COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE ON COMMERCE & ECONOMIC DEVELOPMENT

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Room 696, City Hall
Philadelphia, Pennsylvania
Thursday, March 25, 2004
2:00 p.m.

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RESOLUTION 040048 - authorizing the Committee on Commerce and Economic Development to hold hearings to review annual community reinvestment goals submitted by City depository banks...

RESOLUTION 040145 - authorizing the Committee on Commerce and Economic Development to hold hearings examining small business lending in low and moderate income and minority areas within the City of Philadelphia...

PRESENT:

COUNCILMAN W. WILSON GOODE
COUNCILMAN FRANK DICICCO
COUNCILMAN FRANK RIZZO
COUNCILMAN JUAN RAMOS
COUNCILWOMAN DONNA REED MILLER
COUNCILMAN RICHARD MARIANO
COUNCILWOMAN MARIAN TASCO
COUNCILMAN DARRELL CLARKE
COUNCILWOMAN BLONDELL REYNOLDS BROWN

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I N D E X

03/25/04 - COMMERCE - RES. 040048, 040145

COUNCILMAN GOODE: Good afternoon. This is a public hearing of the Commerce and Economic Development Committee on Resolutions 040048 and 040145. My name is W. Wilson Goode, Jr., Chair of the Committee.

I note other Committee Members present include, to my right, Councilman Frank DiCicco, Councilwoman Donna Reed Miller and Councilwoman Blondell Reynolds Brown. We're expecting actually all Members of the Committee, other than the Vice Chair, who is actually traveling to South Africa today.

At this time, I would ask the Clerk to please read the title of both resolutions.

THE CLERK: Resolution 040048, authorizing the Committee on Commerce and Economic Development to hold hearings to review annual community reinvestment goals submitted by City depository banks and the role of City depository banks in leveraging private investment from the proposed $500 million Economic Development Capital Fund, and further authorizing the Committee to issue subpoenas to compel the attendance of witnesses and the production of documents and other evidence.

And Resolution 040145, authorizing the Committee on Commerce and Economic Development to hold hearings examining small business lending in low and moderate income and minority areas within the City of Philadelphia, and calling on the Small Business Lending Task Force of the Community and Economic Development Committee of the Greater Philadelphia Urban Affairs Coalition to present testimony on several potential solutions to lending disparity, including a loan guarantee fund, alternative loan programs and an information and referral system for small businesses.

COUNCILMAN GOODE: Thank you.

Our first witness today on Resolution 040048 is John Nacchio from the City Treasurer's Office.

Please state your name for the record and proceed with your testimony.

Let me note for the record Councilman Darrell Clarke is also present. We now have a quorum officially.

MR. NACCHIO: My name is John Nacchio. I'm with the City Treasurer's Office. What I'd like to do is read the prepared testimony and basically read it as it has been written.

Good day, Mr. Chairman, and Members of the Committee on Commerce and Economic Development. I am John Nacchio, the Treasurer's Office, Operational Investment Manager, and today I'm representing the Office of the City Treasurer on behalf of the acting City Treasurer.

Just to provide a little background about the City Treasurer's Office, the City Treasurer's Office, under the City Charter, is the official custodian of City funds for the purpose of sound financial management and the disbursement of checks. It is, however, the Revenue Department that collects the monies and then it is turned over to the City Treasurer and deposited with the depositories. These depositories are and have been legislated into the Philadelphia City Code by

City Council in Chapter 19-200.

Also contained in Bill 030022, approved on April 24th, 2003, was included a new requirement, that a City depository provide the City with an annual statement of community reinvestment goals. This effort is reflective of the Federal Community Reinvestment Act and provides a monitoring tool to affect the flow of credit and the provision of banking services in neighborhoods.

Then what followed was Bill 030023, and this was a revision of The Philadelphia Code for reinvestment goals. It was approved on May 20, 2003, and it revised the long list of City depositories and included banks and financial institutions. At the current time, including amendments, it is now a very shortened list of seven banks that are City depositories. They are Wachovia Bank, which was formerly known as First Union bank, PNC, Citizens, Commerce, United, Mellon and Fleet Bank.

A request was sent to each of the

depositories on December 31st to provide an annual statement of community reinvestment goals. All seven banks responded, completing the requirement of Section 2 of Chapter 19-200. The responses were forwarded to the Committee Chairman, Councilman Goode.

That concludes my testimony. And I'm available for any questions or follow-up that the Committee may have at this time.

COUNCILMAN GOODE: Thank you, Mr. Nacchio, for your testimony. Members of the Committee have received copies of the reinvestment statements. They'll find them in their packets.

I just have one question for the record. You sent letters to the seven depositories. Do you intend to send letters to other banks in anticipation of their wanting to become depositories?

MR. NACCHIO: There was no indication to do that. The only bank that I know that's under consideration currently was Hudson Bank. So we did not send it to any of the banks except those that were on the list.

COUNCILMAN GOODE: I guess part of the question was, are there other banks that are looking to become City depositories?

You mentioned Hudson, and so Hudson will have to comply with the Fair Lending Law as well?

MR. NACCHIO: Yes. There are no other banks at this time who have inquired to become a City depository.

COUNCILMAN GOODE: Thank you.

Members of the Committee will have time to review these statements.

Are there any Members that have questions for the Treasurer's Office at this time?

The Chair recognizes Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Mr. Chairman.

Good afternoon. I'm just reviewing this and I'm just getting to the first response from Citizens Bank. I haven't had a chance to go through the rest of them, but I'm going to ask this question with the assumption that it may be a similar response.

In indicating the loan allocations, the number of units per year for 2004, it references residential mortgage loans, home improvement loans, small business loans, community development. Was there any other data indicating the specific areas, like zip code, census tract, any more level of detail? Can you request any more level of detail?

MR. NACCHIO: There is no other level of detail provided by the bank. Under the legislation, it requires that they submit their goals and does not have a format or a detailed level request. But that is something that we certainly would hope that the banks could provide. But it has not been provided to our office.

COUNCILMAN CLARKE: It would be a lot easier for us to fully analyze the data if you had some specific areas. Will they be targeting 900 in the northern part of the City or in the western? Will it be dispersed geographically in an equitable manner? I just kind of want to get a sense of --

COUNCILMAN GOODE: All the goals are set for low and moderate income areas. Information is not reported by census tract, but all the lending that is accounted for is within low and moderate income census tracts.

COUNCILMAN CLARKE: I understand that. I guess the data will be forthcoming at some point in terms of what actually happened. The question is, once we get that --

MR. NACCHIO: That's my understanding, that these are the goals.

COUNCILMAN CLARKE: I would just be interested to see where the money is being dispersed to as we move forward. In terms of targeting the City resources, we want to make sure we can leverage whatever we do.

