

For Release on Delivery
Thursday, July 11, 1968
10:00 a.m., P.D.T.
1:00 p.m., E.D.T.

EQUAL OPPORTUNITY IN BANKING:
AN URBAN PERSPECTIVE

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At an

Equal Employment Opportunity Conference

Sponsored Jointly By

U. S. Treasury Department,
American Bankers Association, and
California Bankers Association

International Hotel
Los Angeles

July 11, 1968

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Even a cursory review leaves one impressed with the rapid strides which banks are making to expand job opportunities for minority groups. This is as true in California as in the rest of the nation. Progress is particularly striking in the large banks in urban areas, but smaller institutions are also sharing in the movement. Moreover, a number of organizations -- national, regional and local -- are spearheading equal opportunity programs that show considerable promise. Some have already achieved noticeable results. All of us who are interested in the further development of a vigorous and efficient banking system must applaud these efforts.

At the same time, however, I am personally troubled by the limited scope of some of the bank programs aimed at recruitment of minority groups. With very few exceptions, the programs at which I have looked are focused almost exclusively on employment and training of minority group employees in substantially greater numbers than in the past.

Since these steps alone represent giant strides for many banks, one might be inclined to ask what else is required or could be expected. The answer is: a much greater effort to build bridges to those urban communities where most minority groups live. To build such bridges, banks should not only offer expanding job opportunities. They should also look carefully at their lending policies to insure that such policies do not

*Member, Board of Governors of the Federal Reserve System. I am indebted to Miss Mary Ann Graves of the Board's staff for assistance in the preparation of these remarks.

arbitrarily exclude members of minority groups from consideration as borrowers. In addition, the banks should measure the distances between themselves and the residents of these communities: is the bank represented in the organizations devoted to community improvement -- and is the community represented on the boards and the councils of the bank?

In my personal judgment, a bank that is fully committed to the expansion of equal opportunity should assure itself that all of its policies -- employment, lending and community participation -- are shaped with imagination and reinforce each other. Unfortunately, few of the bank programs developed so far to reach into our urban communities meet these criteria. I shall return to this theme below. In the meantime, the main points of these remarks can be summarized briefly:

- The record of minority group employment in banks in California appears to be mixed, compared with the country as a whole. For Spanish-Americans and Orientals, the California experience seems to be much better, but for Negroes it seems to be only slightly better, than in the country as a whole.
- In the last year or so, however, banks in California have made noticeable strides in expanding employment for minority groups. For example, such groups accounted for more than half of the net increase in employment in eight large California banks between the spring of 1967 and the spring of 1968.
- In the country at large, a number of organizations have programs underway that show considerable promise. The efforts of the American Bankers Association and Plans for Progress -- along with those in several cities -- are especially worthy of comment.
- Contacts with banks by members of minority groups are proportionately much more infrequent than by members of the population generally. Much more vigorous efforts need to be made by banks to reach minority group communities in urban areas. Otherwise, efforts to recruit employees among these groups are likely to yield only indifferent results.

Minority Group Employment in Banking

In speaking of equal opportunity for minority groups, most observers have in mind Negroes, Spanish Americans (Puerto Ricans and Mexican Americans), Orientals and American Indians. Among these, statistical information on Negroes is both most readily available and the most clearly defined. The U. S. Bureau of the Census estimates that the Negro population was 21.6 million in March, 1967; it was 18.8 million at the time of the 1960 census. No recent Census Bureau estimates are available for other minority groups. In 1960, there were about 3.7 million Mexican Americans; 890 thousand Puerto Ricans; 520 thousand Indians; 460 thousand Japanese; 240 thousand Chinese, and 175 thousand Filipinos. Thus, in 1960 Negroes represented roughly 78 per cent of the minority groups defined above. Moreover, Negroes are the only minority group that is widely distributed throughout the country, while the others are highly concentrated -- Puerto Ricans in New York, Mexican Americans in California and the Southwest, and Orientals in Hawaii and on the West Coast. Thus, much of the following analysis of national experience with expanding job opportunities for minority groups is focused primarily on employment of Negroes in banking. The California experience, however, must necessarily focus on Mexican Americans and Orientals as well.

