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Welcoming Remarks and Comments on Promoting Prosperity

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Federal Reserve Bank of Cleveland

"Evolving Markets and Regionalization"
1996 Annual Community Reinvestment Forum
Sponsored by the Federal Reserve Bank of Cleveland

9:00 a.m. to 9:30 a.m.
Tuesday, October 8, 1996
Crowne Plaza Hotel
Dayton, Ohio

Background Notes

The agenda for the program is attached.

Laura McGowan will introduce you at 9:00 a.m.

You are scheduled to speak for 30 minutes.

You will introduce Lindsey following your remarks. Some comments to use for the introduction are included in section V of these remarks. Also, a copy of Lindsey's biography is attached.

Larry Lindsey is scheduled to arrive at the Dayton airport at 8:19 a.m. Candis Smith will meet him at the airport and bring him to the conference. He is scheduled to speak at 9:30 a.m., following your remarks. If he is late, you might fill the gap by offering to answer a few questions, and/or by giving an update on the Cleveland Project. Some talking points are included in section VI at the end of these remarks.

Lindsey's remarks are scheduled to end at 10:15 a.m., and he must leave the conference hotel by 10:30 a.m. to catch his departing flight. Candis Smith will take him to the airport.

The news media will not be invited and no press conferences will be scheduled for Lindsey or Rusk.

Enclosures

Agenda

Participants and Presenters

Biography of Larry Lindsey

Dorothy Hanks, "How Milwaukee's Choice Program Helps Poor Children Succeed in School," The Heritage Foundation, September 23, 1996.

Thomas Toch and Warren Cohen, "Why Vouchers Won't Work," *U.S.News & World Report*, October 7, 1996, p. 66.

"Mobile Banking Center Serves Cincinnati Neighborhoods," *Community Reinvestment Forum*, Federal Reserve Bank of Cleveland, Winter, 1995, pp. 1-2.

Malcolm Gladwell, "The Tipping Point," *The New Yorker*, June 3, 1996, pp.32-38.

I. Welcome

Thank you, Laura.

Good morning, everyone!

On behalf of my colleagues at the Federal Reserve Bank, I am pleased to join Laura in welcoming you to this Annual Community Reinvestment Forum.

We are glad to be in Dayton this morning. As you might recall, Dayton was the focus of world-wide attention several months ago when the conference to establish peace in Bosnia was held at nearby Wright Patterson Air Force Base. Although our conference today will not receive world-wide attention, its has some parallels with the Bosnia conference. We are trying to reason together for our common good, and our success will be measured in terms of progress toward solving mutual problems and enhancing the prospects for greater and more wide-spread prosperity.

This is the Cleveland Fed's eighth Annual Community Reinvestment Forum. Previously, we have held forums such as this in Cleveland, Cincinnati, Columbus, Pittsburgh, and Lexington. We are pleased to be able to add Dayton to that list with this year's conference, as part of our effort to extend the reach of our programs throughout the Fourth Federal Reserve District -- the territory served by the Federal Reserve Bank of Cleveland -- which includes all of Ohio, western Pennsylvania, the northern panhandle of West Virginia, and the eastern half of Kentucky.

II. The Purpose and Spirit of this Forum

This two-day conference is part of the ongoing effort of the Federal Reserve System to ensure that there is fair and equal access to credit for **all** of our citizens and, more broadly, to promote community economic development. Achieving that goal is important for fairness, social harmony, and national prosperity, so the dialogue that we will have during this conference is tremendously important. That is why I want to thank all of you for participating in this Forum and to extend my particular thanks in advance to all of the presenters for their contributions.

We initiated these forums in order to exchange ideas about how to foster economic development and equal access to credit in low and moderate income areas. It is important that we learn from each other about ideas that have worked in other settings so that we can consider whether they might be adapted for use in our own communities.

We all agree that the goal to improve economic conditions of depressed neighborhoods is imperative, but sometimes we will disagree on the best methods for achieving that goal. Certainly, there has been substantial disagreement in our nation about how best to implement the Community Reinvestment Act. Reasonable people of goodwill often disagree. But our focus here should not be on our disagreements, but on reasoning together to find solutions.

III. Promoting Prosperity

I'd like to use the remainder of my time to comment about some of the factors that can contribute to the prosperity of an area and its people. After all, prosperity is the goal of much of our activity as individuals and much of the activity of our organizations. Widespread prosperity is certainly the goal of community development and community reinvestment efforts. My views on this subject, as you will see, are based on fundamental economic principles that have widespread applicability.

