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Building Bridges to America’s Emerging Urban Markets

Good morning. I’m glad to be here today. I am very pleased to have this opportunity to address a topic that needs more public attention — that is, how we can ensure that the benefits of this healthy, growing economy reach all sectors of the community. In doing so, we will help build bridges to America’s emerging urban markets.

At nine years and going strong, this economy is clearly in good health. As anyone who works out can tell you, getting in shape is no walk in the park. And there is no doubt that the American public has worked hard to get the economy into peak form. But keeping the economy healthy is even more challenging. In fact, you might compare it to running a marathon that has no finish line. The point is — it’s a challenge to get fit. And sometimes, it’s an even bigger challenge to stay fit once you’ve reached your goal. Even though the economy is in shape and times are good, we cannot afford to be complacent.

This wonderful expansion has opened a door for many Americans to find their way into the job market — sometimes for the first time. But there are still others who have yet to benefit from these good times. We cannot take a breather until we’ve overturned barriers to the development of under-served markets, until every citizen is able to fully participate in the economy. The longer the economy keeps running along, the greater the window of opportunity for us to bring more Americans into this prosperous mainstream.

What part does the Fed play in this vital community-development effort? It plays a significant role at both macro and micro levels, which I will explain.

One of the Fed’s main missions is to work at the macro level using monetary policy to foster healthy growth with price stability. A low-inflation environment is absolutely essential for sustained economic growth. The Fed’s success keeping inflation low helped provide the foundation for the strong economy and low unemployment rates we’ve experienced in recent years. However, monetary policy is a blunt tool with a broad impact on

the overall economy. It doesn't have the ability to directly focus on specific economic sectors or geographic areas. But the Fed does have the ability to work at the micro level by acting as a catalyst in initiating a variety of public- and private-sector partnerships aimed at reducing barriers and encouraging investment and development. This is done largely through each regional Reserve Bank.

The Chicago Fed works in a variety of ways to ensure fair access to credit and to foster investment and reinvestment in low- and moderate-income communities. As a regional Reserve Bank with a mixture of public and private features, the Chicago Fed is in a unique position to facilitate public-private partnerships in the Midwest. We've championed a number of new partnership initiatives that allow us to share expertise with many Midwestern governmental and private-sector growth and development organizations. The Fed is also involved in a variety of community-based initiatives, including ones geared to specific community audiences — such as small-business owners — and the general public.

In terms of reaching a broad audience, I am particularly excited to give you a preview of a new Chicago Fed initiative that is designed to help citizens in the Midwest improve their financial literacy. We will formally launch the campaign this summer. We hear a lot in the popular press about the importance of exercising and eating right to maintain our health. That same type of care can and should be applied to people's personal financial well-being. However, consumers need the right tools to exercise informed judgment about money.

The goal of our financial literacy initiative is to provide Midwestern consumers with objective, unbiased information about money management, so that they can make more informed decisions about their personal finances. This will be a broad-based effort targeting all consumers. However, the campaign will have specific initiatives geared toward low-income individuals and students in our District, which consists of most of Illinois, Indiana, Michigan and Wisconsin, and all of Iowa.

We want to identify a baseline-level of financial literacy and achieve that level of literacy across the District by carrying out a series of broad-based initiatives. The effort will use a variety of communication methods from all of our offices, as well as outside organizations throughout the Seventh District. Partnerships are key to unlocking many of the closed doors that still exist in our society, and this initiative is no different. For our plan to work, we need to create a coalition of public- and private-sector representatives and organizations to develop strategies geared toward higher levels of financial literacy.

Why are we doing this? Several different types of research have indicated that such an effort is needed. For example, at the Federal Reserve last week, the JumpStart Coalition for Personal Financial Literacy released the results of a new survey. It looked at high-school seniors nationwide and concluded that they lack the appropriate level of financial literacy. On average, students answered 52 percent of the questions correctly — in other words, a failing grade. This is down from 57 percent in the 1997 survey. I tried to think of a funny story about my own parenting experience with this topic, but I found what I remembered wasn't funny — it was painful!

The Chicago Fed feels a responsibility to be involved in such a campaign. Our mission is to foster a healthy, growing economy. Ultimately, an economy functions most efficiently when all participants have the information they need to make good financial decisions. We feel the Chicago Fed is in a unique position help increase people's financial knowledge. The initiative will officially begin this summer with a kick-off event and a comprehensive media campaign designed to increase awareness of the effort and to foster interest and support for the hard work that lies ahead. We hope that many of the organizations represented here today will work with us in accomplishing these ambitious goals.