COUNCILMAN GOODE: Some of that data will be available through our last panel. The Greater Philadelphia Urban Affairs Coalition actually has mapped it out in terms of where the lending is taking place.

COUNCILMAN CLARKE: Great.

Thank you, Mr. Chairman.

COUNCILMAN GOODE: Let me

acknowledge for the record that Councilman Frank Rizzo, a Member of the Committee, has also joined us.

The Chair recognizes Councilwoman Miller.

COUNCILWOMAN MILLER: Thank you, Mr. Chairman.

I too wanted additional information in terms of data to compare the goals, with the minority goals with the majority of what's happening to the majority of borrowers. What is the percentage of the goal? Do you know what is the actual goal? Is there a 5 percent or 10 percent goal? What's the goal, Wilson?

COUNCILMAN GOODE: It's just a requirement that in order to hold City money they have to set goals on an annual basis.

COUNCILWOMAN MILLER: Okay. But we don't know what those annual goals are?

COUNCILMAN GOODE: The annual goals are submitted on an annual basis. Those are the 2004 goals. Within your packet are also copies of the 2003 goals. And for both Wachovia and for Commerce Bank, they actually submitted their performance in terms of how they performed in terms of their 2003 goals.

COUNCILWOMAN MILLER: All right. Thank you.

COUNCILMAN GOODE: Are there any other questions from Members of the Committee?

(No response.)

COUNCILMAN GOODE: Thank you, Mr. Nacchio.

Is there anyone else to testify specifically on Resolution 040048?

(No response.)

COUNCILMAN GOODE: We will move to Resolution 040145. Our first witness on that resolution is Marisa Waxman from the City's Controller's Office.

Please state your name for the record.

MS. WAXMAN: My name is Marisa Waxman. I work for the City Controller's Office, and Controller Saidel has asked that I read his remarks to you this afternoon.

"I would like to offer testimony today on small business lending in

Philadelphia. As Philadelphia continues to lose jobs and residents, access to capital is essential for small businesses to grow and succeed. Equitable access is paramount. We all must strive to create an environment where firms and families can thrive. I applaud Councilman Goode and all of City Council for focusing attention on this important issue.

"Significant study has been completed on this topic by Councilman Goode's staff and numerous other groups, so I will limit my comments to an analysis of small business lending in Philadelphia released by my office. This analysis considers only data for Philadelphia. I am therefore not in a position to comment on trends outside the City.

"My office performed an analysis of data available from the Federal Financial Institutions Examination Council. Along with other responsibilities, the Council monitors the efforts of financial institutions to comply with the Community Reinvestment Act of 1977. This Act seeks to encourage lending within the communities in which banks operate.

The analysis performed by my office tracks the number of loans to small businesses. These are loans to firms with less than $1 million in revenues. The report also includes other lending statistics. Currently the data are available for the years 1998 through 2002. Our analysis considers only loans taking place in Philadelphia and seeks to identify differences among communities of varying income levels. For the purpose of our analysis, low and moderate income communities are those that are below 80 percent of the median income level for the metropolitan area. Middle and upper income communities are those with higher than 80 percent of the area's median income.

"From 1998 to 2002 the number of loans to small businesses nearly doubled. During that time period the inflation-adjusted total amount loaned to small businesses increased from $163 million to $272 million. Despite this upward trend, the number of loans made to small businesses fell by over 20 percent between 2001 and 2002. At the same time the average amount per loan increased from $37,000 in 2001 to $49,000 in 2002. Notwithstanding this increase, the average loan amount in 2002 is almost 10 percent less than the 1998 average loan made to small businesses in Philadelphia.

The data demonstrates significant changes in overall lending during this five-year period, but the data did not indicate major changes in the distribution of lending between communities of different income levels. During the five-year period, between 39 and 42 percent of loans to small businesses were made in low and moderate income communities. When considering the amount of loans, low and moderate income communities received between 34 and 39 percent of the loan funds. The share of loan funds received by these communities fell to its lowest level, 34 percent, in 2001. The share rebounded to 38 percent in 2002.

"The City's tax structure has contributed to an environment where individual firms ask for and receive incentives to stay or relocate to Philadelphia. We all pay for these incentives, and our taxes are higher so that some firms can pay less. I believe we must foster a business climate that allows enterprises in every community an opportunity for success. The nature and magnitude of our taxes have harmed Philadelphia's economic competitiveness over the last 50 years and made it more difficult for small firms to grow and prosper. In light of the high cost of doing business in Philadelphia, access to funding is particularly critical for many small enterprises. While the total amount of money loaned has increased, the average loan amount has decreased since 1998. Without access to capital, fewer and fewer entrepreneurs will be able to pursue the dream of owning their own business. It is my hope this data will enhance this Council's ability to consider how the City can ensure the hard working people of every Philadelphia community have access to the resources needed to pursue and achieve their dreams."

Thank you.

COUNCILMAN GOODE: Thank you, Ms. Waxman, for your testimony. Members of the Committee have received copies of the report.

I will note I believe this is the third report that the Controller has done based on actually my first resolution in City Council calling for annual review of small business lending. I'll just make the same request I made last year, that we make sure that this is actually done on an annual basis so that we can keep track of the data.

Are there any questions from Members of the Committee?

(No response.)

COUNCILMAN GOODE: I note for the record that Councilman Juan Ramos is also in attendance.

Thank you very much.

Our next witness is Josh Silver from the National Community Reinvestment Coalition.

MR. SILVER: Good afternoon, Councilmember Goode, and thank you so much for asking NCRC to come and testify today.

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Good afternoon, Councilmembers.

COUNCILMAN GOODE: Mr. Silver, could you please state your name for the record?

MR. SILVER: Sure. It's Joshua Silver, and I am Vice President of Research and Policy for the National Community Reinvestment Coalition, and we are based in Washington, D.C.

NCRC is the nation's CRA trade association of 600 community organizations across the country dedicated to increasing access to credit and capital for traditionally under-served communities. We fight for fair lending laws on a national level. It's tough these days. We also provide programs to our member organizations and communities across the country. We have a financial education program and we also participate in an SBA lending program called Community Express, which I'll describe a little bit in my testimony.

Councilmember Goode invited NCRC to testify about a year and a half ago. And when we came about a year and a half ago, we documented some troubling disparities in small business lending. And I wish I could come here today and say that things were getting better, but, in fact, the disparities are the same or worse as they were a year and a half ago.

Attached to my written testimony today is a chart showing small business lending in the hundred largest metropolitan areas across the country. And when I was talking to Councilmember Goode's staff before testifying, I was remarking that actually Philadelphia is on the bottom of the list. The disparities in small business lending is the worst in Philadelphia of 100 large metropolitan areas.

In 2001, only 16 percent of the small businesses in minority tracts received loans. Minority tracts is defined as tracts where more than 50 percent of the residents are minorities. On average across these 100 metropolitan areas, 33 percent of the small businesses in minority tracts receive loans. So in other words, about one half of the businesses in Philadelphia's minority neighborhoods are receiving loans compared to small businesses in a hundred other of the largest metropolitan areas in the country.

