



Comptroller of the Currency
Administrator of National Banks

Community Developments

Winter 2003

Community Affairs OnLine News Articles

Business Assistance Partnerships Help Minority Entrepreneurs — and Boost Bank Profits

by Sharon D. Evans, *President and CEO, Business Resource Group*



Marcos Gonzales, in Los Angeles, received technical assistance from Business Resource Group to obtain financing for his drycleaning business, Marvel Cleaners (see sidebar, below).

Business Resource Group (BRG) is a California-based nonprofit corporation that delivers small business educational and assistance programs to help entrepreneurs build operating capacity, strengthen financial performance, and overcome obstacles to capital access and growth. Partnering with banks, the Small Business Administration, and others, BRG has generated more than \$55 million in loans to small businesses that otherwise would not have qualified for bank loans. Nearly 70 percent of BRG's services are provided to low-income, women and minority entrepreneurs.

BRG develops close working relationships with the entrepreneurs we assist. As part of our overall strategy to help entrepreneurs become more “bankable,” we conduct a comprehensive financial analysis, collecting information and data on the business's history, billings, sales, and cash flow trends. We review business growth statistics and the effect of cycles and trends, conduct internal control inquiries and examine vendor relations to assess credit and risk factors. To help our clients restructure their operations for long-term growth, we work with them to ensure that their business plans are carefully and thoroughly developed — and can withstand scrutiny by banks, government loan agencies, and regulators.

Effective business assistance doesn't stop at that point, however. To help entrepreneurs connect with mainstream financing sources, we work with banks and government agencies to develop loan packages that will meet our clients' needs while limiting banks' risks. And, under innovative initiatives, such as the Small Business Administration's *CommunityExpress* program (see sidebar, below) we conduct in-depth pre-loan assessments, and provide ongoing support and analysis while the loan is in effect — a strategy that helps maximize the value of loans while minimizing loan losses.

On the banking side of the ledger, we work closely with bank managers and staff to help them better understand the characteristics of emerging-market entrepreneurs and adapt product strategies to their needs. BRG's in-depth tracking and performance-measurement programs help monitor the impact of partnership efforts. We offer banks new opportunities to build strong and enduring customer relationships as businesses grow, overcome financing and management challenges, and become ready for conventional credit.

Help wanted

At first glance, many minority businesses may appear to be unstable and high-risk. But a closer look often reveals a business that has remained in operation for an extended time, has developed a strong product niche or pool of services, and despite many obstacles has managed to grow. Although there may be no clearly defined business plan, it's clear that the business has often times sustained itself by the entrepreneurial grit and ingenuity of its owner.

There are limits to what such qualities can accomplish, however. Weak capitalization coupled with limited financial and management sophistication and a limited collateral base can stymie even the most determined of minority entrepreneurs. Without systematic educational intervention and business assistance, owners preoccupied with meeting day-to-day challenges are likely to remain outside the financial mainstream, unable to cultivate the long-term banking relationships they need to access capital and boost their businesses to the next level of growth.

Data developed by BRG on underserved businesses show that most minority small-business entrepreneurs lack three critical skill sets: (1) understanding the commercial credit process; (2) understanding the linkages between personal credit behavior and business creditworthiness and growth; and (3) knowledge of available business systems and financial tools to create and evaluate viable performance benchmarks or growth needs. We work with our clients to improve their skills, performance, and creditworthiness across the board.

We also work with our bank partners to enhance their appreciation of the important minority-entrepreneur market and their ability to serve it. Rapid population growth and business start-ups over the past decade have created new opportunities for minority entrepreneurs. The financial services industry, like much of corporate America, has responded with advertising campaigns and marketing programs aimed at this market. But many emerging minority businesses have not yet readied themselves to swim in the financial mainstream. Conventional bank strategies may miss the mark.

Millions spent on marketing and advertising programs can build community presence and name recognition for banks seeking to demonstrate their commitment to minority markets. Banks can and do build trust in such markets by opening convenient branches and supporting community activities. But such strategies are insufficient to access and harness the real profit potential available to banking institutions in minority business markets.

Keys to success

The full potential of small business technical assistance partnership programs has yet to be realized. Programs aimed at helping *potential* entrepreneurs prepare business plans and guiding them through start-up are widely recognized as adding value to the business development process. Less appreciated is the value of providing business assistance to *existing* entrepreneurs, as well as the impact of such assistance in forging the kind of relationships that a bank needs to capture a share of the increasingly important minority business sector. As many open-minded banking executives are discovering, however, hidden in the structure of technical assistance partnerships lies the key to a kingdom of information about minority business markets, performance trends, and growth opportunities.

BRG uses an integrated business assistance model to help minority business owners improve financial performance, while enhancing partner banks' access to creditworthy minority entrepreneurs.

The six-step BRG model includes diagnostic assessment; focused business services; structured financing and growth planning; post-loan assistance; ongoing needs monitoring; and performance tracking. In addition to helping entrepreneurs, this range of support services can provide information to banks seeking to develop strategies and shape credit policy to better serve the needs of the underserved.