The 1960 Census is also the only comprehensive source of information on employment patterns among minority groups. Since almost a decade has elapsed since that census was taken, one must rely on rough estimates from a variety of sources. To bridge this gap, I recently asked the Equal Employment Opportunity Commission (EEOC) to prepare a special tabulation

of statistics reported to the Commission under Title VII of the Civil Rights Act of 1964. So far, data are available for 1966 only; these cover reports submitted in the spring of that year as required of all private employers with 100 or more employees and of holders of Federal government contracts of \$50,000 or more with 50 or more employees.^{1/} Because of these minimum size limitations, the statistical coverage in terms of the number of firms was rather narrow in the banking sector (along with many other industries). However, the coverage was quite adequate in terms of the number of employees. This was especially true in banking where employment is heavily concentrated in large establishments.^{2/}

Using the EEOC data for Negroes as indicative of the situation for minority groups generally, the picture shown in Table 1 emerges for banking and finance in 1966.

Thus, Negroes represented just under 4-1/2 per cent of total employment in banking. This proportion was slightly more than one-half their share of all private industry jobs (8 per cent) reported in the EEOC. However, the ratio of Negro to total employment in banking was somewhat higher than in other major financial sectors. In general, the EEOC data show that the greater the proportion of white collar to total employment in American industry, the smaller is the incidence of participation by

^{1/} Reports for both 1967 and 1968 are still being processed by EEOC. The 1967 results may be available by late summer, but 1968 results may not be available until late this fall.

^{2/} For example, the EEOC data for 1966 covered 1,711 of the 13,800 banking institutions in the country and accounted for 509 thousand of the 800 thousand employees in the industry. However, the coverage by size of firm was as follows: under 100 employees, 8 per cent; 100-250 employees, 93 per cent; 250-500 employees, 88 per cent; over 500 employees, 98 per cent.

Table 1. Employment Pattern Among
Negroes in Banking and Finance
Spring, 1966

Selected Industries	Negro Employment as per cent of Total Employment	Percentage of Firms with No Negro Employees
All Industry	8.2	47.1
Banking and Finance	1.9 - 11.8	31.9 - 77.8
Banking	4.4	31.9
Insurance	3.3	77.8
Securities Dealers/Exchanges	2.4	75.5
Credit Agencies	2.4	71.3
Real Estate	11.8	39.0
Other Finance		
Insurance & Real Estate	1.9	68.0

Source: Equal Employment Opportunity Commission.

Negroes. About one-third of the banks covered in the EEOC reports had no Negro employees, compared with almost one-half of all firms reporting. Undoubtedly, the fact that bank coverage was restricted primarily to large institutions accounts for the high proportion of banks reporting Negroes on their payroll.

Employment Patterns in California

In California, the employment pattern of minority groups in banking is quite mixed. For example, Spanish Americans account for a somewhat larger proportion of the total employment in San Francisco than in New York. For Negroes the reverse was true. The percentage distributions for total and white collar employment were roughly as shown in Table 2 in 1966.

Table 2. Employment of Negroes and Spanish Americans in Banking,
San Francisco and New York, Spring, 1966
(Percentage distribution)

	<u>San Francisco</u>		<u>New York City</u>	
	Total	White Collar	Total	White Collar
Negroes				
All industry	8.0	3.0	10.0	5.7
Banking	4.9	4.6	6.5	6.3
Spanish Americans				
All industry	6.7	2.9	5.7	2.6
Banking	6.7	6.4	4.7	4.7

Source: Equal Employment Opportunity Commission.

Thus, in California, the representation of Spanish Americans in banking is roughly the same as their representation in industry generally. Among Negroes, the incidence of employment in banking in California is considerably below their participation in all industry. In New York City, the participation rate for Spanish Americans in banking falls short of the all industry rate, but the differential is much less than that for Negroes. Negroes and Spanish Americans -- in both San Francisco and New York -- hold a relatively larger proportion of white collar jobs in banking than they do in industry generally.

Banks in California -- as in the rest of the nation -- are making vigorous efforts to broaden further the range of employment opportunities

for minority groups. Just how rapidly the situation is changing in California can be seen in Table 3, showing the pattern of minority group employment in eight large commercial banks in 1967 and 1968. These data are summaries of the banks' EEOC reports submitted in the spring of both years. It will be noted that minority groups -- which represented about one-eighth of the banks' total labor force in 1967 -- accounted for more than one-half of the increase in employment between the two years. The somewhat smaller participation rates for Negroes and Spanish Americans in these eight banks in 1967, compared with the participation rates in San Francisco in 1966, probably can be traced to the fact that the figures in Table 3 cover the banks' state-wide employment levels while minority groups are heavily concentrated in large urban areas. (In fact, on a state-wide basis in California, Negroes constituted only 3.8 per cent of total employment in banks reported in the 1966 EEOC data, compared with 4.4 per cent for the country as a whole.) But, reflecting the rapid increase in employment in banking in California during the last year, minority groups' share of total employment in the eight banks rose to just over 15 per cent. Other banks in the state undoubtedly also greatly expanded job opportunities for members of such groups over the same period.