A foreign visitor, observing the plight of our inner cities, commented that it's as if first world America has a third world country within its borders. Actually, most of our poor live much better than the poor of the third world, where telephones, televisions, refrigerators, central heat, and even indoor toilets are seen as luxuries reserved for the middle class. Perhaps a better analogy is that our poor are like the poor of the transitional economies of eastern Europe and the former Soviet Union.

In any event, much of what we know about the obstacles to achieving prosperity in the second world and the third world is relevant to a discussion of the requirements for our inner city islands of poverty to become more prosperous.

Prosperity Requires Productivity The prescription for successful economic development of communities in our country is no different than in Asia, Africa, Latin America, or the former Soviet Union. For those countries to consume more, whether it be housing or other goods and services, the nation's resources have to be organized so that their citizens can produce more. If citizens are to consume more, they must become more productive so that there is more available to be consumed. This is true for a country, a state, a city, and a neighborhood.

Productivity Requires Physical Capital and Human Capital If there is to be more production, there must be capital formation, that is, we must increase the amount of **physical** capital and **human** capital. Physical capital includes such things as housing and equipment used in small businesses. Human capital includes such things as education, skills, initiative, and health. In addition, there must be institutions that reward thrift and effort, and that facilitate the efficient use of resources and the exchange of positive ideas. I'll discuss several of these, drawing parallels between the needs of developing nations abroad and the needs of our lower-income communities.

Competition Can Improve Schools After the Berlin Wall fell in 1989 and the nations of eastern Europe and the former Soviet Union began to do more business with the West, hundreds of factories found that their products were too shoddy or too costly to sell. They had come to this sorry state because, for decades, their governments had protected them from competition. Citizens of the communist nations were denied access to better goods from abroad, so they had no choice but to buy the second rate goods available at home. Moreover, factories that were inefficient were kept afloat by government subsidies, and the greater the inefficiency, the greater the subsidy.

Now consider the U.S. We are blessed with higher education institutions -- colleges and universities -- that are the envy of the world. Thousands of students from around the world come here each year to study. In contrast, graduates of American high schools score lower in science and math than their counterparts in just about any other industrialized nation.

Worse yet, many of our primary and secondary schools, especially the inner city schools in our larger metropolitan areas, are simply not doing the basic job of teaching their students to read, write, listen, speak, and reason.

Why is U.S. higher education generally outstanding while our primary and secondary education is often mediocre? To an economist, it is significant that there is a high degree of competition in higher education for students -- that is, for customers -- because those students have a choice about where to spend their tuition money. In contrast, there is almost no competition for customers in elementary and secondary education. Our public schools suffer the same unintended misfortune as the factories of eastern Europe -- they have become weak because, for decades, they have been protected from competition by well-intentioned governments. The system through which public schools are funded has substantially weakened the link between customer satisfaction and continuing revenue; it has reduced the accountability of school personnel because it is very costly for their customers to go elsewhere.

Public schools have an advantage that every business would covet: because they receive public funding, they can give their services away to their customers virtually free of charge. That is analogous to the situation the Federal Reserve Banks were in until 15 years ago. Because they could provide check clearing services free of charge, Reserve Banks had no difficulty attracting customers. After Congress mandated that Reserve Banks **charge** the full cost of providing check clearing services, competition for customers began to increase. Today, **private** providers of check clearing services continue to expand their offerings and the Federal Reserve Banks are improving the speed and range of **their** services. Some Reserve

Banks are gaining customers and some are losing customers. As a result of competition, commercial banks and other institutions that need check clearing services are benefiting from greater choice and better service.

I am heartened by the experiments that I see starting here and there in our nation to introduce some competition among elementary and secondary schools -- competition to attract customers, that is, students. Indeed, in Ohio, a school voucher program enacted by the state legislature has recently received court approval to proceed. It is a pilot program and is limited to Cleveland, where between 1,500 and 2,000 primary grade school children from low income families will receive vouchers to pay for up to 90% of the cost of private school. Over 6,000 families applied for the program, and recipients were chosen by lottery.

[Note: I have attached a September 23, 1996 report from the Heritage Foundation documenting the academic improvement resulting from the Milwaukee school voucher program and summarizing other studies showing the value of private schools to urban poor and minority children. Also attached is an October 7, 1996 editorial from U.S. News & World Report on "Why Vouchers Won't Work."]