Minority entrepreneurs have one major advantage over many others. By starting a business — and staying in business — they've proved that they can overcome significant barriers to advancement. But they've often done it on a shoestring, and unless they receive help — the right kind of help at the right time, and over time — they're unlikely to achieve their full potential.

In-depth technical assistance can play a critical role in ensuring both that entrepreneurs succeed and that banks' investments in them pay off. For the entrepreneur, business assistance of the kind we provide can make the difference between surviving and thriving. For banks, partnering with small business assistance organizations, such as BRG, can make the difference between hit-and-miss lending -- or underlending -- to minority businesspeople versus developing a strategy that meets community needs *and* helps build market share in this rapidly evolving sector.

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A Business Resource Group Customer Profile

After recovering from the collapse of his employer's business during the 1994 Los Angeles earthquake, Marcos Gonzales decided to start a small custom tailoring business from his home. With more than 12 years experience, his new business afforded Mr. Gonzales the opportunity to support his household, but not enough to meet the future needs of a growing family. In 1997, the El Salvadorian born immigrant, rented a small retail store-front in South Central Los Angeles and turned his home-based tailoring service into a dry-cleaning service called Marvel Cleaners.

In early 2000, Marcos saw an opportunity to take over a second location, and purchase his own dry-cleaning equipment from a long-standing community drycleaners. When he applied for financing, Marcos Gonzales' loan request was denied. A team member of Wells Fargo Bank saw the loan request and believed that with pre-loan technical assistance from the Business Resource Group, the SBA CommunityExpress Loan Program could offer the right solution for expansion of this small drycleaners. Since the expansion, Marvel Cleaners has operated as a full service dry cleaning establishment, offering custom tailoring, laundry, and expedited dry-cleaning services from its two locations.

SBA CommunityExpress Loans: A Fast Track for Community Investment

Now in its fourth year of operation, the Small Business Administration's CommunityExpress pilot program helps promote economic development and job creation in underserved communities by pro-

viding both loan guarantees and technical assistance — and doing it via a streamlined and expedited application process.

Because the program provides for ongoing technical assistance to minority entrepreneurs and other eligible borrowers, CommunityExpress underwriting guidelines are less stringent than would otherwise be feasible. So the program is tailor-made for banks interested in partnering with business assistance groups and investing in entrepreneurs who, though promising, are unlikely to qualify for conventional lending.

The maximum CommunityExpress loan amount is \$250,000. SBA provides an 80 percent guarantee on loans of \$100,000 or less, 75 percent on loans above \$100,000. The lending institution agrees to provide technical assistance through community-based business assistance organizations, such as Business Resource Group. Loans may be used for most business purposes, including start-up, expansion, equipment purchases, working capital, and real-estate acquisitions. SBA pledges to process CommunityExpress applications within 36 hours.

The program, which facilitated \$2 million in bank loans in 1999, had generated more than \$109 million in loans by December 2002. Of the nearly 1,500 loans that had been made by that time, more than 50 percent went to women and 58 percent went to minorities. The average loan was approximately \$76,000.

To be eligible for CommunityExpress, prospective borrowers must be located in low- or moderate-income communities or meet the requirements of SBA's New Markets initiative, which defines New Markets small businesses as current and prospective small businesses owned by minorities, women, or veterans who are under-represented in the population of small business owners compared to their percentage in the overall population.

Developed by the SBA in collaboration with the National Community Reinvestment Coalition (NCRC) and several large commercial banks, CommunityExpress is unique in specifically targeting guaranteed loans to underserved entrepreneurs and in providing for business assistance at both the pre-loan and post-loan stages. It's an important, innovative tool for banks committed to building strong relationships with struggling entrepreneurs.

For more information, visit www.sba.gov or contact the SBA office in your area.

When a Default Occurs ... Ensuring Prompt Payment of your SBA 7(a) Loan Guaranty

If you use SBA's 7(a) program and a loan goes into default, the last thing you want to have happen is for your loan guaranty claim to be reduced or denied. Here are SBA's top tips to ensure your claim

is paid in full:

1. Make sure that the borrower's financial information received in conjunction with a loan application or change in business ownership is verified through the IRS.
2. Make sure that loan proceeds are used as required in the authorization.
3. Provide evidence of the borrower cash equity injection which would have been required prior to the disbursement of the loan. This is crucial when there is an early default or early loan problems. Failure to provide evidence that the cash equity injection actually occurred may be grounds for SBA's refusal to purchase if the size of the required equity injection is large relative to the loan amount and size of the business.
4. Request loan purchase within 120 days after maturity of the loan.
5. Prepare a collateral list as required by the loan authorization (or prudent lending practice) and be sure you can assert rights over this collateral.
6. Obtain proper lien position on collateral and perfect all liens.
7. Properly service and liquidate collateral.
8. Make appropriate site visits in a timely manner to ensure against removal of collateral.

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