When you look at low and moderate income census tracts, the picture is not any better. Only 17 percent of Philadelphia's small businesses in low and moderate income census tracts received loans. This was the second worst among the 100 largest metropolitan areas. Small businesses and low and moderate income census tracts in Harrisburg received fewer loans in percentage terms.

When we did a quick update using the 2002 data, which is the most recent data available, the picture did not improve. Only 16 percent of the businesses in Philadelphia's minority census tracts received loans, whether you're looking at the City or the larger metropolitan area. And only 19 percent of the businesses in low and moderate income census tracts received loans.

In preparing for the testimony,

Councilmember Goode's office shared with me the Greater Philadelphia Urban Affairs Coalition paper. The paper reviews the literature on small business studies and says that the literature suggests that after controlling for credit worthiness and other relevant factors, there is an unexplained factor contributing to disparities in small business lending. We will name that unexplained factor, even though the GPUAC paper did not name it. That unexplained factor is the ugly word, discrimination.

A few years ago, Dan Immergluck, who is a professor at Grand Valley State University, did a paper for the City of Philadelphia, and he found that after controlling for credit worthiness -- he got data from Dunn and Bradstreet -- the number of loans decreased as the number of minorities in a census tract increased. NCRC has found similar findings when you look at home lending across the country.

We released a study called the Broken Credit System in the end of 2003, and we found the same thing in home lending. The portion of sub-prime or high-cost home lending increases as the number of minority residents in a census tract increases after controlling for credit worthiness and important housing characteristics, such as the median value of the home. We did that study in 10 large metropolitan areas. We did not look at Philadelphia because a federal reserve economist actually looked at Philadelphia and Chicago and found the same thing. In other words, even though we have had progress over the years in using the Community Reinvestment Act to increase access to credit and capital, both small business loans and home loans, we still, I believe, have this ugly phenomena called discrimination. And we must increase the enforcement of the Community Reinvestment Act and fair lending enforcement. And I think that Councilmember Goode's legislation requiring the annual submission of goals is an important step in that direction.

Recommendations:

We strongly support the concept of a

loan guarantee fund proposed by Councilmember Goode, particularly in this environment where the fate of the Small Business Administration programs is very much in flux right now. There is a huge debate between Congress and the Bush Administration over what the size of the loan guarantee will be, will it go down to 50 percent. Right now on most programs it's higher than 50 percent. And the lenders themselves say if the loan guarantees go down to 50 percent, the programs will no longer be viable. We urge the City to watch the debate in Congress over the fate of the SBA programs and to design a loan guarantee fund that complements, but does not substitute, for SBA lending programs. NCRC would be happy to help the City research where the private sector lenders and SBA programs are reaching businesses and where they are not reaching businesses by neighborhood, by census tract, and design a loan guarantee fund targeted to those census tracts that neither the conventional lending programs nor the SBA programs are reaching.

NCRC participates in an SBA program called the Community Express program. Under that program the SBA loan guarantee is actually higher than usual, and that is because NCRC member organizations provide technical assistance, both pre-loan and post-loan. Because of these two innovations working together, the loan guarantee fund and the technical assistance, an extraordinarily high level of minority and women-owned businesses are being reached. In the first quarter of 2004, 75 percent of the Community Express loans went to minority-owned businesses, and 55 percent of the loans went to women-owned businesses. And we believe that a City program with a City loan guarantee fund could also have similar success in reaching traditionally under-served businesses.

I just want to mention a few other recommendations quickly before taking questions.

One thing that we think is very, very important is more vigorous CRA enforcement. When banks have CRA exams, anybody from the general public can comment to a federal examiner looking at a bank's CRA record, and we recommend to the City that you either establish an advocacy office that's a City agency that can comment on these things or work with a non-profit that can comment on CRA exams, perhaps making judgements about the adequacy of the goals that the lenders have submitted to the City.

One observation I'll make to that is the goals talk about the number of loans, and that's all well and good. But it doesn't have bench marks, like there are 30 percent of the small businesses in the City are in low and moderate income census tracts. We will strive to make 30 percent of the loans in low and moderate income census tracts. Those are the kind of bench marks that you need to add some meat and some rigor to the goal statements that you're getting from the banks.

Also, when banks merge, that's also a very important time to engage in advocacy and to comment, and the federal agencies are required to consider a bank's CRA performance in ruling on a bank's merger applications. And actually, Fleet will soon be called Bank of America, for example. The second largest bank merger in history just occurred, and NCRC member organizations in Philadelphia are involved in that. So pursuing CRA enforcement is, we believe, very, very important.

One thing I want to mention on the federal level, in this climate the federal regulatory agencies are actually proposing changes to CRA, which will be harmful, which will decrease the amount of bank investments and services and branches to low and moderate income communities by giving about 1,000 banks with assets between $250 million and $500 million easier tests. Banks actually have tests that they have to pass to demonstrate compliance with the Community Reinvestment Act. And the easier the test, the less investments and services and loans that you're holding banks accountable for.

Another proposal is proposing a weak anti-predatory lending standard. I can talk in more detail if any Councilmember wants to do that.

Last but not least, perhaps the only good thing in this proposal is reporting small business lending by individual census tracts. Right now the publicly available data on small business lending that are submitted by each bank gives you categories, how many loans they made to low income tracts and moderate income tracts, but we don't know the specific census tract. And the federal regulators are actually proposing to release to the general public data on how many loans are in each census tract, so some of the questions that we had earlier from some of the City Councilmembers of how we can track the performance of banks in reaching neighborhoods, hopefully the federal agencies will require this additional data. And if the federal government doesn't require this additional data, actually nothing stops the City. The existing federal law does not stop the City from requesting this data.

Last but not least, we do agree with

the GPUAC that more financial education is critically important. NCRC has a financial education program that we operate on a national level, as well as our Community Express Small Business Lending Program, and we would be delighted to help and assist in financial education initiatives in the City of Philadelphia.

Thank you so much for this opportunity to testify. I'll be happy to answer any questions.

COUNCILMAN GOODE: Thank you, Mr. Silver, for your testimony. And thank you for traveling from D.C. to be with us today.

Actually, I'm going to withhold questions right now so we can allow GPUAC to testify. If you could stay with us for just a little while, I would like to hear their testimony before asking people to respond to yours.

MR. SILVER: Okay. Thank you.

COUNCILMAN GOODE: Our next panel will be the Greater Philadelphia Urban Affairs Coalition, Small Business Lending Task Force.

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Good afternoon.

MS. MATLOCK-TURNER: Please excuse us for being a little late, Mr. Chairman, and the rest of the Councilmembers. GPUAC's Board met this afternoon at 12:00 and we just finished up.

