Remarks by
Julie L. Williams
Acting Comptroller of the Currency
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I am delighted to have the opportunity to join you at your luncheon today. This is partly because I count a number of personal friends in the audience, but also because I am a big believer in the importance of free and open communications between government, the entities we regulate, and the customers they serve.

The Washington metropolitan area has had direct experience with one of the most significant developments in the financial services industry in recent years -- the trend toward consolidations and mergers, and, this year, the "megamerger" trend exemplified by the merger of NationsBank and Bank of America. What I would like to talk about today are two issues prompted by this new age of consolidations and megamergers in the banking industry. First, how do these megamergers affect the availability of credit and financial services to small business and entrepreneurs? And, second, where do these megamergers leave financial institutions that are less than mega-sized, notably our community banks?

Megamergers have in fact raised a host of concerns, foremost among them being that the price, quality, and availability of financial services will suffer in their wake. In some major markets, critics argue, big mergers will bring diminished competition among financial providers, which cannot be good for the average consumer. Others warn about a decline in the vitality of our communities, as merged institutions that were once local mainstays consolidate their headquarters out of town. And smaller customers, particularly in the business community, fret that the mega-institutions that result from these mergers will turn a deaf ear and an indifferent eye to their needs and choose to concentrate their vast new financial clout on wealthier clients and the prospect of bigger returns.

These concerns are especially meaningful for small businesses, given their traditional reliance on commercial banks for their credit and other financial needs. One recent survey showed that 87 percent of all small business owners had some sort of commercial banking relationship. As of the end of 1997, these banks were responsible for more than 60 percent of all small business credit and more than half of all loans used to finance the purchase of equipment and vehicles by small firms. Commercial banks hold the lion's share of small business checking accounts, and perform a wide variety of crucial financial functions -- safekeeping valuables, managing cash, keeping the books, issuing letters of credit, converting foreign currencies, and innumerable other financial and fiduciary services -- for firms that lack the size and resources to do these things on their own.

Given the extent to which small business relies on banks -- and the extent to which our nation relies on small business to generate jobs, innovation, and economic growth -- it would indeed be a calamity if banks were no longer able or inclined to play their traditional role of financial provider to the small business community. Yet, I feel confident in saying that this scenario will not come to pass. In fact, I foresee a future in which small business enjoys even greater access to bank credit and financial services than ever before. Let me take a few minutes to explain why.

First, it is important to remember that the mammoth mergers of recent months are merely the latest phase of a long process of consolidation in the banking business. In 1922, there were more than 22,000 state and nationally-chartered commercial banks in operation compared to fewer than 9,000 today, despite the fact that, over that more than 75 year period, our nation's population grew nearly threefold and our gross domestic product more than eightfold. The leading factor in this dramatic consolidation has been the increase in merger and acquisition activity. There have been almost 7,000 bank mergers since 1980 alone, and they have involved increasingly large institutions.

Despite the accelerating consolidation of the banking business, the evidence demonstrates that banking services to small business have become more available in recent years, not less so. According to surveys conducted by the National Federation of Independent Business, the number of small and medium-sized firms reporting difficulty in obtaining credit has been declining steadily in recent years. A recent Federal Reserve report to Congress shows that the dollar volume of small business loans issued by commercial banks grew by more than five percent between June 1996 and June of this year, with the highest growth occurring in the category of loans of under $100,000. The same study reports a new aggressiveness on the part of bankers in seeking out small business customers, by offering better terms, and additional products and services.

In short, recent history gives us no reason to assume that small business credit and other financial services will inevitably dry up as a result of the consolidation in banking. Instead, the record shows that, over time, the opposite has more often been true.

One basis for my optimism about the availability of credit to small business is that even very large institutions have increasingly made small business banking an integral part of their overall business strategy. They do this for a very sound reason. Small business customers can be excellent customers indeed. With so many demands on their time, entrepreneurs place a premium on convenience, and so are more likely to conduct all of their banking business with their primary lender and to purchase ancillary financial products and services where they bank. Moreover, despite the relatively high failure rates of small businesses, small business loans tend to be better collateralized than many other kinds of loans and their repayment histories do not compare unfavorably to other classes of borrowers.

That's why many larger banks have aggressively targeted the small business market in recent years and have developed innovative ways to serve that market. In fact, some of the most innovative small business programs of late come from many of the very same banks that are today in the process of implementing giant mergers. Some have introduced types of small business resource centers, offering one-stop shopping for a wide range of products and services. Another bank is taking advantage of its size to help small businesses compensate for theirs, by buying long distance telephone and overnight delivery services and office supplies in bulk and reselling these commodities at a substantial discount to small business clients. Innovations in lending have cut paperwork and costs for both lenders and small business borrowers. One bank offers small business loans of up to $100,000 by way of direct mail: it simply plugs credit report data into a computer model, which establishes a maximum loan amount and interest rate. No business plan or financial data is needed. Interestingly, that same bank is in the process of merging with another leading small business lender which takes a radically different approach, emphasizing larger loans and more hands-on involvement.

