

CONFERENCE ON PROMOTING ECONOMIC GROWTH AND
CORPORATE LEADERSHIP: ENGAGING THE BOARDROOM
FEDERAL RESERVE BANK OF CHICAGO

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Welcoming Remarks

As many of you know, the Federal Reserve's primary mission is to foster financial conditions that allow for maximum sustainable economic growth with price stability. At a macro level, we fulfill this goal through monetary policy. But, monetary policy is a blunt tool that cannot and should not be applied to specific geographic regions of the country and sectors of the United States economy.

So, when we focus on specific areas or local economies, we want to ensure that there is equal access to capital and credit—and that is the issue that brings us here today. By addressing these issues we hope to encourage the promotion of fair and equal access to credit, and more broadly, financial empowerment, so that any person can participate fully in the economy.

Small businesses play a critical role in the national economy, accounting for more than half of the nation's jobs. And if they are to expand and contribute to the growth of the overall economy, they must have adequate access to capital and credit.

The number of small businesses owned by women and minorities is growing rapidly. Recent studies have found that minorities start businesses to a greater degree than nonminorities, and that businesses owned by women and minorities comprise the fastest growing segment of small businesses. Regrettably, many of these businesses remain relatively small, undercapitalized, and underrepresented in the more capital-intensive sectors of the economy. Greater access to capital and credit are widely reported to be the number one obstacle to faster growth for these firms, with greater access to opportunities in the corporate supply chain a close second.

So today, I'd like to tell you about our activities to help ensure that credit is accessible to small businesses, particularly those owned by women and minorities, and share with you our experience in making sure that credit decisions to these firms are made equitably.

As a bank supervisor responsible for the safety and soundness of the banking system, the Federal Reserve expects banks to have appropriate credit standards—not too loose and not too tight. Certainly, we don't want banks to fund businesses that are unsound. Such a practice could easily lead to loan losses that might undermine bank earnings and capital, as well as potentially lead to losses for depositors. But we also don't want banks to deny credit to sound businesses, resulting in the loss of potentially profitable opportunities and a loss to the economy as a whole.

Good credit decisions rely on a mix of raw data and complex risk analysis, as well as a knowledge of the community and overall good judgment. At no point, however, is it acceptable to have credit standards and decisions distorted by discrimination. We at the Fed must keep a watchful eye out for evidence of the nonfinancial factors that can lead to persistently different credit access for businesses owned by women and minorities. Discrimination by lenders to small businesses, in addition to being inequitable, will restrict the flow of capital and leave viable economic activity underfunded. So, we must ensure that banks comply with fair lending laws and operate in a safe and sound manner.

These efforts to promote sound credit policies include not just bank lending oversight but also research related to the availability of and constraints on credit to small businesses. For example, our Community Affairs department found that small businesses in black and Hispanic neighborhoods in Chicago use informal networks to finance and grow their businesses and that they, perhaps surprisingly, make little use of trade credit. This research can then be used to better target programs to meet the credit needs of small business borrowers.

In addition to making sure that credit decisions are made fairly, efforts are underway to expand opportunities to small businesses. One such effort is minority supplier development. Later this morning, you will hear about the experience of the Civic Committee of the Commercial Club of Chicago, an organization that includes much of Chicago's corporate and civic leadership. The committee matched minority-owned businesses located in impoverished communities with corporate members of the Commercial Club in order to provide contract opportunities for those businesses. Although the effort produced some isolated successes in terms of business opportunities, it fell short of its goal of creating a substantial number of jobs in low-income communities. A representative of the Boston Business Collaborative will discuss whether similar statewide strategies in Massachusetts have been a success. One of the questions you will be asked to address over the next two days is whether these place-based strategies for minority business development can work.

The Chicago Fed is glad to join with the Boston Fed and the Business Roundtable in the ongoing effort to address these minority supplier development issues. A greater understanding of these issues will only be achieved if we actively engage in the discussion. In doing so, we must all put aside our preconceived notions about the challenges faced by minority-owned businesses. The fresh perspectives and insights from the speakers and conference participants will help us address these important issues.

I look forward to hearing the ideas and strategies that will be discussed here today and tomorrow. Thank you.