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The Bankers' Role in BLACK CAPITALISM

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The purpose of my visit is to try to give helpful specifics on how you as bank officers can deal with the unusual problems that arise from trying to place black entrepreneurs in business successfully. The tools for getting the job done, however, are useless unless they are placed in willing hands. Therefore, I would like to preface my remarks by sharing with you some generalities about our racial problems to assure that you are fully sensitive to the overall problems of our restless minorities. Here I would like to interject the fact that when I refer to the black minority I do not mean to exclude the Puerto Rican or the American Indian or other underprivileged minority. Naturally, what is true for one minority should be true for all.

Also, I would like to acknowledge the fact that many of you come from smaller communities as yet untouched by the problems of minority uprisings. Still, I think the subject should be of general interest to you for two reasons. First of all, the Negro population is growing at a faster rate than the white population. Their

physical presence on the American scene will grow rapidly in coming years, and no community for long can remain fully aloof from the problem. Secondly, the banking industry has been criticized by some black leaders for being unresponsive to their problems. As bankers, you should know what your industry is doing so you can defend it, and also perhaps you will be able to feed it ideas so that it can do an even better job.

First of all, gentlemen, the fact must be recognized that the Negroes of America continue to suffer discrimination by the white majority, and that discrimination results in their receiving less than the full rights of U.S. citizenship. Don't be misled by the relative calm of the last two summers. The injustices are still there, and the problems mostly unresolved. You all work for banking institutions that have reached success in the business world using freely all the tools of capitalism, unimpeded by the handicaps of poorly educated managements, undernourished staffs and racism. The blacks have not participated in this capitalistic system.

My second point is simply that special attention and favoritism are essential today to correct the wrongs of the past. This is the much debated reparation's theory. I must assume that many of you do not accept that point—you've written me off as a screaming radical. Before I lose your attention entirely, let me assure you that is not the case. My approach is pragmatic —not radical. I would have considered the reparation's theory unfair myself a few years ago. I came from a conservative New England background, plus sixteen years with an ultraconservative Wall Street bank. I learned that most people working in New York City are completely removed from the world of reality as far

as the country's social problems are concerned. Two years ago, I found myself in Rochester, New York in a Marine Midland bank that was fully sensitive to the social problems of its community and which was making a strong effort to participate in the solution of those problems; but militant and extremely intelligent black leaders were demanding that we hire a stated percentage of Negroes—demanding we provide mortgage money—demanding we put untrained men into running their own business. I learned to debate openly with many of the black leaders and in the process I've made some real enemies among them, as well as among some white leaders in Rochester, but I've also learned the facts. The black American will not be able to establish himself on equal terms in the social community and the business community in a reasonable period of time without special advantages—hopefully, short-lived advantages.

The years of discrimination have left the average Negro undereducated compared with the white man and without the tools to build assets through a capitalistic system. Special advantages in the business world to a handicapped minority are not new to our system. Servicemen returning from World War II could get free specialized training, join the 52-20 Club, and also could get a loan to start in the business world with a minimum of equity, collateral, and without experience. I submit to you—whether you like it or not—that the black American is not going to be satisfied with less than being fed into the mainstream of the American economy on a par with the white man, and this is not going to be accomplished without special rules, special attention, and a strong effort on the part of all of us.

If you are still with me—the third point I would like to make is that as bankers you have more responsibility to bring about the restoration of rights to minorities than other elements in the business community. We must face the fact that as bankers our future is tied to the towns and cities in which we are authorized to do business. Our stockholders' welfare and our employees' welfare are tied to the success of our bank. In their interest, we must take whatever action is necessary to rehabilitate ghettos and to strengthen black businesses within the city.

Employers who manufacture a product and sell it out of your community can, if necessary, move out of the community. Fortunately, despite this freedom, many of them give significant financial support to the welfare of the minority groups and to the restoration of the cities. We, as bankers, have no choice—we must.

Another reason bankers must exert leadership was well stated recently by Representative William Stanton, who serves on the House Banking and Currency Committee, and I quote Mr. Stanton:

> "What makes the banker really different is his capacity to multiply and generate the efforts of others. We have often seen the several arms of government try to assume leadership in meeting the urban crisis, just as we are familiar with similar attempts by religious and industry groups as well as the academic community. For the most part they have failed because they have been unable to generate the assistance of others.
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> "When bankers go where others fear to tread, however, things start to happen!