COUNCILMAN GOODE: I understand you're going to testify in the order, Don Kelley, then Sharmain Matlock-Turner, Gerri Walker, then Leslie Benoliel?

MS. MATLOCK-TURNER: I think I'm going first and then I think next is Don and then Gerri and then finally Leslie, if that's okay with you and the Committee.

COUNCILMAN GOODE: Please state your name.

MS. MATLOCK-TURNER: Certainly. I'm Sharmain Matlock-Turner. I'm the President of the Greater Philadelphia Urban Affairs Coalition. I want to thank Chairman Goode and the other Members of City Council who are here today, Councilwoman Blondell Reynolds-Brown, Councilman Ramos, Councilman Clarke, Councilman Rizzo, to be here to offer from the

Greater Philadelphia Urban Affairs Coalition an opportunity to present testimony to you on the subject of small business lending in low and moderate income and minority communities within our City.

I'm going to talk briefly about what you already know about the disparities and the distribution of loans to small businesses in lower income and minority communities, and then with my colleagues we will introduce a set of solutions and a new pilot initiative.

This is an issue about which there is broad consensus on at least one point. We all agree that the vitality of our small business sector is crucial to the economic health of our City and the quality of life in our neighborhoods.

Studies by the National Community Reinvestment Coalition, which I think you just heard from, and the Office of the Controller of the City of Philadelphia have identified disparities in the distribution of loans to small businesses in lower income and minority areas compared to other areas in the City.

Unfortunately, the data is not sufficient to identify all of the precise causes of these disparities.

Studies conducted in other parts of the country and reported in the federal reserve research in 1999 isolated a number of factors such as firm size, credit histories and personal wealth, and have found them to account for much, but certainly not all, of the disparities.

Regardless of whether the reasons for the disparities reside in the nature of the market or in the policies of the lending industry, the fact remains that less than proportionate distribution of loans to small businesses in lower income and minority communities in our City is not a good thing. It is, therefore, incumbent upon us as civic leaders to figure out how to close the gap between credit readiness of the small business owner and lending willingness of the bank.

Toward this end, GPUAC's Committee on Community and Economic Development, co-chaired by Ray Desiderio of PNC Bank and

Rick Sauer of the Philadelphia Association of Community Development Corporations, recruited a diverse and dedicated group of experts to form a small business lending task force. Leslie Benoliel, Executive Director of the Philadelphia Development Partnership was appointed Chair. Don Kelley, Director of GPUAC's Department of Community and Economic development, was assigned to the project to provide staff support.

Following my comments, Don will describe the Task Force and its deliberations in more detail. Then, as I said before, the next speaker will be Gerri Walker, who is the Chairperson of the North Philadelphia Chamber of the Commerce and a member of the Task Force. She will summarize the key observations made by the committee. And then finally we will hear from Leslie Benoliel, Executive Director of the Philadelphia Development Partnership, who will outline specific programmatic and policy recommendations accompanied by what we believe might be estimated cost and a suggestion around public investment in these proposals.

Allow me to conclude by setting forth a vision. We believe that the ideas that you will hear can lead to a new three-year pilot initiative based on a partnership between the private and public sectors that will demonstrate that the amount of lending to small businesses in lower income and minority communities can be doubled by approximately $100 million a year to $200 million.

As President of GPUAC, I offer the services of my organization to convene the Task Force together with banking and public sector leaders to build this new partnership.

Thank you very much for your attention.

COUNCILMAN GOODE: Thank you.

Mr. Kelley.

MR. KELLEY: Good afternoon, Chairman Goode, and Members of City Council. Thanks for the opportunity for representatives of the Small Business Lending Task Force of the Greater Philadelphia Urban Affairs

Coalition to share its insights and understanding about this important issue.

As GPUAC's staff person to the Task Force, I would like to explain to you how the Task Force was formed and how it deliberated over the course of a year. Ms. Gerri Walker will follow my remarks with a presentation of the observations of the Task Force and about the nature of the problem. The Task Force Chairperson, Leslie Benoliel, will conclude with the recommendations of the Task Force.

Following the Council hearings held in the autumn of 2002, the Community and Economic Development Committee of GPUAC made the small business lending issue a priority for the upcoming year, which was 2003. Committee Co-Chair, Ray Desiderio of PNC Bank, directed the Community and Economic Development Department of GPUAC to create a Task Force to guide the committee in understanding the issue and identifying potential solutions. He urged the Committee and the Task Force to undertake this challenge with the same determination and collaborative spirit that led to the massively successful Philadelphia Mortgage Plan, through which 65,000 households became first-time homeowners over the course of 20 years. CED Committee member Leslie Benoliel, who's executive director of the Philadelphia Development Partnership, agreed to chair the Task Force, and the CED department director, myself, was assigned to provide staff support.

The Task Force began with a meeting on March 7th, 2003 of interested GPUAC-related members in order to establish the leadership and direction of the Task Force and its work. This meeting included Leslie Benoliel from PDP, Amy Lempert from PNC Bank, Chris Lewis from Blank, Rome, Comisky & McCauley, Cindy Romero from the People's Emergency Center, Rick Sauer from PACDC, Bill Smith from Citizens Bank, Alan Watson from the Reinvestment Fund, and Cecilia Moy-Yep from the Chinatown Development Corporation. This group decided to expand to include a broad cross section of experts who had first-hand knowledge of the business community that the

City Council and the Task Force were seeking to serve, including representatives of small business development centers, community development corporations, intermediaries, other lending institutions and chambers of commerce.

The following additional Task Force members then participated in one or more of the subsequent meetings which were held on September 30th, December 10th and, more recently, February 11th of this year. Those people included Shelly Anthony from Wachovia Bank, Mark Barnes from the Empowerment Zone, Iola Carter, formerly of Mount Airy USA CDC, Andrew Friskoff from the Empowerment Zone, Jeanne Fields from PDP, Eva Gladstein from the Empowerment Zone, Vandell Hampton, Junior, from the Enterprise Center, Dennis Harris from Beneficial Savings Bank, Patricia Hasson from the Consumer Credit Counseling Service of the Delaware Valley, John McDonald from Impact Services Corporation, Dede Myers from the Federal Reserve Bank of Philadelphia, Charles Solomon from GPUAC, Shirlyn Swann from PNC

Bank, John Wackes from the Federal Reserve Bank of Philadelphia, Gerri Walker from the North Philadelphia Chamber of Commerce, and D.L. Wormley from the University City District.

The Task Force took the approach of the collecting and organizing the collective wisdom of its highly experienced and knowledgeable participants. Over the course of the year, the discussions became increasingly insightful and stimulating.

While some original research was conducted as a result of the Task Force deliberations, the Task Force did not have the time or resources to conduct extensive original research. Consequently, the report recognizes that more and ongoing research is needed to help refine our understanding of why more bank loans are not made in lower income and minority areas and what can be done to change the pattern of the disparity and distribution.