I don't mean to imply that Cleveland's voucher experiment will be a panacea. What I do believe is that it is sensible and imperative that we experiment with many new approaches so that we can find a way, or several ways, to do the job better.

I believe that the public benefits of a well-educated populace justify public support of education. But I don't think that we should restrict our thinking to the narrow notion that public support for education **must** be delivered through public schools, any more than I believe that public support for health care **must** be delivered through government-operated hospitals, or public support for retired persons **must** be delivered through government operated retirement villages. We should consider the possibility that public support for education can be delivered by providing public funds to the students to be used at the educational institutions of their choice, just as Medicare recipients can choose their own doctors and hospitals.

In the 20th century's greatest contest of ideas, markets and competition have proven to be superior to centralized control and government production monopolies. The inherent shortcomings of government monopolies should be remembered as our nation seeks a solution to the challenge of providing greater educational opportunity to our children.

Lending Must be Local, Not Long Distance While we rely on **schools** to play a key role in the creation of **human** capital, we rely on **banks** to play a key role in the creation of **physical** capital. We saw in the 1970s and 1980s, in the case of bank lending to foreign countries, especially to Latin America, and also to Poland, that long-distance lending to these less-developed places simply does not work. American banks made large loans, but the loan funds were often used for projects that did not generate sufficient output to enable the borrowers to repay on schedule. The banks were hurt, but the borrowers were hurt too. Credit became difficult for **everyone** in those nations to obtain, even the creditworthy, and living standards fell as debtors struggled to service the debt.

It would be a similar mistake for banks to treat inner city neighborhoods, or low-income rural communities, as if they were some far-off, third world country to lend into. Lenders must be present in the neighborhoods where they are lending, so that they can have sufficient and accurate knowledge of their potential customers, and so they can monitor their investments.

That is not to say that banks must have a traditional bricks and mortar branch in every neighborhood. Systems for delivering banking services must change as banks, like all businesses that must **compete** for customers, seek to reduce costs and increase quality. Banks can reduce their operating costs by having neighborhood offices located in supermarkets or convenience stores, in churches, or in once-a-week mobile units. An example of the latter is Huntington Bank's Mobile Banking Center, which provides once-a-week service to Cincinnati neighborhoods Avondale and Bond Hill and Cincinnati suburb Lincoln Heights. *[Note: Huntington's Mobile Banking Center was featured on the front page of the winter 1995 issue of our <u>Community Reinvestment Forum</u> -- a copy is attached.]*

Banks can also cut costs through electronic banking. Automated teller machines, telephone banking, and banking over the Internet are increasing in availability, and banking with interactive TV from home is on the horizon. An emerging issue for CRA is how to delineate a bank's service area as electronic banking enables banks to have customers world-wide and reduces banks' need for physical premises. A challenge for all concerned with community development and equal access to credit is how to make it **attractive** for banks to continue a physical presence in **low and moderate income** neighborhoods when the evolving technologies of banking are reducing the need for a physical presence in **any** neighborhood. Eventually, greater emphasis will need to be placed on helping residents of these neighborhoods to access banking as it is **becoming** --electronic -- rather than as it **has been** -- bricks and mortar.

Borrowers Must Understand Double Entry Bookkeeping Along with the idea that bankers must know the communities in which they are lending, it is important that potential borrowers in those communities have a basic understanding of banking. I don't mean they need to be qualified to **work** as bankers, but they must understand the key idea that banks are **intermediaries**, not owners of presses for printing money. Another way of saying it is that potential borrowers must understand the concept of double entry bookkeeping -- the idea that a bank's ability to lend requires the ability to obtain deposits (or other liabilities).

Some of you may have heard me tell about being in Bratislava, the capital city of what is now the Slovak Republic, when my host asked me: "How do checks work?" It had always puzzled him that people could write an amount on a piece of paper, sign it, and use it as payment for a good or service. I tried to explain to him how the system works, but I soon realized that he did not understand double-entry bookkeeping. He, like most others in these developing economies, had used **currency** for all of their transactions. Even many bankers had no concept of debits and credits because, during the communist era, banks were often distributors of government subsidies to government-sponsored factories rather than true financial intermediaries.

It is often said that what residents of our depressed communities need more than anything is credit, such as home loans and small business loans. Of course they do, but that is an incomplete analysis of the situation. Here is where the concept of double-entry bookkeeping is relevant. Banking relationships require communities as a whole to be depositors as well as borrowers. In fact, the relationship actually requires saving to **precede** borrowing.