Whether justified matters not. Banker participation instills confidence and, if you will, a sense of respectability. Just as the fractional reserve system gives banks the ability to create credit many times the amount of reserves they are required to hold, the presence of the banking industry at the helm in meeting our nation's social challenges will multiply human and capital resources many times over."

Quite a statement from a non-banker, and it certainly puts us under the spotlight.

If you accept this thesis that banks have to show leadership, let me now elaborate on the reasons for action. Volumes are being written these days on the importance of business involvement in the solutions of racial problems. Most authors seem to conclude that there is only one reason why business must act, but the reasons are not all the same.

Some say the reason businessmen must play a role in the solution of this social problem is that, if business doesn't, the government will. Being basically conservative, the businessman does not want the government to grow bigger so he is forced to take this role.

Others say we should be involved because the Negro is rapidly growing as a percentage of our total population. Blacks are an important segment of our customers who must be kept healthy and happy so that they will consume our products or use our services.

Some in the banking industry say we must become involved in helping the black man because our industry has to fill so many clerical jobs and suffers from a very high employee

turnover. Their thesis goes that banks will face increasing competition for skilled people from industries with higher profit margins and higher salary levels. Banks will have to depend upon minority groups to fill our desks and man our machines.

Others contend that the businessman must get involved regardless of the impact on earnings because it is a moral obligation. This school maintains that, if a business makes financial commitments to social ventures such as training of so-called "hard core" unemployables or black capitalism strictly on a financial return basis then when less prosperous times come, these ventures will be the first to be eliminated. Hence, to get the long-range job done, the businessman must feel a strong obligation as a human being and be satisfied only when the problems have been successfully solved.

Another reason is simply fear—do something before the black man burns your bank down! Then, there is the theory that a business must involve itself in the urban crisis in order to recruit highly qualified white talent, based on the theory that today's college graduates want to be involved in social problems as well as make money. Somewhat related to that theory is the one that suggests a business concern should be involved simply to build its corporate image. It's "the thing to do" today, so they should hire a community relations officer and start pumping out the publicity on corporate social accomplishments.

It doesn't matter which school of thought I follow. My thesis here is simply that it does not matter what reason you give as long as the job gets done. I think with this wide range of rea-

sons—or excuses, if you will—every man in this room should feel compelled to grab one as his own rationale and get on with the job.

The debate on justification for action seems endless. While man was struggling to get to the moon there were also endless debates as to the reasons, but fortunately during all of the talk someone was performing and getting the job done! I wish I could say that, in the case of relieving racial tension, sufficient work was going on behind the scenes but, unfortunately, I do not think such is the case.

Hopefully, I have some agreement that there is a job to be done and that banks must take a leadership role in accomplishing it. The next question is—where does the lending officer come in? The answer, I believe, is right smack in the middle. Banks must participate in hiring minorities and promoting them to meaningful jobs. Yet we are not big employers in our community; hence, this job takes on secondary importance to our main responsibility—lending money. In Rochester, Marine Midland employs less than 1 per cent of the work force, but we make about 25% of the business loans. This is the specialty we offer. Our success should be judged by how we employ this specialty.

The best avenue for placing the American Negro on a par with the white man is to permit him to participate in our capitalistic system. We must find ways to produce successful business stories for the black race and to allow them to build personal profits and savings.

From firsthand experience I can tell you the job is not an easy one. There are very few Negroes who have had the advantage of a business school education, who have been taught

marketing skills or can read a balance sheet. Most of the potential businessmen were brought up in families where there were no budgets, no checkbooks, and certainly no savings accounts.

Theodore Cross in his new book, *Black Capitalism*, points out that most Negro businessmen who have entered the business world are not credit worthy because of weaknesses in business and marketing skills. Poor past performance combined with prejudice has made it impossible for most blacks to attract credit, which we all know is the cornerstone of growth.

The blacks lack equity, they lack credit and they lack entrepreneural skills—and hence, today, they simply don't own their share of businesses. Quoting further from Mr. Cross's book, let me share with you some startling statistics:

1. There are 11,755 businesses in Washington, D.C.—Negroes are 63% of the population; yet Negroes own only 1,500 of these 11,755 businesses.
2. There are 17,500 authorized automobile dealers in the U.S.—7 are black.
3. Out of over 6,000 radio stations in the country, over 100 of them direct their programming to black listeners—yet only 8 of the 100 so-called Negro stations are owned by Negroes.