It should be noted that the Task Force did not limit itself to deliberations only. Implementation is already under way for several of the actions recommended in the report as immediate steps, including the following:

The Federal Reserve Bank of Philadelphia has begun a study to determine if there is correlation between the presence of bank branches and small business lending.

The Consumer Credit Counseling Services of the Delaware Valley has begun to develop a training module on the importance of good credit, specifically for small business owners.

The Federal Reserve Bank of Philadelphia, with GPUAC, organized a meeting of small and medium-sized banks on March 11th and introduced them to key small business lending intermediaries, including the Reinvestment Fund and the Philadelphia Development Partnership.

In addition, there are indications that the heightened awareness of the lending disparity problem has already brought about some positive changes in bank policies that we expect will start improving the lending patterns. At least one bank has lowered its minimum loan size requirement dramatically and instituted a more aggressive marketing plan.

The report of the Task Force dated March 22nd, 2004 summarizes the Task Force's observations about the nature of the problem, key challenges, as yet unanswered questions, immediate recommended actions and proposed long-term solutions.

Ms. Walker will now share with you the experiential observations of Task Force members.

Thank you.

COUNCILMAN GOODE: Thank you, Mr. Kelley.

Ms. Walker.

MS. WALKER: Good afternoon, Chairman Goode, and to the other Members of the Committee. You've heard, I'm Gerri Walker. I am Chairperson Emeritus of the North Philadelphia Business Chamber of Commerce and Chairman of the Board of the Philadelphia Commercial Development

Corporation. I'm also a member of the GPUAC Small Business Lending Task Force.

My purpose in providing testimony to you today is to summarize the observations of the Task Force regarding the nature of the problem that has resulted in a disparity of loans to small businesses in lower income and minority areas of the City, and also key challenges that we face if we are to change this pattern.

The main observation of the Task Force is to make a significant difference in the capitalization of small businesses in low income and minority areas. There needs to be a transformation in the relationship between small business owners and the sources of capital. This will require changes at both ends of the relationship and must address the following issues:

A. Improvement of business owner readiness to obtain credit and manage capital.

B. Modification of bank policies and practices.

C. Expansion of alternative and

special loan programs.

D. Improvements to the information and communications systems.

E. Improvements of marketing and outreach programs.

Following are the specific observations for each of these five issues.

A. Observations regarding readiness.

One, a lot of small businesses have issues that make them unready for traditional bank financing, including tax problems, poor credit history, inadequate or nonexistent financial records and lack of collateral.

Two, many target area small business owners fear debt and simply do not want to take on credit obligations.

Three, many small business owners don't appreciate the importance of good credit history and the appropriate circumstances for using credit, and consequently do not understand how capital can be managed properly for growth.

Four, some target area small

business owners fear being turned down by a lender, and therefore do not even try to obtain a loan from a traditional lender.

Five, among certain ethnic groups, such as Asian Americans, there are the additional obstacles of language and lack of education.

Six, when very small businesses need money, it is usually an immediate need reflecting a weak business condition.

Seven, there are numerous and complex cultural chasms between the target small business borrowers and traditional lenders.

Eight, many small business owners do not realize how complicated managing a mainstream business is. And when a bank asks for a business plan and tax returns, the business owners are unprepared and overwhelmed.

Nine, a technology gap also contributes to the relative uncompetitiveness of target area small businesses.

Ten, it takes a lot of one-on-one

training and counseling to get most small business borrowers ready to apply to a bank.

While resources exist for these services, the need and demand far exceed the present capacity of the resources providers.

Key challenges regarding readiness.

One, how do get businesses prepared to successfully obtain loans from banks? And two, how do we develop a credit counseling strategy specifically for target area small business owners?

B. Observations regarding bank polices and practices.

One, large banks are structured to either make large loans in a customized way or small loans in a cost effective automated way, but not small loans in a customized way as many small businesses need.

Two, for small business loans up to $50,000, many banks don't rely on a business plan, but instead rely on collateral and an automated personal credit score. The problems are that target area businesses do not have much collateral. And target area business owners often have credit history problems. One bank reported that 85 percent of all small business loans are declined because of poor credit scores.

Three, some, but not most, traditional and intermediary lenders have policies that establish minimum loan sizes, i.e., $25,000, that are higher than the size loans that target area small businesses typically seek.

Four, one of the reasons that traditional bank experience with target area small business loans is not very good is that the large banks do not have loan work-out groups for troubled small business loans like they have for large loans, nor do they have relationships with counseling agencies that permit remedial intervention when a loan first becomes delinquent.

Key challenges regarding bank policies and practices.

How do we change the mindset of small business underwriters to place greater emphasis on alternative strengths, such as having certification of counseling, recent credit repair, a business plan and recent good payment history?

C. Observations regarding alternative and special loan programs.

One, when normal market mechanisms fail to meet a social need, a partnership between the public and private sectors may be able to fill the gap.

Two, while small banks are more appropriately structured to make small business loans, they are not as likely to have the staffing infrastructure to reach small business borrowers or have relationships with a network of intermediaries and community development agencies that offer a support system to small businesses. It is the support system with its technical assistance and credit enhancements that make lending to risky borrowers feasible.

Key challenges regarding alternative and special loan programs.

How can we make small business lending in low income and minority areas by traditional banks more feasible for banks than it presently is?

D. Observations regarding information and communication systems.

While there are many resources to assist small businesses, there is no adequately funded central place through which to route people to the right resource. And the key challenge regarding this information and community system, how do we develop a support system so that all of those who wish to help small business people are informed about where to point people for assistance?

E. Observations regarding marketing and outreach systems.

One, potentially eligible small business borrowers do not fully utilize existing support services and credit resources.

Two, the few traditional lenders that specialize in making very small business loans are usually small institutions themselves and do not have the marketing resources to compete with the credit card and consumer finance companies.

Three, preliminary analyses do not identify a correlation between the distribution of small business loans and the presence of traditional bank branches.

And the key challenge regarding marketing and outreach systems is, how do we build a system in which there is face-to-face contact with someone who is trusted by the target area small business owner?

Thank you very much for the opportunity to share these observations. After Leslie speaks with you, my colleagues will join us in answering any questions you might have.

COUNCILMAN GOODE: Thank you for your testimony, Ms. Walker. You did, however, leave out part of your credentials. You're also the former Commerce Director of this City.

Let me note for the record that Councilwoman Marian Tasco, a Member of this Committee, is also present, and ask Ms. Benoliel to identify herself for the record and please proceed with her testimony.