Another development that I think holds real promise for expanded small business lending is securitization. The growth of secondary markets for real estate, education, automobile, and other types of loans is one of the real financial success stories of our times. It has helped millions of Americans achieve their goals of home ownership, a college education, and a better life, while enabling lenders to better manage the inherent risk of the loans that they make for those purposes.

Until recently, however, there was essentially no secondary market for small business loans. That was partly because the issuers of small business-backed securities did not enjoy the same legal and regulatory accommodations long enjoyed by residential mortgage-backed securities. Congress remedied that state of affairs in 1994 with legislation that the OCC implemented by adopting regulations a year later. Since then, the problem has been the lack of uniformity in underwriting and documentation standards for small business loans, which make it difficult for potential purchasers of these securities to form accurate estimates about the riskiness of the underlying loans. But that hurdle, too, may be overcome, as more and more small business lenders employ credit scoring models in the underwriting process. This will generate pools of small business loans that have been evaluated based on common criteria, and give secondary markets the information they need to evaluate and price these securities. And that should spur small business lending generally, especially by smaller banks that have lacked the resources to hold in portfolio many of the loans they originate.

Clearly, market forces today are driving significant improvements in the availability of credit and other banking services to small businesses. Megamergers will indeed alter the financial services landscape, but the evidence clearly shows that the small business loan market is currently alive and well, with many financial institutions, bank and nonbank, vying to make good small business loans and provide the additional financial services that entrepreneurs need to build their businesses.

I have heard it suggested that, as long as the small business community has access to an adequate supply of funding for start-up and expansion, it matters little who is supplying it. According to this logic, it is quite all right if giant banks crowd out the smaller ones, provided that the survivors continue to compete amongst themselves.

But I believe that the structure of our financial system, with its mix of large and small institutions, does matter. Structure and strength go hand in hand. In one sense, small banks are no different from -- and no less important than -- the small businesses they serve. Both make a disproportionate -- and indispensable -- contribution to our nation's economic well-being. Community banks, like small businesses generally, are where new ideas often take root and blossom. What these banks lack in size, they compensate for with nimbleness, adaptability, knowledge of local markets, low overhead, and personal service.

The attributes that define community banking are the attributes most prized by small business people and entrepreneurs. Indeed, the small business market is where community banking has traditionally been the strongest. Small business people want what community banks have to offer: the personal touch, a broad service menu, and local management. And that is why community banks are able to maintain their important position in our fiercely competitive financial world. Community bankers pound the pavement in search of new customers and visit existing customers in their local places of business, learning their needs and how best to serve them. Community bankers pride themselves on fast turn-around, low prices, and personal assistance, not just in making loans but in servicing them over their life. And they have become specialists in the origination and sale of Small Business Administration (SBA) and other guaranteed loans; more than 6,000 banks are currently involved in SBA lending programs, and some of the country's largest SBA lenders are community banks.

Community bankers do all these things because that is what it takes to survive in a world dominated by mega-institutions. And because they do these things, there is every reason to conclude that community banks will continue to play a vital role in our nation's financial future. Today, two-thirds of all banks in the United States have less than $100 million in assets. And while some of these banks are constantly disappearing, due to merger or consolidation or for some other reasons, new banks spring up just as rapidly to take their place. That is why, despite the wave of megamergers, average local market concentration in the financial services sector is about the same today as it was ten years ago. That means that small businesses can count on a sure, steady supply of high quality financial products and services today and into the future.

At the Office of the Comptroller of the Currency, our commitment to improving access to financial services for all Americans -- including those who own and operate small businesses -- takes many forms. Among the most important has been our shift in emphasis on what constitutes compliance with the Community Reinvestment Act, or CRA. These days, we take a broader view of community development, and encourage national banks to make small business lending an important component of their overall commitment to the communities they must serve. Seeking regulatory approval for their merger, for example, NationsBank and Bank of America recently announced a CRA commitment to make $180 billion in small business loans over ten years -- a tangible example of how, under enlightened law and regulation, megamergers can increase the availability of financing and financial services to entrepreneurs. And we have recently announced that we intend to survey our largest banks to verify how they keep track of how they satisfy these publicly-announced CRA commitments.

The trends we are seeing in the banking industry today are simply steps along a path that should lead to a healthier and more competitive U.S. economy. Through sound public policies and a strong free market, I believe that we can safeguard access to -- and the adequacy of -- the financial resources that the small business community must have in order to do what you do best -- and that is to serve as the engine of our nation's initiative and creative imagination. And I think you will find that even in this well-publicized era of megamergers, our community banks will continue to play a vital role in supplying small business and other forms of credit and financial services. The dynamism of the small business sector is a big reason why we have enjoyed the unparalleled economic expansion of recent years. Please keep doing whatever it takes to keep making that happen, and I promise you that we will do our part, too.

Thank you.