Where does the bank lending officer come in? He is the fellow who has got to help find the missing equity, provide the credit despite the risks, and make certain that the required entrepreneural skills are forthcoming.

Perhaps you feel that a lending officer must never change his standards because of the color

of an applicant. Well, today, that is simply not acceptable—it is not enough. This brings us back to the reparation's theory. A bank officer recently told me that he didn't discriminate in performing his job. He stated proudly that he always treated black loan applicants exactly like white applicants. That's like saying a school teacher is doing her job when she gives equal time and attention to all students regardless of background or talent. Equal treatment often adds up to discrimination, and the record shows this in some bank lending.

The business community is being buffeted on all sides by the problems of our decaying cities and of our underprivileged minority races. When the business community turns to the man who controls the purse strings, it expects imaginative and resourceful solutions to financial problems. Today the loan officer must learn to take a second look at these special problems. If he relies on textbooks, if he is afraid to experiment with new financial concepts, then the banking industry is ducking its responsibilities.

James Gavin, Chairman of Arthur D. Little, Inc., said in a speech recently, "New social and economic machinery cannot be designed with old tools" and, of course, that is correct. If we consider ourselves as experts in loans and financial guidance, yet won't allow our minds to stretch beyond the simplicities we were taught in school, such as the 3C's of credit, then we will soon see our role filled by others—probably the U.S. Government. We must be sufficiently creative in our thinking to conceive new solutions. Naturally, I am not suggesting that creativity or resourcefulness is any substitute for sound technical knowledge. The loan officer needs as much knowledge of accounting

and as much front line experience today as he did ten or twenty years ago. But, if that is all he has—a knowledge of the rules and an awareness of how things worked in the past—then his chances for making a genuine contribution to today's problems are limited.

To become even more specific now, let me use some examples from Marine Midland's work in Rochester. One of the fundamental rules of bank credit is that a borrower must have adequate capital—one of the 3C's of credit. Certainly capital is an essential ingredient, but today you must be prepared to accept a broad definition of that word, *capital*. In Rochester there is an organization called "Better Rochester Living" that arranges for the purchase of rehabilitated homes in the ghetto. Through this organization a man can own his own home without a penny for down payment by repairing a run-down house using tools, supplies, and guidance from "Better Rochester Living". This is commonly called "sweat equity." The man's hours of work constitutes the down payment that makes the mortgage loan possible. The record of this approach to housing has been exceptionally good, since it creates in the new owner a special involvement and a determination to make regular payments. He also acquires a knowledge concerning proper maintenance of the home and, hence, sustained value.

There is a new manufacturing concern in Rochester called "Fighton" which provides another broadening definition of capital. This company is currently operating successfully with about 45 employees, all black and practically none skilled. We loaned this company several hundred thousand dollars, partially guaranteed by the Small Business Administra-

tion, without one penny of equity behind the venture in the traditional sense. In this case, the substitute for capital was a substantial training grant from the U.S. Department of Labor. The item due from the U.S. Government on one side of the balance sheet was simply booked as capital on the other. This unconventional accounting would find little acceptance in traditional banking circles; but, in the case of Fighton, it turned the trick and at least got the venture launched.

Another "C" of credit is character. The rule book says you should lend only to experienced businessmen of unquestioned character. A business loan to someone with a criminal record is normally avoided. Despite this we provided the financing for a Negro to purchase a small business recently who had both a police record and a record of a previous bankruptcy. Yet he is doing a good job and we believe this business will succeed. By digging a little, rather than just dropping the application, we learned that his previous business failure was due to economic circumstances beyond his control and that his former suppliers held a high opinion of his business ability. In other words, we made a little extra effort to try to justify a "yes" on the loan rather than take the easy course of saying "no." The traditional approach to sound banking dictates that, if a loan is going to be a problem or a work-out and perhaps is one that will be criticized by the examiners, then duck it—even if it is a "money-good" loan, properly collateralized. If you hold to that theory today, you may be practicing one type of sound banking but you will not be participating in black capitalism.