MS. BENOLIEL: Good afternoon, Councilman and Chairman Wilson Goode, and distinguished Members of the Commerce and Economic Development Committee of City Council. My name is Leslie Benoliel. I'm the Executive Director of the Philadelphia Development Partnership. We're a micro enterprise development and finance organization serving the Philadelphia area. I'm also Chair of this Small Business Lending Task Force of the Greater Philadelphia Urban Affairs Coalition.

My colleagues who preceded me, Sharmain, Don and Gerri, did an excellent job of framing the challenges that we must address as civic and corporate leaders to mitigate the disparity of loans to small businesses in low and moderate income and minority areas and encourage small business growth in our City.

Through my work at the Philadelphia Development Partnership providing micro loans and business support services for over the last five years, I know firsthand how critical small businesses are to the quality of life and economic health of our neighborhoods. Small businesses are the life blood of our neighborhood economies, especially our low income and minority communities. They provide accessible, affordable goods and services. They keep dollars circulating in the community. They create jobs for local residents, and they generate income for their households and families.

With limited resources and support systems in place, these hard-working entrepreneurs struggle day in and day out to keep their businesses up and running. Therefore, it is imperative that we as civic leaders look for ways to support and indeed strengthen this all important, but often overlooked, sector of our local economy.

As my colleagues indicated earlier, the Small Business Lending Task Force was charged with the task of further examining the possible reasons behind lending disparities to small businesses in minority and low income areas in Philadelphia. And in our effort to look beyond the numbers, we gathered input for a broad range of people and organizations. Don listed them earlier. The Task Force was additionally charged to submit recommendations that would ultimately lead to increasing loans to small businesses and promote business growth in these target areas.

During our investigation, the Task Force learned that the barriers that prevent small businesses' ability to access loans are many and varied. As you just heard from Gerri, there's quite a few. They are also complex and intertwined and will require coordinated responses and investment from both the public and private sectors.

My testimony represents a summary of the Task Force's recommendations based on our deliberations and analysis over the past 18 months. These recommendations reflect the multifaceted short and long term approaches that are designed to close the gap between borrower readiness and lender willingness, thus increasing the flow of capital to small businesses in these target areas with the ultimate goal of building strong and sustainable businesses in our neighborhoods.

I will now present you a summary of our recommendations.

To address a barrier that business owners are not prepared or ready to obtain credit and manage capital. That includes poor credit histories and inadequate financial records, lack of equity, lack of collateral. The Task Force recommends, one, expanding the business education training and technical assistance services needed to prepare businesses to apply for loans and to manage their operations and finances effectively for stabilization and growth.

Two, establishing a credit education, repair and counseling program that is designed specifically for small business owners.

To address a barrier that most bank loan products and policies are not structured to accommodate the financing needs of small businesses including high minimum loan sizes and a standardized review process, the Task

Force has the following recommendations:

One, banks should lower their minimum loan size to small businesses.

Two, banks should establish a second review process for small business loans that are turned down.

Three, banks should establish and invest in a referral process to alternative lenders and technical assistance providers for those small businesses that may not qualify for a bank loan.

Number four, banks should develop and market new loan products designed specifically for target area small businesses.

To address the issue that loans to small businesses are too risky and costly for banks and even some alternative lenders to make, while meeting safety and soundness requirements as well as earning a return, the Task Force offers the following recommendations:

One, establishing credit enhancement programs that mitigate the risk enabling banks and alternative lenders to make such loans.

One such credit enhancement would be to establish a City-funded loan guarantee fund, similar to that that was created for the PHIL Plus Home Improvement Loan Program.

Two, expansion of alternative loan products through existing Community Development Financial Institutions, CDFIs, and similar lenders. These products would be designed to be affordable and accommodate the special needs of small businesses. The Philadelphia Development Partnership's Pure Loan product is an example of one such product.

Three, strengthen the relationships among banks, alternative lenders, business service providers and the community organizations to better coordinate and integrate business support services with loans.

Lastly, to address the issue that most target area small businesses don't know about or have a lot of difficulty finding information about what lending business education and training programs are out there.

To assist them, the Task Force offers the following recommendations:

One, establish a coordinated information and referral system that is comprehensive and accessible.

Two, create a public outreach campaign using mass media to inform business owners about and direct them to resources that are available to them.

Implicit in our recommendations is that for this effort to be successful and sustainable, it will require focus, collaboration and investment from the private, public and the non-profit sectors. That includes banks, the City of Philadelphia, alternative lending organizations, business service providers and the community organizations to effectively carry out these recommendations and improve the likelihood that small businesses in target areas not only survive, but also prosper.

The Task Force proposes that the City of Philadelphia invest $47 million in economic development funding over a three-year period as follows. This represents less than 10 percent of the Mayor's proposed $500 million Economic Capital Fund;

$25 million to establish a loan guarantee fund;

$10 million in a community development financial institution fund that would capitalize local CDFIs and other lenders to fund alternative loan and equity products;

$5 million in a business education fund for small businesses to support the provision of training, technical assistance, credit counseling and repair services. This is 1 percent of that capital fund;

$5 million in a capacity building fund to underwrite the research and development and support the delivery of new alternative loan and equity products;

And lastly, $2 million to establish a coordinated information and referral system for small businesses and launch a major marketing and public outreach effort.

We believe that this investment of public subsidy will leverage additional private sector resources about six to one, effectively doubling the amount of loans to small businesses in these target areas from $100 million a year to $200 million a year.

I commend the Commerce and Economic Development Committee of City Council for taking the initiative to make small businesses a priority in the City's economic development policy. We can no longer afford to overlook this vital segment of our City's economy. By making the investment in small business goes to the heart of improving the economic health of not only our City's neighborhoods, but our region.

Thank you very much for your time.

COUNCILMAN GOODE: Thank you, Ms. Benoliel, for your testimony. Let me thank the Task Force for all the testimony they presented.

I have a few questions. To start off, your proposals, you believe, will lead to the increase in small business lending within target areas from $100 million to $200 million. Is that increase in terms of the $100 million a result of lending by banking members of the Task Force, by banking members of GPUAC's committee, or is there a broader array of lending institution that you believe will contribute to this increase?

MS. BENOLIEL: Mr. Chairman, we believe that it's the broader array of lending institutions. According to the Controller's recent report, loans to small businesses in these target areas, there was about $100 million lent to these businesses in 2002. So our goal is to double that amount.

I think the important thing is we want the monies to go to the businesses. I think it's also important to point out that it's absolutely critical that loans are linked with the support services that these businesses need to grow.

COUNCILMAN GOODE: How do you plan on engaging those financial institutions that are not members of the Task Force or GPUAC's committee?

MR. KELLEY: Well, we have eight banks that are actively involved with the CED

Committee of GPUAC to start with. And when we do initiate a program, we don't limit it to the members of the organization. We reach out, and if other institutions would like to participate, the door is open for that. So it would not be an exclusive initiative, but it would start with the core institutions that are actively involved with GPUAC.

