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# GREENSPAN CALLS LENDING BIAS A DRAG ON BUSINESS, ECONOMY

By JARET SEIBERG

WASHINGTON, March 9, 1999 — Issuing a warning on loan bias, Federal Reserve Board Chairman Alan Greenspan said Tuesday that banks hurt the economy and their bottom lines if they deprive minority small businesses of credit.

"Failure to recognize the profitable opportunities represented by minority enterprises not only harms these firms, it harms the lending institutions and ultimately robs the broader economy of growth potential," he said.

Mr. Greenspan's comments came at a Fed-sponsored conference on small-business lending. Earlier, several researchers presented studies showing that minority businesses had more trouble obtaining credit than white-owned firms.

Mr. Greenspan attributed many of the difficulties to differences in income, balance sheet, and credit histories. "Considerably more work needs to be done to take account of possible explanatory factors not included in the studies to date," he said. "But if after such examination the gap still persists, it does raise disturbing questions."

One way to eliminate loan bias, he said, is to mass market small-business credit nationwide. Community development corporations, micro loan funds, and investor loan pools also could be effective in getting credit to minority-owned small businesses, he said.

Besides credit, Mr. Greenspan also urged investors to give small businesses in minority and low-income areas more equity financing.

"Businesses must have equity capital before they are considered viable candidates for debt financing," he said. "Equity acts as a buffer against the vagaries of the marketplace and as a sign of creditworthiness."

Despite an expected increase in bank consolidation, Mr. Greenspan said, credit markets will remain highly competitive. Community banks will continue to court local businesses, and commercial banks from other regions will use credit scoring and loan securitization to move into new markets.

"We should not expect that all institutions will become financial supermarkets," he said. "Indeed I have no doubt that thousands of smaller banks will survive the consolidation trend, reflecting both their individual efficiencies and competitive skills."

Mr. Greenspan also praised the economy's performance. "Growth of output has remained vigorous, unemployment is lower than it has been in nearly 30 years, and yet despite the tautness in labor markets, there have been no obvious signs of emerging inflation pressures," he said.