A bank is simply an intermediary. It's an institution that stands between the ultimate savers and the ultimate borrowers. Both parties are important to it. A bank has to pay attention to both sides of its balance sheet, and I think that businesses and households need to be participants on both sides of a bank's balance sheet, which means people have to be depositors in order to be good borrowers. Without understanding what it really means for an intermediary to have a double-entry balance sheet, people who want credit are going to have difficulty distinguishing between the concept of a grant and the concept of a loan, and have difficulty understanding what it takes to be a good borrower, that is, what it means to have a bankable loan.

Counseling individuals about the basics of household or small business finance is one of the most valuable activities that lenders and community organizations can sponsor. How to budget, how to plan, how to save, and the whole idea of accumulation or preparation for the future, are very important, certainly more important than how to fill out a loan application. Such counseling -- perhaps done by partnerships between banks and community organizations, with each handling the parts that it knows best -- can contribute importantly to making people into better savers and bankable borrowers. It can contribute to the accumulation of capital, whether in the form of a savings account, a home, or equipment for a small business, by people whose prosperity we all would like to see increased.

Building Houses in Old Neighborhoods Can Be Profitable A few minutes ago, I mentioned how the great contest of ideas in the twentieth century confirmed the power of markets to foster prosperity. An innovative approach, involving the power of profit-seeking behavior in markets, has recently been helping to improve the physical capital of some old neighborhoods in Cleveland. Approximately two thousand new houses have recently been completed or are under construction inside Cleveland's city limits. The houses are selling briskly, banks are competing to finance their construction and purchase, and developers are eagerly seeking tracts where they can put up more.

This astonishing development refutes the widespread assumption that it is not feasible to build new houses in old, inner city neighborhoods. Admittedly, tax abatements and other incentives from government and private groups were needed to get **initial** commitments to build and finance the first homes. But, since it has been demonstrated that such houses can be sold profitably at lower prices than similar houses in the suburbs, developers have been building houses on speculation, and bank financing has become readily available.

Until recently, old housing stock in inner city neighborhoods was sometimes the site of renovation and rehabilitation, but there was no new from-the-ground-up construction by private developers. Financing for home improvements or the purchase of a rehabilitated house usually involved grants and subsidized loans and mortgages. These efforts were spearheaded by organizations such as Neighborhood Housing Services and Habitat for Humanity. The initiative came almost entirely from non-profit agencies, and the for-profit sector was rarely involved unless induced to participate by their own civic generosity, foundation subsidies, or CRA pressures.

However, recent innovative thinking has led to partnerships, in which non-profit agencies and local governments team up with for-profit banks and developers to engage in projects that are viable without subsidy, generosity, or pressure. In these partnerships, each party is doing what it does best. Local government is identifying sites, acquiring properties, clearing sites, assembling tracts large enough to be attractive to a developer, providing adequate utilities, making necessary zoning modifications, and enforcing zoning and building codes on nearby properties. Developers then plan housing projects and banks provide financing, in deals that both expect to be profitable.

When non-profit organizations were going it alone, the volume of activity was small. Resources were limited because charity rather than profit was involved. But now that developers see the opportunity to build and sell $100,000 and $200,000 houses in old neighborhoods, they are eager to participate, and the volume of activity has exploded. In addition, some banks have become so comfortable with the concept of building new houses in old cities that it is no longer necessary for planners to sell the concept to bank officials. Instead, banks are seeking out projects and actively helping to plan them.

For example, just recently, in Sandusky, Ohio, ground was broken for a project that will include nine new homes, the first new single family housing development in decades. A commercial bank has worked closely with the City of Sandusky and the Bay Area Neighborhood Development Corporation and has provided financing for the model home that is currently under construction.

House construction in old cities has many benefits for the community. It enhances the tax base, brings positive role models back to live in the city, and provides a cadre of affluent and educated stakeholders who are likely to have the talents and influence to make positive contributions to their neighborhoods. And because it happens through the normal market process, rather than through coercion, subsidy, or charity, it is likely to have more staying power and occur on a larger scale.

Exchange of Ideas is Crucial to Progress I'd like to look now at just one more concept, one related to increasing **human** capital. This is the notion that the exchange of ideas is crucial to progress.