COUNCILMAN GOODE: Will you be asking those financial institutions and other financial institutions to set lending goals and/or make lending commitments to this three-year initiative?

MR. KELLEY: That would be one way to approach it. We haven't carried the planning through to that point where we've asked the banks whether they would be willing to do that. That could be an approach that we could take.

COUNCILMAN GOODE: You anticipate beyond the commitment from banks in terms of lending activity that there will be other private financial commitments that will arise from this three-year initiative?

MR. KELLEY: I'm sorry. Other financial commitments of what?

COUNCILMAN GOODE: That will arise as part of the three-year initiative.

MR. KELLEY: You mean lending, or --

COUNCILMAN GOODE: Beyond the lending, will there be other private financial commitments to the technical systems and capacity building and those other areas?

MR. KELLEY: Like grants and whatnot? That usually follows a bank's more aggressive position in a certain area. If a bank wants to increase small business lending, not only will their lending goals be elevated, but their amount of contributions to organizations that will help them to do that will also usually follow.

COUNCILMAN GOODE: And lastly, you envision all this activity being primarily coordinated by GPUAC?

MR. KELLEY: I think we're in the position to initiate it and lead it. What I think what we would like to see happen is when a significant percentage of the players in a market make a move in a certain direction, other institutions have to move in that same direction to remain competitive. So we would hope that we can lead the whole market in the directions that we want to go.

COUNCILMAN GOODE: Thank you. Once again, I thank you for the work that you've done. This is the first of many hearings on this issue. One of the central points we wanted to be your recommendations, which we actually will probably put in the form of a legislative resolution to be decided by Council and ask Council to approve those recommendations.

At this time I will ask if there are other Members of the Committee that have questions?

The Chair recognizes Councilman Ramos.

COUNCILMAN RAMOS: Thank you all for joining us this afternoon.

This question is directed at the testimony of Madam Executive Director. How are you?

MS. MATLOCK-TURNER: Hello, Councilman.

COUNCILMAN RAMOS: You mentioned in the second to the last paragraph in your testimony about a three-year pilot initiative based on the partnership between the private and public sector that would demonstrate that the amount of lending to small businesses in lower income and minority areas could be doubled from approximately $100 million to $200 million. Can you explain just a little bit how this three-year pilot initiative would look like?

Also, given the economic financial circumstances of the City government and our very large deficit, how do you see the public sector playing a role in this initiative? Can you answer those questions first?

MS. MATLOCK-TURNER: Sure. I will certainly try. And I will ask the other experts on this to also chime in to add to my comments.

COUNCILMAN GOODE: One second. Let me just state for the record that I actually asked the Task Force to make recommendations in the context of the Mayor's proposal for a $500 million Capital Fund. This is not anticipated to be part of the operating budget or any other regular sources. But surely, if the Mayor plans on investing up to $500 million in economic development over the next four years, this would represent actually, I think, $15.7 million a year over three years, and that would be $15.7 million out of what he's proposed as a $125 million a year budget for economic development. So as long as the Mayor does not believe that there's any pressure in terms of making that type of economic development investment, surely an overall amount of $47 million out of $500 million is less than 10 percent. And also, we're talking about a three-year initiative that amounts to only a $15.7 million investment over three years.

MS. MATLOCK-TURNER: Right. Also, all the dollars, again, are dollars that are not actually going out of the door. They are guaranteed dollars.

As you know, we helped to develop a program with the City and with NTI and the banks to put together a home improvement loan initiative for those who have less than perfect credit. And the idea was to make sure there were dollars available that were serving as insurance for taking that level of risk. So also included in this package too are insurance-type dollars that we believe will help to guarantee that the community and the lending community will take some additional risk.

COUNCILMAN RAMOS: Thank you. So the answer to it is that your public sector money is within the proposal of the Mayor?

MS. MATLOCK-TURNER: Yes, it is within the $500 million proposal.

COUNCILMAN GOODE: It's $500 million. The Mayor says he plans on doing it $125 million a year, so the $125 million, this would actually only be $15.7 million out of a $125 million budget.

MS. MATLOCK-TURNER: That is correct.

MR. KELLEY: I'd like to add something. I think part of your question was how that money would -- what would be the sources of this money, $100 million going into these communities. There are four ways that this extra $100 million will be generated.

One is the banks, under this initiative, would be opening the door wider than they have in the past and they'll be reaching out more aggressively. So that's one source. Bank loans that are in the normal course of their business, only done more aggressively and more generously.

Secondly, more small business owners will be eligible for loans because of the support system and the training that we'll be providing them.

Thirdly, the CDFIs will have more funds to lend out.

Fourthly, with the loan guarantee fund, banks will be willing to make loans to a riskier class of borrowers than they would normally have lent to. So those are four forces that will direct more capital into these communities under this framework.

COUNCILMAN RAMOS: That latter part would only work, if in fact we have some dollars that are -- I suspect that in the latter part of your testimony, Leslie, that you mention the specific dollar figures. It might be in what I'm getting ready to ask. For this growth to happen of small business participation, among other things we will have to address, there will have to be a support mechanism that was going to require funding to handle this 85 percent -- I believe it was 85 percent poor credit of the solicitors for small business loans. And that is in there?

MS. BENOLIEL: Yes, it is. I want to correct Sharmain. Part of the investment is going to be in terms of an investment in training and technical assistance and credit repair programs to prepare these businesses to be able to apply for loans.

COUNCILMAN RAMOS: I think it's a very thought-out proposal or set of proposals that you have presented here on how to use well the $500 million that the Mayor has somewhere. But, yes, I think these are things that are very much needed and I'm in full support of the efforts of my colleague and the Chair of this Committee, Councilman Goode, and the work that needs to be done with economic development. And he and I also agree, and you probably will agree with me, that this has to be done also in conjunction with work force development. And these are areas that are of vital concerns to the City. Thank you.

That's all, Mr. Chairman.

COUNCILMAN GOODE: Thank you, Councilman.

Are there other Members of Committee with questions?

(No response.)

COUNCILMAN GOODE: Is there anyone else to testify on this resolution?

(No response.)

COUNCILMAN GOODE: Seeing none, as I mentioned, we will continue these hearings on an ongoing basis.

COUNCILWOMAN TASCO: First, I want to thank you, the Greater Philadelphia Urban

Affairs Coalition, for their testimony and their action.

I was just at a luncheon today with the Coalition to talk about what it was then many years ago, and as a task force coordinator with Urban Coalition 30 years ago, we dealt with the same issues. And I showed Councilwoman Brown. I said, they're talking about the same things we talked about 30 years ago. But what is so nice and exciting about it now is that we have a Councilmember who has taken this on as an issue that he really is concerned about. And with those of us on Council, hopefully we'll have some influence in helping to make a change. And so maybe the dialog will now go into action, which is what the Coalition was dealing with in keeping with their mission to keep the issues in the forefront.

