Comptroller of the Currency
Administrator of National Banks

Community Developments

Winter 2003 Community Affairs OnLine News Articles

Strengthening America: The Small Business Advantage

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Small business owners, such as Juana Perez started their own companies through micro-loans from non-profit organizations, such as ACCION Texas. National banks have invested over $60 million in more than 150 CDCs providing small business assistance using the OCC's national bank community development investment authority under 12 CFR Part 24.

Starting and growing a small business can be immensely rewarding, but it's also extremely hard work. You don't have the luxury of delegating tasks: you do them or they don't get done. When something goes wrong, there's nobody but yourself to blame — and no one else to fix it. Changing economic conditions can suddenly derail your best-laid marketing plans. And when you need a financial boost, you aren't likely to find investors clamoring at your door. Anyone who thinks running a small business is easy hasn't done it.

Despite the obstacles, however, small businesses continue to attract the kinds of people who built this nation: venturesome entrepreneurs with bold ideas and the nerve to pursue them. In a real sense they are the bedrock of our economy. They revitalize inner-city neighborhoods; they keep rural communities strong. They open the doors to opportunity for women and minorities. The United States could not long survive without such businesses. They deserve our admiration, gratitude, and support.

Supporting small business is what this issue of *Community Developments* is all about. It's filled with timely, useful information about what banks are doing, often in partnership with federal and state programs, to support small businesses through investments and technical assistance. Our contributors have good stories to tell. They also make a strong case for doing even more because investing in small businesses and community development is good business.

Here you'll also find links to a variety of resources, in print and online. I want to call your attention to two in particular: OCC's *Advisory Letter on Financing Minority Businesses*, distributed in October, and our *Small Business Resource Guide* both available on the Community Affairs page of OCC's Web site at www.occ.treas.gov/SBRG09032003.htm. The advisory letter discusses the needs of Minority Business Enterprises (MBEs) and offers guidance on how banks can pursue effective strategies to help them thrive. The resource guide provides summary descriptions and links for numerous public and private programs and entities that offer partnership and networking opportunities for banks.

Good news, bad news

The good news is that small businesses (generally defined as those with fewer than 500 employees) are alive and well. There were 5.7 million small businesses in operation in 2000, according to the U.S. Small Business Administration (SBA), along with 16.5 million sole proprietorships (enterprises without employees), for a total of 22.2 million.

How important are they to the U.S. economy? Small businesses employ more than half of all private-sector workers. They employ 39 percent of all high-tech workers. They generate 60 percent to 80 percent of all net new jobs each year — 2.5 million of the 3.4 million total in 1999-2000 — and about two-thirds of those new jobs are created by firms with fewer than 20 employees. And small businesses are innovative, producing up to 14 times as many patents per employee as larger firms — and a higher share of the 1 percent of patents most often cited as breakthroughs.

Once upon a time the stereotypical small business owner was a white male. No longer. According to SBA's Office of Advocacy, there were 5.4 million women-owned businesses or sole proprietorships that employed more than 7 million workers and had nearly $150 billion in payrolls in 1997. In that same year, 5.8 percent of U.S. firms were owned by Hispanic Americans, 4.4 percent by Asian Americans, 4.0 percent by African Americans, and 0.9 percent by American Indians.

These are encouraging statistics. But the downside is that things could be better still. Despite great progress, women and minorities obviously own fewer small businesses than would be the case if ownership rates came even close to matching their respective shares of the overall population. Given the numbers of women in the workplace and the projections for minority population growth in the U.S. over the next several decades, this should be a matter of serious concern.

So, too, should be the perilous nature of small-business undertakings. Not every small business succeeds in the struggle to survive: about a third of new start-ups fail to make it through the first two years, and only about half survive longer than four years. There are many reasons for this, but limited access to capital is a significant part of the problem.