One of the underlying forces that led to the crumbling of the Berlin Wall was the Soviets' attempt to control its citizens' communication with each other and with the rest of the world. In his book, Turmoil and Triumph, former Secretary of State George Shultz described his first meeting with Mikhail Gorbachev. Shultz explained to Gorbachev that the accelerating pace of technological changes was difficult for even the U.S. to keep up with, compared with places like Taiwan, Korea, Singapore and Hong Kong. Old Western Europe was falling behind the "Asian tigers," and for the socialist/communist, top-down, command-and-control economies, keeping up to date with new knowledge and ideas was impossible.

Gorbachev might have already understood Shultz' point, because not long after taking power he had launched his Glasnost reform in an ultimately futile attempt to save his nation by allowing the freer flow of ideas.

The importance of the efficient sharing of ideas is also an important hypothesis about how cities survive. The cramming of individuals, occupations, and industries into close quarters provides an environment in which ideas flow quickly from person to person. The easy flow of ideas, which facilitates innovation and economic progress, might explain how cities survive despite rents that are much higher than in rural areas. This hypothesis assumes that people emulate innovators and those whom they see as successful.

But what happens if there is a scarcity of positive role models in a neighborhood? A recent article in The New Yorker [Malcolm Gladwell, "The Tipping Point," June 3, 1996, pp.

32-38] discussed ways that the "tipping point" concept is applicable to some of the social sciences. As you might know, the tipping point is a concept well known to public health officials. It is the idea that a slight increase above a critical level -- the tipping point -- in the rate at which the average infected person transmits a contagious disease to others can cause a rapid spread of the disease. Similarly, a decrease below a tipping point can cause an epidemic to end. What I found particularly interesting and relevant to our discussion today is the article's description of work by sociologist Jonathan Crane.

> *[Quote] "Crane looked at the effect that the number of role models in a community -- the professionals, managers, teachers whom the Census Bureau has defined as 'high status' -- has on the lives of teenagers in the same neighborhood. His answer was surprising. He found little difference in teen pregnancy rates or school dropout rates in neighborhoods with between forty per cent and five per cent of high-status workers. But when the number of professionals dropped below five per cent, the problems exploded. For black school kids, for example, as the percentage of high-status workers falls just 2.2 percentage points -- from 5.6 per cent to 3.4 per cent -- dropout rates more than double. At the same tipping point, the rates of childbearing for teen age girls -- which barely move at all up to that point -- nearly double as well.*
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> *...Cranes's study essentially means that, at the five per cent tipping point, neighborhoods go from relatively functional to wildly dysfunctional virtually overnight. There is no steady decline: a little change has a huge effect." [End quote]*

Of course, it might be that dysfunctionality in a neighborhood **causes** a shortage of good role models, rather than the other way around. We don't know for sure. But what I'm hypothesizing is, that just as the lack of access to positive ideas contributed to the fall of the Soviet bloc, and just as the efficient exchange of positive ideas contributes to the economic progress of firms that locate in cities, so is access to positive ideas, through role models, of critical importance to the residents of low-income neighborhoods. As I mentioned a few minutes ago, one of the benefits of constructing new houses in old neighborhoods is that it draws more positive role models into the area.

Just as it is important to ensure that creditworthy borrowers have access to credit, it is also important to foster the **creation** of creditworthy borrowers by building human capital through improved access to good schools, positive role models, and practical counseling about saving, planning, and the appropriate use of banks.

Summary I'd like to summarize my comments this morning in the following four sentences: An increase in prosperity requires an increase in productivity, which in turn requires increases in physical capital and human capital. To get an increase in **physical** capital, we need banks to be present in the communities where they lend so they will know their borrowers; and we need borrowers to understand banking and to engage in saving and depositing as well as wise borrowing. To increase **human** capital, we need better schools, which greater accountability through competition can help achieve, and we need both children and adults to have access to positive ideas through exposure to a sufficient number of positive role models. Finally, we need to rely as much as possible on the magic of markets and the private sector's profit motive.

IV. Concluding Remarks

Let me conclude by saying that viable solutions to the challenges facing our communities will come only from people such as yourselves. During the course of this conference and beyond, I challenge those of you who are from **community organizations and local governments** to think about how you can help banks to make **profits** in your neighborhoods. And, I challenge those of you who are from **banks** to think about how you can help build the **human capital** of neighborhoods as you go about your traditional work of helping them to build physical capital.

V. Introduction of Governor Lindsey

Now, it is my privilege to introduce our next speaker. Lawrence Lindsey is a member of the Board of Governors of the Federal Reserve System.