New Programs to Promote Equal Opportunity in Banking

As I mentioned above, a number of organized efforts are going forward to enhance wider opportunities for minority groups in the banking industry. Perhaps the most broadly based is the effort launched by the American Bankers Association (ABA) earlier this year. In April, the ABA

Table 3. Employment of Minority Groups in Eight Large Commercial Banks in California, Spring, 1967 and 1968

Category of Employment	1967		1968		Change: 1967-68	
	Number	Per cent of total	Number	Per cent of total	Number	Per cent of total
Minority Groups	9,545	12.6	12,211	15.1	2,666	53.4
Negro	2,918	3.8	3,674	4.5	756	15.1
Spanish-American	4,243	5.6	5,736	7.1	1,493	29.9
Oriental	2,342	3.1	2,750	3.4	408	8.2
Other Employees	66,347	87.4	68,676	84.9	2,329	46.6
Total Employment	75,892	100.0	80,887	100.0	4,995	100.0

Source: Summary of EEOC Reports.

formed a 45-member Bankers Committee on Urban Affairs. The Committee members (drawn from senior bank management) represent a wide geographic cross section of the banking industry. The Committee's creation is a reflection of the ABA's general concern with -- and involvement in -- the basic difficulties confronting the nation's cities. Initially the Committee will concentrate its efforts in three principal areas:

- Housing for low and middle-income persons.
- Equal employment opportunity for disadvantaged persons.
- Business assistance in ghetto areas.

With regard to equal employment, the Committee in early June adopted a policy statement urging the banking industry to use all the resources at its command to insure equal employment opportunities for members of disadvantaged groups. To help implement this policy, a special task force on urban employment opportunities has been created; it is working with the American Institute of Banking and the ABA's Personnel Administration and Management Development Committee. The aim is to fashion a concrete program through which the banking industry as a whole can promote employment opportunities. The staff expects to present the program to the Committee on Urban Affairs in the near future.

In the meantime, a number of local chapters of the American Institute of Banking (AIB) have probably gone farther than any other banking industry group to launch programs to enhance employment opportunities for minority groups. In New York City, 34 banking and financial institutions have joined, in collaboration with the local chapter of AIB, in a consortium arrangement to employ and train over 700 ghetto residents for careers in banking over the next year. The program is aimed primarily at Negro and Puerto Rican school dropouts who have been unemployed or underemployed. While the program has an early goal of preparing the participants to perform junior clerical and business machine operational tasks at the institutions, its long-run objective is to equip them to qualify for high school equivalency degrees. For many, this means intensive work in remedial education as well as instruction in banking fundamentals and on-the-job training in different aspects of bank operations. But for those who complete the year-long program, opportunities will exist for further training in

regular AIB courses. Thus, for them avenues will be opened to meaningful careers in banking beyond the beginning level jobs in banks (for which most of the trainees could not have qualified without the special efforts the banks are making).

I am especially pleased that the Federal Reserve Bank of New York is prominent among the 34 institutions participating in the program. In other cities around the country (particularly in Boston and Wichita, Kansas), AIB chapters are pioneering in the development of equal opportunity programs. The paths these leaders are breaking can -- and should -- be followed by still other AIB chapters which so far have not developed projects of their own.

Through Plans for Progress, some 34 banks are striving to expand job horizons for minority groups. These institutions -- along with all other companies participating in this voluntary private industry effort -- have signed a formal agreement with the Vice President pledging to undertake programs of affirmative action to insure equality of employment opportunity. The first bank joined Plans for Progress in March, 1964, and by the end of 1966, a total of nine had enrolled. Five of these nine were California institutions.

In May, 1967, Vice President Humphrey invited representatives of the banking community to a meeting in Washington, D. C., to explore ways of increasing commercial banks' participation in the Plans for Progress Program. Reflecting that effort, another 24 banks had enrolled by the end of June this year.

Plans for Progress reports that the banks participating in its Program employ members of minority groups in considerably larger proportions

than do other banks. For example, according to their estimates, in the spring of 1966, minority groups constituted 12.9 per cent of the total work force in its member institutions, compared with 7.2 per cent for banks which were not members. In the area of white collar employment, the ratios were 12.7 per cent for Plans for Progress banks and 5.7 per cent for other institutions.

