

CONFERENCE ON DISCRIMINATION IN FINANCIAL SERVICES
FEDERAL RESERVE BANK OF CHICAGO

Chicago, Illinois
March 22, 1996

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I. Introduction

- A. Thank-you for being with us today.
- B. First conference of its kind for a Federal Reserve Bank.
 - 1. Bring together various agencies.
- C. Thank Loyola University/Journal of Financial Services Research.
- D. Excited about this initiative. Excellent presentations this morning.
- E. Long-standing personal interest in these issues. HUD experience.

II. Federal Reserve interest.

- A. Like to take a few minutes to discuss the Bank's interest in exploring issues related to access to credit.
- B. Federal Reserve has long-time interest in access to credit.
 - 1. Originally focused on ag sector; now more focus on inner cities.
- C. Access to credit, of course, helps ensure long-run viability of inner-city and other communities.
 - 1. Not just a mortgage market issue but ability of households and businesses to access various types of credit.

- D. As you know, banks have statutory obligation to provide equal access to credit—not discriminate.
Given its responsibilities Fed must understand the issues.

III. Role of Chicago Fed

- A. Take a public policy perspective.
1. We encourage sound economic research into these issues.
- B. Alan Greenspan once said, “All reform begins in academia.”
1. To develop intelligent policy need to develop understanding.
- C. We don’t advocate a certain position.
1. If evidence suggested no problem, we would support the repeal of laws that are onerous to banks.
 2. On the other hand, if lending discrimination exists we must take decisive action.
 3. We want to find answers as to why problems occur and provide solutions (regulatory and managerial) that will prevent them from re-occurring.
 4. At this point, we don’t have definitive answers.
 5. For this reason, conference wrap-up session will focus on what we know and how we should proceed.
- D. Hope our research will foster innovative approaches.
1. Financial innovations rapidly multiplying.
 - a. Development of new “tools” for bankers can facilitate access to credit.
 2. Chicago has history as incubator of new and successful approaches for encouraging access to credit/community development.
 - a. Many call Chicago the birthplace of community economic activism.
 - b. City has wide variety of ethnic neighborhoods.
 - c. Long the home of groups such as ACORN.
 - d. After a period of what were perhaps negative development efforts the city has moved from greenlining to successful public/private efforts.
 3. Success of these initiatives indicate that we cannot and should not depend only on public sector.
 4. Important to establish innovative public/private partnerships.
 - a. The bottom line is whether a program works—and partnership programs tend to work.

- b. Essential to bring together different resources—private, academic, public.
- c. Recently toured West Humboldt neighborhood with The Social Compact to get first hand look at such a successful partnership effort.

IV. Chicago Fed initiatives.

A. Number of activities but will focus on research -related initiatives.

- 1. Economic research devoting increased resources to studying issues related to access to credit.
- 2. Build on reputation for financial sector research —Bank Structure Conference.
- 3. Example of efforts—papers and studies by Chicago Fed economists on issues such as lending discrimination and community development.

B. Hope to serve as catalyst for encouraging high quality research on these subjects.

- 1. Through conferences like this one as well as workshops.

Bank will serve as resource for researchers, banks, and community groups.

- 3. As part of this effort, Chicago Fed recently assumed responsibility as repository for Systemwide fair lending data.
 - a. The plan is for the Bank to collect the data used by the 12 Reserve Banks during fair lending exams.
 - b. This includes the raw data and final disposition from loan applications as well as other data such as HMDA numbers.
 - c. We will collect all this data and check it for accuracy and errors of omission.
 - d. Then compile the data in a user-friendly database and make it available to Fed researchers and to the public.
 - e. Won't be able to provide the public with exam grades or with data about specific banks because of rules on confidentiality.
 - f. But database will include geocoding for each application to facilitate research.
 - g. The database will be a rich source of information on how lenders make decisions and how credit markets work.

C. Also focus on field work.

- 1. New unit in Community and Information Services created to research issues related to fair lending, community reinvestment, and economic development.
 - a. Effort headed by Vice President Alicia Williams and Manager Sherrie Rhine, who are with us today.
- 2. Field-related work that includes surveys, interviews with consumers and banks, etc.

3. Bank's initiatives include having Rob Townsend here as a consultant conducting field work on alternative credit and risk-sharing mechanisms in inner-city Chicago.
4. All the above, valuable information that we hope will complement theoretical and more traditional studies.

V. Conclusion

- A. Our goal is to lay groundwork for effective public policy.
 1. We're off to a great start with this morning's presentations.
 2. Having leading financial policy journal like the Journal of Financial Services Research devote a special issue to workshop indicates importance of subject matter.
 3. We hope that this issue of the journal spurs additional research.
- B. But this conference only a start.
- C. We're committed to the Federal Reserve Bank of Chicago becoming a leader in this area.
- D. Today's workshop an important step.