Four out of five small firms rely on some form of credit to keep them afloat. Entrepreneurs — particularly first-generation entrepreneurs new to business and lacking an adequate credit history — are often unable to obtain mainstream credit and instead rely on personal savings, credit cards, loans from family members, home equity loans, and, in some instances, credit from companies or individuals charging exorbitantly high interest rates. These sources are, to say the least, problematic — if only because they so often produce too little credit at too high a risk to the entrepreneur.

Banks meet the challenge

Many banks have come to recognize the importance of developing a strategic and systematic approach to working with small businesses. They familiarize themselves with SBA and other loan guarantee programs that can significantly reduce their risk exposure. They work with agencies, such as the OCC and the Minority Business Development Agency (MBDA) of the U.S. Department of Commerce, that can provide information and guidance. They partner with community-based non-profit technical assistance providers who can help make potential bank customers "borrower-ready," improve the odds of small-business success, and reduce loan losses. And they adopt initiatives, such as special purpose credit programs, that allow flexible underwriting criteria and target funds to specified market segments.

Fortunately, ours is not a one-size-fits-all society. Banks have a wide range of strategies and tools at their disposal to help them meet the credit needs of small businesses in widely varying circumstances — start-ups just getting under way and established businesses seeking to move to the next stage of growth; businesses helping to revitalize inner-city neighborhoods and businesses anchored in small rural towns; nonprofits and for-profits; home-based and internet-based; entering an existing niche or creating one. The key is to look for lending opportunities and then to be resourceful about ensuring their success. But that is what banking is all about.

In the articles that follow (and in the online resources previously mentioned and elsewhere in this issue) you will encounter a variety of successful and inspiring strategies:

- A microenterprise loan fund in Utah helps a Hispanic American to launch a successful marketing and catering business. A technical assistance group in California partners with banks and the SBA's Community*Express* program to increase lending to minorities by 38 percent while keeping loan losses below 2 percent.
- An Illinois bank uses a state-administered Capital Access Program to make safe, hassle-free, cost-effective loans to small borrowers. A bank in Georgia uses the SBA 7(a) program to help a multi-ethnic community develop a commercial center — and celebrate diversity. A major national bank works with community organizations to target business services to minorities. Another major bank describes a two-channel investment strategy that achieves similar objectives.
- A certified development company works with banks and the SBA 504 program to help growing small businesses acquire the facilities they need (while allowing the bank to book a community development loan under the CRA lending test – as is explained in our *Compliance Corner* article). An African-American-owned bank in New Jersey makes small-business loans that help revitalize battered neighborhoods. And a California bank, promoting diversity in its own ranks, uses flexible underwriting criteria to direct its resources to promising businesses with relatively high risk factors.

In different ways, each of these articles is instructional — a how-to primer for any bank that wants to reach out to underserved small-business entrepreneurs in its service area. And why would a bank want to do that? I believe America's bankers are sufficiently smart and forward-looking to recognize that the demographic groups poised for the fastest growth in the U.S. are also leading the way in small business formation. These are tomorrow's bank customers. The bank that reaches out to them today will be shoring up its own future as well as theirs.

Growth of Minority- and Women-Owned Businesses

According to the most recent data available (1997):

- Women owned 5.4 million small business enterprises employing 7 million workers with $150 billion payrolls.
- 3 million minority-owned businesses in the U.S. generated $591 billion in revenues and represented 15 percent of private U.S. firms
- During the previous decade:

- Minority businesses grew at a 17 percent annual rate as compared to a 3 percent annual growth rate for all businesses.
- Asian-owned firms grew 18 percent annually, Latino-owned firms grew 23 percent per-year, and African-American-owned firms grew 11 percent annually

Source: 1997 Survey of Minority-Owned Business Enterprises

Do you know...
the regulatory advantes of participation in government guaranteed loan programs?

The guaranteed portion of the loan does not count against:

- a bank's legal lending limits in 12 CFR 32
- the loan-to-value ratio when determining adequate collateral for a loan in 12 CFR 34 (see "Excluded Transactions," Subpart D-Real Estate Lending Standards)