The third "C" of credit is capacity, or ability to repay. Can the business throw off sufficient

earnings to pay back the loan? The book says that the way to measure capacity is to look at past experience. To quote from a recent article called "Fundamental Principles of Sound Bank Credit": "The single ingredient that is present in sound bank credit, secured and unsecured, is proven earning power." I shouldn't take issue with the so-called principles of sound bank credit; but, at the same time, I can tell you from experience that if you are looking for proven earning power before you approve a loan to the average man starting in business today, you just won't be making any such loans. The Small Business Administration has also had problems being realistic about proven earning power. Until recently, they said they would guarantee loans only when there was a reasonable assurance of repayment. Yet it is the lack of assurance of repayment which makes a bank seek a Small Business Administration guarantee, so its stand was somewhat ludicrous. Fortunately, there have been some significant changes in the attitude of the S.B.A., and today they more clearly see their proper role. If you have been discouraged with your dealings with the S.B.A. in the past, I suggest you give them a fresh try.

Under the heading of both Character and Capacity comes the additional subject of entrepreneural skills. The majority of the Negroes we have placed in business were poor businessmen at the start. Based on the old standards, their inadequate education and training would have made them ineligible for business loans. The burden of filling the gap to a great extent fell on us, as their bankers. Let me illustrate the extent of our involvement:

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1. We have had to set up insurance programs for new minority businessmen—and help

them get coverage in some instances—even talking turkey to the agents who write the insurance for our bank on occasion to get cooperation where we felt it was justified.

2. We have done all the paper work on behalf of loan applicants, preparing cash flows and pro forma balance sheets for our own files and for those of the S.B.A. and others.

3. We have spent hundreds of hours trying to clear up poor credit records of our new customers, pleaded with suppliers to ship goods, argued with local credit bureaus to give a man a reasonably fresh start, and worked closely with Dun and Bradstreet and other credit agencies in attempts to have ratings updated.

4. We have tried to give marketing assistance by contacting our own customers to try and drum-up initial sales, and our advertising department has even helped prepare copy.

Initially, some are so dependent on our lending officers who specialize in black capitalism that when their basement floods they call us before calling the plumber. Fortunately, Rochester is blessed with an organization called "Rochester Business Opportunities Corporation." This is a non-profit organization supported by local business that seeks out potential black entrepreneurs, helps them find a modest amount of equity, or, if necessary, provides it for them through subordinated loans—and then attempts to assure their success by direct guidance. Without this organization Rochester would have failed in its efforts toward providing the Negro with "a piece of the action" yet, it is not staffed to do the job fully, so the banks

must help steer these new businesses through their initial years.

As a bank officer, what meaning do these experiences have for you? Well, first you must learn to look beneath the surface and judge the overall skills of the black borrower and his staff in the context of this new world. You must find out if the borrower has access to specialists in bookkeeping, budgeting, legal work, marketing, et cetera. If those skills aren't available, then someone must set up a team to help him get started, either inside your bank or outside. If your community has an organization such as Rochester Business Opportunities Corp., then your task will be much easier. But you can't duck responsibility for continuing supervision of the affairs of the man you have placed in business. The black community needs success stories—not more failures. If you can't do the follow-up work, don't make the loan. You will be doing more harm than good.

I've painted a fairly frightening picture of the work involved in loaning to venturesome new businessmen. Extra work will continue until the business can be considered normal. You will be undertaking this work in full knowledge that your bank has more profitable short-term outlets for its assets. Furthermore, you can expect reprimands from many of your customers for offering special attention to non-whites. But, what is the point in dwelling on these realities, when there is no alternative. The job has to be done.

In closing, I would like to support my case with a quote from a recently published book by John Gardner, "No Easy Victories." If you read Mr. Gardner's book, I think you will agree with his statement that:

"Today we can't afford not to take chances. I am always puzzled by people who talk as though the advocates of change are just inventing ways to disturb the peace in what would otherwise be a tranquil community. It would not otherwise be a tranquil community. We are not seeking change for the sheer fun of it. We must change to meet the challenge of altered circumstances. Change will occur whether we like it or not. It will be either change in a good and healthy direction or change in a bad and regrettable direction. There is no tranquility for us."

Bank lending officers must play a major role in our country's efforts to make sure that inevitable change proceeds in a good and healthy direction.

Statement of

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of Rochester

"Perhaps you feel that a lending officer must never change his standards because of the color of an applicant. Well, today, that is simply not acceptable—it is not enough. This brings us back to the reparation's theory. A bank officer recently told me that he didn't discriminate in performing his job. He stated proudly that he always treated black loan applicants exactly like white applicants. That's like saying a school teacher is doing her job when she gives equal time and attention to all students regardless of background or talent. Equal treatment often adds up to discrimination, and the record shows this in some bank lending."