Opening Remarks

Welcome to the National Community and Economic Development Conference 2000. My name is Michael Moskow and I’m the President and CEO of the Federal Reserve Bank of Chicago. It’s our pleasure to sponsor this event in conjunction with the American Bankers Association and the St. Louis Fed.

Pick up a copy of American Banker on almost any day of the week and you’ll find a story about how technology is transforming the banking industry. Maybe it’s about a major bank’s Internet initiative. Or perhaps it’s about an Internet company’s new banking initiative.

Technology has revolutionized the banking world — not just how we do business, but the very structure of the industry. Finally, with Gramm-Leach-Bliley, financial legislation is catching up with the changes in the industry. Today I’d like to briefly discuss some of these changes you and I are experiencing. And in particular, what those changes mean for community development. What are the upsides of the changes? What are the downsides? And where are the opportunities?

So what does the financial landscape look like today? Primarily, we see a great deal of consolidation. The mega-mergers between the largest banks have shined a very public light on consolidation. And we’ve also seen a continued reduction in the number of bank charters.

But this doesn’t mean that small banks will disappear. To the contrary, community banks are still numerous, with successful start-ups occurring all the time. Small banks fill an important market niche and then often develop a sustainable competitive advantage. Many customers feel small banks can make decisions more rapidly, and can provide individualized service.
Combined, these two changes mean that the industry has developed what some have called a “barbell structure.” We see few large banks on one end, and many small banks on the other, with fewer banks in the middle.

Gramm-Leach-Bliley deals more with another major change: the convergence of banking, securities and insurance. As you all know, the Citibank/Travelers merger combined a giant bank with a giant securities and insurance firm. And we also have the example on the other end of the scale: discount broker Charles Schwab's acquisition of a smaller private bank. And there are numerous types of alliances and joint ventures in between.

As dramatic and vast as these shifts in the industry are, Gramm-Leach-Bliley has managed to encompass them. The Act has four major thrusts. First, it creates Financial Holding Companies. Second, it modifies the existing regulatory structure to reflect the risks of diverse financial institutions. Third, it establishes new privacy provisions. But, most relevant to today's discussions are the CRA-related provisions.

The Act reduces the frequency of CRA exams for small banks with at least a satisfactory rating. On the other hand it requires a satisfactory CRA rating to become a financial holding company. And, the Sunshine Provisions call for public disclosure of all CRA agreements.

I've just painted a picture of an industry very different from what it looked like 10, even five years ago. Shifts at the national level are important. But we must remember that community & economic development are implemented at the local level.

From the macro perspective, consolidation is changing the shape of the industry. But from a micro perspective, one thing has stayed the same: community banks are still vital to development. Local involvement is essential to community and economic development and requires continued leadership from community banks.

Larger banks of course have a critical role to play as well. Concern exists that the increasing consolidation will reduce the number of local decision-makers. Some say this will curtail enthusiasm for development efforts. But it's important to remember that sound management of larger banks means understanding and responding to multiple, local markets. And being close to your customer will always contribute to the overall success of a bank. Community development is a key means of knowing your local market, and garnering the trust of your customers.

The trend of banks taking on leadership roles in community and economic development has not subsided due to industry changes. It must continue. And I'm glad to hear about many cases where community banks are encouraging development programs to operate from their premises.

Most bankers today understand that an under-served market is a tremendous profit opportunity. Similarly, the Fed understands well the importance of local involvement in development. And for that reason, each Fed Bank has its own programs aimed at promoting community and economic development. I'd like to now give you a few examples of what the Federal Reserve has been doing. Many of you will know MCAP — which stands for the Mortgage Credit Access Partnership. Six Federal Reserve Banks including the Chicago Fed have established MCAP Programs to ensure fair treatment of homebuyers in this increasingly complex environment. MCAP relies on a broad network of key players involved in the overall home-buying process. This has greatly helped its success. In Chicago, for example, more than
300 families have worked out a plan to pay their mortgage and avoid losing their home, thanks to MCAP.

