

SMALL ENTERPRISE CAPITAL ACCESS PARTNERSHIPS (SECAP)
FEDERAL RESERVE BANK OF CHICAGO

Chicago, Illinois
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I. Good morning. I am pleased to welcome you here today as we formally kick off the Small Enterprise Capital Access Partnership, or SECAP.

A. Before I talk about the initiative, I would like to recognize the organizations that have agreed to co-convene SECAP with the Federal Reserve Bank of Chicago.

- The SECAP co-conveners include the Chicago Association of Neighborhood Development Organizations, better known as CANDO,
- the Women's Business Development Center,
- the Chicago District Office of the U.S. SBA,
- the Chicagoland Chamber of Commerce,
- the Illinois Bankers Association, and
- the Cosmopolitan Chamber of Commerce.

B. You will be hearing from representatives of these organizations later in this morning's program.

II. SECAP is an entirely voluntary program.

A. It was created to promote fair access to credit, capital and other resources required by small business owners, by identifying and addressing barriers in the process.

- B. Ultimately, through interaction with practitioners in the small business arena, we hope to create an atmosphere in which innovative ideas can be created and implemented.

III. The methodology behind SECAP, which you will hear about in greater detail shortly, is unusual but it is not unprecedented.

- A. In 1996, the Federal Reserve Bank of Chicago and six co-conveners initiated the Mortgage Credit Access Partnership, more commonly known as MCAP.
- B. The key goal of MCAP was similar, to promote fair access to credit and housing, but was focused on homebuyers.
- C. MCAP was successful in initiating meaningful change by bringing together mortgage lenders, and the related service providers and trade associations, including insurers, credit bureaus, appraisers, real estate agents and others, to participate in a candid dialogue.
- D. Some very important changes occurred as a result of MCAP.
 - 1. For example, the Illinois Real Estate Appraiser Licensing Act now contains an explicit non-discrimination provision as a result of the work of MCAP Partners including the Illinois Coalition of Appraisal Professionals and the Leadership Council for Metropolitan Open Communities.
 - 2. Another important change is the creation of a foreclosure intervention program for neighborhoods that have been impacted by high rates of foreclosure and vacancy.
 - 3. The program was created by a public/private partnership between Neighborhood Housing Services of Chicago, the City of Chicago, HUD and a group of mortgage lenders and insurers.
 - 4. Through the program, over 150 families have received emergency loans, or had their existing loan restructured, and have been able to keep their homes.
- E. We intend to achieve meaningful results with SECAP as well.
 - 1. As with MCAP, our goal is not to produce a blue ribbon report to suggest courses of action for others to pursue.
 - 2. Rather, the goal is to produce a blue print for action by concerned individuals in the small business arena.

IV. Some of you are familiar with the goals of SECAP, as you have participated in the groundwork leading up to today. However, I would like to spend a few minutes discussing why the SECAP conveners initiated the project and why we feel it is important to explore issues facing historically underserved entrepreneurs and communities.

- A. First, it's important to note that data collected by regulators shows differences between amounts of business credit flowing to lower- and upper-income communities.
 - 1. Revisions to the Community Reinvestment Act that took effect in 1995 require lenders to report the number and amount of small business and small farm loans they originate by census tract.
 - 2. The Consumer and Community Affairs Division at the Chicago Fed produces annually the "Small Business Lending Profile," which tracks aggregate lending data by the five largest MSAs in the Seventh Federal Reserve district.
 - 3. The most recent reports show that in 1996 and 1997 low- and moderate-income neighborhoods in the Chicago MSA received fewer loans in proportion to the number of businesses present, compared with middle- and upper-income neighborhoods.
 - 4. Although these data are difficult to interpret, they indicate that these may be opportunities for additional loans in low- and moderate-income areas.
- B. But it's not enough to look only at these figures. Lenders must always be conscious of safe and sound lending practices, in addition to meeting CRA criteria.
 - 1. Lenders, technical assistance providers and community advocates who have participated in focus groups and meetings as part of the preliminary work for SECAP, report that many diverse factors influence the credit-worthiness of a business owner in the view of lenders.
 - 2. Lenders also differ in how they market to and interact with borrowers. Some lenders network and build traditional relationships with borrowers, while others use automated credit scoring systems and small, unsecured lines of credit to meet high demand for smaller business loans.
- C. Like all aspects of life, the lending industry is dynamic, but some things remain constant.
 - 1. For business owners to be successful loan applicants, they must demonstrate not only a good understanding of their business and their industry, but also sound record-keeping habits, a solid record of repaying consumer credit, and a well-prepared business plan.
 - 2. A tenable plan for the repayment of a loan is also highly valued by loan officers and underwriters. Many business owners may not be aware that there are organizations that can train them in many of these skills.
 - 3. This is one of the many issues SECAP was created to address.

- D. Aside from issues of preparedness and sound practices, some business owners, as you saw from our video presentation, still perceive that they may not be treated entirely fairly based on race, gender, location, a language barrier or a lack of affiliation on some other basis.
- Certainly, in the course of deliberations in the SECAP program, this issue will arise as well.
- E. I want to be very clear on one point.
1. We don't intend for SECAP to be an opportunity for fulfilling private agendas, or a finger pointing exercise, laying blame on particular institutions or individuals.
 2. We do want to bring lenders, business owners, advocates, technical assistance providers, and economic development groups to the table to discuss ways in which policies and practices affect the success of current and potential business owners.
- V. **In this morning's program, you'll hear more about the issues that SECAP is intended to address and the various perspectives of the organizations that helped us to develop the program.**
- A. I urge you to think about how your institution might contribute to the goals of SECAP.
- B. With that, let me turn the podium back to our moderator, Alicia Williams...