A number of banks across the country are participating fully in the program of the National Alliance of Businessmen in pledging a proportionate number of new job opportunities for disadvantaged persons. Some of these are being supported by Federal funds for training subsidies or increased program expenditures. However, in many cases, banks are assuming the increased financial obligation without Federal assistance.

Throughout the nation, individual banks are mounting or already have underway vigorous programs to expand job opportunities for minority groups. Such individual bank programs have attracted considerable notice in New York, Philadelphia, and Chicago. This is also true of several banks in California.

Reaching Beyond Equal Employment Opportunity

As I mentioned at the outset, all these efforts to expand employment opportunities in banking are to be applauded, because they are obviously helping greatly to ease one of our most pressing urban difficulties -- the problem of high unemployment rates among minority groups. On the other hand, it is also necessary for the banks to reach beyond the development of employment programs if they are to make a truly significant contribution to

urban rehabilitation.

Even when one examines the content of some of the employment programs now unfolding, it is difficult to escape the impression that many of them are being fashioned without much feeling for the environments in which recruitment is to take place. In my judgment, we must constantly remind ourselves that the typical resident of our urban ghettos has little -- if anything -- to do with banks.

Just how relatively little contact many minority groups have with banks was amply illustrated in the household survey conducted in 1966 by The Opinion Research Corporation for the Foundation for Commercial Banks.^{1/}

- One question focused on the disposition of the main wage earner's pay or income check. The responses of families, by color, were as follows (percentage of respondents):

	<u>White</u>	<u>Nonwhite</u>
Entire check deposited	26	7
Part of check deposited	38	16
Entire check cashed	41	72
Check cashed in bank	20	27

- Another question dealt with the method used to pay household bills.

	<u>White</u>	<u>Nonwhite</u>
Check	65	19
Cash	37	70
Money order	10	21

^{1/} In these summaries, percentages do not necessarily add to 100 because of overlapping of some responses among different categories.

- Questions were also included on the use of checking accounts and other bank services:

	<u>White</u>	<u>Nonwhite</u>
Have regular and/or special checking account	71	23
Have regular checking account	61	20
Have special checking account	16	4
Use one or more savings services	60	30

The central conclusion that stands out in these responses is that minority groups -- of whom nonwhites constitute the vast majority -- are quite distant from banks. Since a typical member of such groups has little business contact with banks, and is likely to know few -- if any -- persons who actually work in banks, it probably seldom occurs to him to think of banks in terms of a place in which to work.

If this distance between banks and minority groups is to be bridged, much of the initiative must come from banks. Again, in my judgment, this initiative should include a review of banks' lending policies with respect to minority groups as well as an expansion of their participation in community affairs.

The need for many banks to review their lending policies is clearly demonstrated by the way in which many of them have managed their share of the student guaranteed loan program established by the Higher Education Act of 1965. According to a study of the program recently made by the Federal Reserve Bank of Boston, the program works to the disadvantage of college students in ghetto families. This unintended effect (and perhaps unconscious result from many bankers' point of view) comes about primarily because of a shortage of loanable funds. In order to ration such funds, many banks

restrict such loans to potential borrowers with previous deposit or customer relations with the institution. They also tend to give preference to borrowers in the banks' immediate service area. Both of these criteria tend to favor the more affluent middle class and suburban families -- and to put college students who live in the ghetto to a considerable disadvantage in the competition for educational loans.

The criteria used by many banks to appraise loan applications submitted by minority group businessmen have a similar effect. Because the operations of these entrepreneurs are usually small, under-capitalized, and can exhibit a record of only indifferent performance, they ordinarily cannot qualify for loans under normal terms. Yet, the drive for business ownership in the ghetto is strong, and banks are increasingly identified as a source of hope -- or frustration or both. Recognizing this situation, many banks around the country are devising special screening techniques and specialized loan programs which are beginning to meet some of these loan requests.

Finally, numerous banks are also seeking new avenues of cooperation with minority groups in our central cities. In addition to broadening their participation in community projects, some banks are inviting minority group members to join their boards or directors or to sit on advisory boards for branches located in areas populated primarily by minority groups. This approach appears to be especially appealing to minority groups in those communities where it has been tried. In states (such as California) where many of the banks have a large network of branches, such representation may

be a promising vehicle to enable the banks to reach out to minority groups far more effectively than simply expanding employment opportunities more rapidly -- although the latter is obviously a substantial contribution even when taken alone.