MCAP has been so successful that it inspired a similar program to help small businesses. SECAP — the Small Enterprise Credit Partnership was launched by the Federal Reserve in Washington, D.C. and the Chicago Fed. SECAP is a classic example of how bank managers can find great investment opportunities by working creatively in under-served markets — to the benefit of the community and their bottom-line.

On behalf of the Federal Reserve System, the Chicago Fed has also been involved in an exciting new program regarding the unbanked population. As you know, the unbanked are households that do not have a relationship with a financial institution, or who are underserved by those institutions. The Chicago Fed collaborated with the U.S. Treasury on an innovative Web site dedicated to this issue. We are confident that this site will promote greater discourse and research on meeting the needs of the unbanked. Despite the lengthy title of Fostering Mainstream Financial Access for the Unbanked, the site is very user-friendly. It is in essence, a one-stop information source on the issue. Its offerings include: a database of current academic research and happenings, conferences and workshops, financial literacy programs, innovative product offerings, and links to other relevant Web sites. Also included are advanced search features and plain-language abstracts summarizing the latest research.

The purpose of the Web site is twofold: academics can use the site to pursue further research, while banks can use the site as a resource in designing products and services for the unbanked. By improving the visibility of research and information on the unbanked, we hope to motivate researchers and bankers to consider the topic. Obviously, promoting more uniform access to financial services is an important effort, and we think the Web site is a significant step in advancing the cause.

In conclusion, it's clear that the best approach to successful community and economic development is the same for all financial institutions: you must regularly assess where you are and keep looking for opportunities.

True to the conference title, the reason we're here today is to help you assess these opportunities.

For example, a panel will discuss financial modernization. What impact will it really have on your organization. What opportunities is your institution equipped to take on?

Another panel will discuss credit scoring. Credit scoring has allowed fast approval of mortgages and credit. You can buy everything from computers to cars over the Internet, and have credit approval in minutes. But how does this affect fair and equal access to credit? Does credit scoring help or hinder access to small business credit, especially for women and minority enterprises?

And we'll discuss Internet banking. The Internet has opened up a new means of providing easy access to credit. But is the digital divide widening the gap between under-served communities and the rest of the population?

Main Street is another panel topic. Much of the popular press seems focused on Wall Street and its impact on the economy. But Main Street businesses are playing an important role in rebuilding communities, and helping to fuel the country's economic expansion. What are the opportunities here for community and economic development.
We'll of course address rural development. Rural communities and sovereign territories are in some cases untapped markets for financial services. How do we overcome the barriers to lending and investment in those communities?

And a critical issue we'll address is how to ensure that today's community development idea is not tomorrow's public albatross? The right mix of affordable housing, commercial activity, support services and amenities is key to sustainable community development.

This brings me to one of the most headline-grabbing topics on the agenda for this conference — risk based pricing. Our panel will discuss many aspects of this issue: the pros and cons of risk-based pricing — effective pricing strategies for profit — when and how predatory lending may occur — and action steps you can take to “know” your lending partners.

I hope that you will walk away from this conference with ideas that will assist you as you move ahead in this rapidly evolving business environment. You are all here with the same goal of good management. Take this opportunity to network. Take this opportunity to discuss these issues and challenges with your colleagues. Ultimately it's your good ideas and your sound decisions that will determine the success of development efforts in your communities.

But before we move on to the panel portion of our program, I'd like to introduce our next speaker. Hjalma Johnson is Chairman of the Nominating Committee and the immediate Past-President of the American Bankers Association. He is Manager of External Affairs, Regions Financial Corporation, Birmingham, Alabama. He came to this position as Founding Chairman of East Coast Bank and Bank of Ormond By-The-Sea in Ormond Beach, Florida which recently merged with Regions. He is also president of Investment Advisors, Inc. in Dade City.

Hjalma has a long and distinguished history with ABA. He has served on the Executive Committee of the Board of Directors, the Government Relations Council, the Community Bankers Council and ABA's BankPac Committee. He was also Chairman of the Federal Home Loan Bank Task Force.

Please welcome Hjalma Johnson.