Larry is a professional economist who earned his Ph.D. from Harvard and served as a professor there for several years. Prior to being appointed to the Board of Governors in 1991, Larry served in the White House during the Bush administration as Special Assistant to the President for Policy Development, and as Associate Director for Domestic Economic Policy.

Larry is an expert on taxation, having written a major book on tax policy and worked in that field at the Council of Economic Advisors, the National Bureau of Economic Research, and as a consultant in several foreign countries.

At the Board of Governors, Larry is chairman of the Committee on Consumer and Community Affairs. In that role, he is responsible for implementing the Community Reinvestment Act, and he was a key player in the recent revision of CRA regulations.

We are grateful that Larry has taken time to be with us this morning. He has agreed to take some questions from the floor following his comments. Please join me in giving Larry a warm welcome.

VI. Contingency Plan if Lindsey is Late

Our next speaker, Federal Reserve Governor Larry Lindsey, is on a very tight schedule and is flying into Dayton this morning from Richmond, Virginia. Since he has not yet arrived here at the hotel, perhaps we can make use of the time by giving you an update on the Greater Cleveland Residential Housing and Mortgage Credit Project, and by offering to answer a few questions.

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Talking Points about the Cleveland Project

1. Some of you are familiar with the Cleveland Project and some of you are not. I'll give some background, and then give an update.

2. Origin:

    a. The Cleveland Project was started about three years ago.

    b. A study generated evidence of racially based bias in the home buying and financing process in Boston.

    c. There was a suggestion that a similar study should be done in Cleveland.

    d. Rather than do another study, it was agreed that it made more sense to assume that a study here would also indicate that bias exists, even though everyone involved in building, selling, buying, and financing homes will say that there should be no discrimination.

    e. Instead of commissioning another study, a group of Cleveland business and community leaders agreed to become part of the solution to this difficult problem. They believed that committed people can make a difference.

3. Sponsors:

Four local organizations stepped forward to be catalysts for action by the private sector by sponsoring the Cleveland Project. They are:

Greater Cleveland Roundtable

Cuyahoga County Department of Economic Development

Ohio Civil Rights Commission

Federal Reserve Bank of Cleveland

4. Philosophy

The philosophy of the Cleveland Project is a good example of belief in the private sector's ability to come together and reach mutually satisfactory solutions to community problems. Some ground rules were adopted:

a. Participation was to be voluntary.

b. Solutions were not to result in new laws or regulations.

c. There was to be no finger pointing, no name calling, and no use of the news media to push a group's agenda.

d. A cross section of professionals from the local housing industry, including lenders, appraisers, real estate brokers, title firms, etc., was to be the source of ideas, not some outside "experts."

e. The emphasis was to be on finding and implementing practical action steps, not making just another academic study that would gather dust on a shelf.

5. Progress Thus Far

    a. Seven task groups have studied the areas of appraising, initial contact with real estate agents, initial contact with lenders, secondary market issues, private mortgage insurance, property insurance, and the credit reporting process. Each task group has made specific recommendations for improvement actions.

    b. We are now in the implementation phase. Committees are developing specific actions to follow through on the recommendations.

    c. For example, just a month ago, as a direct result of a recommendation made by the Appraisal Task Group, a training session was held on appraising residential properties in Cleveland neighborhoods. The training was designed by the Cleveland chapters of some associations of professional appraisers.

    d. Surveys of housing industry professionals who have participated in the Project show that their experience with the Project has been overwhelmingly positive.

    e. Participants have expanded their network of business contacts and information sources.

6. Propagation of a Good Idea

    a. This *process*, developed in Cleveland, is now being utilized in some other cities:

    b. Cincinnati.

    c. Federal Reserve Banks of Boston, New York, Chicago, St. Louis, and San Francisco.

    d. Last month, Community Affairs staff from the Cleveland Fed met with a state senator, the mayor of Akron, and community leaders to discuss using the same *process* to identify and remove impediments ("sand in the gears") from the system through which credit worthy small businesses in the Akron area obtain access to capital.

e. Also, the Federal Reserve Bank of Cleveland is now working with COSE in Cleveland to initiate a project to improve access to capital for small businesses. COSE -- the Council Of Smaller Enterprises -- is a division of the Greater Cleveland Growth Association.

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Starting Q. and A.

Governor Lindsey still is not here, so perhaps we can use the time for some Q. and A. Does anyone have any questions about community development and reinvestment, the Cleveland Project, or my remarks about factors that promote prosperity?

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