we are also committed to community development. We are committed to promoting renewal in our communities. We want to work with you—bankers, venture capitalists, small business people, and community leaders—to build stronger and more vibrant communities. If you call on us, we will provide any assistance we can.

Thank you.

Last Updated 6/25/99