As I mentioned earlier, the Fed also supports efforts aimed at specific community segments. Small business is one area that the Chicago Fed has increasingly focused on in recent years. Today, small business is one of the fastest growing sectors in our economy. According to the latest statistics from the U.S. Small Business Administration, small businesses with fewer than 500 workers employ 53 percent of the private non-farm work force, contribute 47 percent of all sales in the country and are responsible for 51 percent of the private Gross Domestic Product. Industries dominated by small firms contribute a major share of new jobs created. The Chicago Fed would like to build on this growth by helping to break down some of the barriers that still prevent people from participating in the economy. We have several efforts under way to do this, one of which we helped launch this past fall.

SECAP

The Small Enterprise Capital Access Partnership, or SECAP as we call it, is helping bring vital small-business credit to communities throughout Chicago. The effort focuses on the traditionally under-served businesses, such as those owned by minorities or women, or those located in low-income areas. Specifically, SECAP's goal is to make sure that all small businesses have fair access to the credit, capital and other resources they need to succeed. SECAP does this by identifying real and perceived barriers and working to eliminate those barriers.

This partnership is looking to address a variety of issues, including technical assistance to small-business owners; marketing and delivery systems for credit, capital, information and other resources in communities where small businesses operate; underwriting standards and practices; and equity investment for start-ups and small businesses. SECAP is in the process of developing a number of recommendations regarding these areas. The recommendations will be completed in the next two months, and we will then begin implementation.

Chatham Study

It's important to remember that an effective program targeting small business — or any other aspect of community development for that matter — is the product of good information. That is why research remains an important part of any new program launch. The need for reliable community information cannot be overlooked or underestimated.

The Chicago Fed uses its research expertise to identify issues that could be barriers to growth—such as limited access to credit and financial lending gaps. These particular issues have been raised in various community discussions about how small-business owners are funding their businesses. To shed some light on these matters, we worked with researchers from the University of Chicago to conduct surveys in two Chicago neighborhoods that are well-known by their ethnic profile and sustain vibrant small-business communities. They are Little Village, a predominantly Hispanic community, and Chatham, a predominantly black community.

Our results confirm the importance of personal savings and informal sources of credit meeting the needs of small businesses in both of these areas. One difference between these two areas was that black owners start their businesses with significantly less capital than Hispanic owners, even when controlling for industry type and various other measures of human capital. This funding gap is due to differences in the use of informal funding — which are loans or gifts from family and friends — rather than disparities in the amount of personal capital put up by the owner. These results suggest that both the informal and formal means of funding businesses need

to be addressed when developing programs and policies aimed at small businesses. This type of information is useful for all parties involved in the lending process — financial institutions as well as small-business owners.

By disseminating such research, we can advance the economic opportunities for all people by bringing important issues to light. To that end, the Chicago Fed has met with small-business owners, business organizations and financial institutions in the Chatham neighborhood to discuss the results of its study, as well as to brainstorm solutions to barriers that still remain. We also plan to return periodically to the neighborhood to continue finding ways to fund small businesses.

Predatory Lending

The funding issue has been further complicated by a topic we've all heard a lot about lately—predatory lending. It's an abusive lending practice that targets specific neighborhoods or vulnerable segments of the population and can result in unaffordable payments, equity stripping and foreclosure. While we typically associate mortgage loans with predatory lending, the term is expanding to include payday and title loan transactions as well.

In a speech last month to the National Community Reinvestment Coalition, Chairman Alan Greenspan said that the Federal Reserve is working on several fronts to address predatory lending, one of which is through an inter-agency group that will identify improper behaviors and develop methods to address them. Here at the local level, the Chicago Fed has its own efforts under way to address funding issues.

One prime example is the Mortgage Credit Access Partnership—or MCAP—that we convened with six other organizations in 1996. The goal of this program is to promote fair treatment in the home-purchase and financing process for all Chicago area residents. MCAP has turned its attention to the subject of predatory mortgage lending, forming a task force to examine the issue and pending legislation more closely. Recommendations from this group are expected early this summer.

In conclusion, it's hard to talk about this thriving economy without acknowledging the responsibility that comes with it. We are all obligated to work together, so that the benefits derived from a healthy economy touch as many lives as possible. The economy is in good shape, but we cannot be complacent when it comes to the development of under-served markets. We must challenge ourselves to be creative and innovative when it comes to assisting all types of community development — whether that be through mentoring programs, access to capital and credit or strategic partnerships.

At the Chicago Fed, we will continue working toward making a positive difference in local communities through our upcoming financial literacy campaign; our SECAP and MCAP programs; and our numerous research, education and outreach efforts designed to break down the barriers to community development. It is clear to us from our experience that no individual or group can champion the cause of community development alone. Rather, it requires the talents, experience and skill of all of us to help build those bridges to America's emerging urban markets.

Keeping the economy healthy may be like running a marathon in many ways, but it differs in one key sense: building communities is a team sport. To truly further community development, we do need to work together. I can assure you that the Chicago Fed is committed to doing its part to make sure that all Americans have a better opportunity to prosper.