If I go back and found some of my old files I could probably see the same testimony about the lack of small businesses having access to capital and what could be done. I heard the message. It caught my ear.

And I just wanted to say that I applaud the efforts of my colleague to bring this issue to the forefront and hopefully that we are successful in making a difference.

Thank you for your leadership.

COUNCILMAN GOODE: Thank you, Councilwoman.

Let me note for the record that Wachovia and PNC were present today, and we invite them to testify at future hearings if they so choose or if the Committee desires.

Representatives from the Commerce Department are also present here today. We invite them and other members of the Administration to testify at future hearings.

This panel is actually excused.

We're actually going to ask Josh Silver to please approach the witness table again for questions from Councilman Clarke.

MS. MATLOCK-TURNER: I just want to thank you again very much to the Committee for giving us an opportunity to share with you and also to continue to challenge us on this issue. We look forward to continued discussion. Thank you.

COUNCILMAN GOODE: Mr. Silver.

Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Mr. Chairman.

I just have a couple of brief questions with respect to your testimony.

On Page 2 of your testimony, you talked about the percentages in terms of minority loans -- actually throughout the first portion of your testimony and how it had decreased. Can you be a little more specific in terms of that decrease?

I guess the question I want to ask is, is there a higher denial rate or is there a lack of outreach from the banks?

Tell me about the things that factor into that decrease.

Is it like the unemployment rate where people are saying that it's dropping, but the reality is that people just aren't seeking jobs anymore, so it's an artificial dip in the unemployment rate? Could it be a situation where the lack of capital from lending institutions as been such that minority businesses just simply aren't seeking resources for expansion or start-ups?

Tell me how you get to that number, please.

MR. SILVER: Sure. Well, actually, right now there's a veil of secrecy surrounding small business lending data. We do not have data on denials and applications like we have for the Home Mortgage Disclosure Act, the home loan data that's publicly available.

Actually, about a year and a half ago when the president and CEO of NCRC, John Taylor, appeared before the Committee, we were delighted when the City of Philadelphia, led by Councilmember Goode, endorsed a bill in Congress that was proposed by Representative Jim McGovern that would enhance the data to include applications, denials, and the race and the gender of the borrower receiving small business loans. That is still pending in Congress.

And so one thing I was saying is

that right now, there are proposed changes to CRA which are mostly bad, but the one good thing is a little more detail on the small business data where we can get it down to a census tract. So we know where banks are making loans in each census tract, census tract by census tract, rather than by income category census tract. We actually encourage any City Councilmembers to make comments on the proposed CRA changes by April 6th to the federal regulators, and I provided Councilmember Goode's office with information on how to do that.

I don't have trend analysis going back five years, but I have analysis for two years. And what it shows is of the 100 largest metropolitan areas, the disparities are the worst in the City of Philadelphia, in the metropolitan area of Philadelphia. And that's puzzling because Philadelphia is not the most depressed metropolitan area of these 100 metropolitan areas. It just isn't. All these issues that we've been talking about, problems with credit and other barriers making small business loans are also present in the other metropolitan areas, of course to varying degrees. But it just doesn't make sense to me, given all the resources Philadelphia has as a large City, that when you do the data, Philadelphia is last in terms of the percent of small businesses that lenders reach in minority census tracts.

When a study done previously for the City that demonstrated -- it had data on credit worthiness that demonstrated after controlling for credit worthiness, lending still decreased as the number of minority residents increased in a census tract. The only conclusion that I can come to as an advocate is we need seriously more vigorous enforcement of the Community Reinvestment Act.

There are lenders who are passing their CRA exams with flying colors in the State of Pennsylvania in the metropolitan area of Philadelphia who shouldn't be passing with flying colors. If not failing, they should at least be barely passing. And NCRC would be delighted -- we do have member organizations that work in Philadelphia who have commented on CRA exams and merger applications, but I think the data clearly calls for more advocacy and more enforcement of the Community Reinvestment Act.

COUNCILMAN CLARKE: I agree with you 100 percent in that respect.

I, like Councilwoman Tasco, would like to applaud my colleague for focusing on this particular issue. He's been focusing on it prior to him becoming a Councilmember and continuing to do that, and he makes my job a lot easier. I must honestly tell you.

So essentially, you are telling me that unless we get the McGovern bill passed, our ability to talk about specifics, particularly around denial rates, will be extremely difficult?

MR. SILVER: That's right. We have to pass the McGovern bill to get two things; data on the race and gender of the small business owner, and what action the bank took, whether there was a denial or a loan approval. There's even some other categories of possible actions in the publicly available home loan data.

The thing that's in play right now, as I said, the one good thing that the federal agencies are proposing on CRA is publicly releasing the data for each census tract on a bank, publicly releasing what each bank has, how many loans they have made in each census tract. Right now that data is collected by the federal agencies, but is not reported on the census tract by census tract basis. It's only reported on how many loans are going to low income census tracts or moderate income census tracts.

We definitely encourage people in City Council to make comments to the federal agencies saying we need this data critically on a neighborhood level. And if the federal government decides not to do that -- I think there's a good chance that they will do it -- but if they decide not to do it, there's actually nothing stopping the City government from asking banks for this data. I've actually checked that with the federal agencies, that the federal law does not stop a City law from passing a law to get the data down to a census tract level if the feds don't do it.

COUNCILMAN CLARKE: Okay. You also indicated further on in your testimony that your organization participates in an SBA Community Express Program. Where is that located?

MR. SILVER: That is a nationwide program. What happens is, of course, you have an SBA loan guarantee and NCRC members provide technical assistance pre- and post-loan to get the small businesses ready. And what my part of NCRC does, the research shop, is we get the data on a quarterly basis from the SBA and we crunch the numbers, and that's how I was able to tell you that three quarters of loans were made to minority-owned businesses. It's only for special programs, like the Community Express Program, that we have lending by minority and gender of the owner. We don't have it for all small business loans, only for, quote/unquote, special programs.

So anyway, NCRC will be delighted to hook you more into the Community Express Program and to expand the number of technical assistance providers involved in Philadelphia in that program. And we'd be happy to assist you with that.

COUNCILMAN CLARKE: Thank you.

Thank you, Mr. Chairman.

COUNCILMAN GOODE: Thank you, Councilman.

Thank you, Mr. Silver.

Are there any other questions from Members of the Committee?

(No response.)

COUNCILMAN GOODE: Thank you again.

MR. SILVER: Thank you so much.

COUNCILMAN GOODE: Is there anyone else to testify on either of these resolutions?

(No response.)

COUNCILMAN GOODE: This hearing is recessed to the call of the Chair. Thank you all for coming.

(Council adjourned at 3:20 p.m.)

C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of Thursday, March 25, 2004, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE ON COMMERCE AND ECONOMIC DEVELOPMENT

Lisa C. Bradley, RPR