



## **AIRPORT MINORITY ADVISORY COUNCIL**

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The Testimony of Don T. O'Bannon, Esq.  
Chairman of the Airport Minority Advisory Council (AMAC)

at the hearing  
"Business Start Up Hurdles in Under-served Communities:  
Access to Venture Capital and Entrepreneurship Training"

Before the U.S. Senate Committee on Small Business  
and Entrepreneurship

Senator John F. Kerry, Chairman  
Senator Olympia J. Snowe, Ranking Chair

September 11, 2008 -- 10am  
428A Russell Senate Office Building

Good Morning, Chairman Kerry and members of the Committee, my name is Don O'Bannon and I am currently serving as vice president of the Business Diversity and Development Department at the Dallas/Fort Worth International Airport and I am also the Chair of the Airport Minority Advisory Council (AMAC). AMAC is the nation's only national, non-profit trade association dedicated to promoting the full participation of minority, women-owned and disadvantaged business enterprises in airport contracting.

In my roles at AMAC and DFW, I routinely see the impact of discrimination - especially discrimination in access to capital. Now, I am not a banker and I don't hold myself out as an expert in capital markets - but I am a small minority business owner myself and have spent most of my career working for access and opportunity for minority and women owned businesses. My expertise comes from practical experience and I can say that after more than 10 years working in the field, access to capital is the biggest barrier to the success of minority and women owned firms.

It is undeniable that capital is the lifeblood of business. That is no less true for minority businesses than it is for majority owned businesses. The problem is that in case after case, we see that minority owned businesses are starved for capital and are repeatedly forced, by discrimination and lack of access, to forego opportunities or rely on higher cost capital to fuel their businesses, cutting into (and sometimes eliminating) their profits and their ability to survive and grow.

Certainly, venture capital is very attractive to entrepreneurs and business owners seeking to expand their businesses simply because it tends to cost less and carry less risk. Venture capital often allows an entrepreneur to get an infusion of cash based on a great idea and a promise of future returns. The entrepreneur shares the risk and the return for that capital with the investors by providing an ownership stake in the business in return for capital. If the business succeeds then everyone benefits. If the business fails, the investors take the hit along with the entrepreneur. Debt capital is different: if the business fails the entrepreneur loses his or her collateral and still owes the bank, only compounding the loss of a business by leaving the owner without revenue to pay the note. Moreover, the interest rates for conventional financing for business start-ups and expansions that involve any real risk - and most of them do - are often more expensive, only adding another obstacle to minority business owners.

What I have seen is that as many minority businesses face persistent discrimination and have so few established connections in either the venture capital or debt capital worlds that they are forced into more risky and more expensive markets for capital. Unfortunately, many minority businesses must rely upon alternative financing approaches like "factoring." This involves borrowing capital against the return on specific invoices or receivables. This is almost like payday lending in a business context and the minority business pays a premium for this type of working capital loan. This practice cuts immediately

into an entrepreneurs profits, costs them more and does not provide the type of capital foundation that fosters the growth of their businesses.

All of this explains why so many entrepreneurs, of every race and gender, would like to get venture capital and low cost debt capital. But this is where discrimination comes in. As the research presented here today makes clear, there are also very few majority owned venture capital firms and banks willing to take a risk on minority entrepreneurs. This puts minority entrepreneurs at a significant disadvantage.

But don't just take my word for it. Listen to the stories of the individuals who face this problem as they seek to build their businesses, support their families and contribute to our national economy. Some business owners fear retaliation for speaking out on these issues. They have requested that we use their stories anonymously.

- One African-American AMAC member, based in the Southeast, with many years of experience in airport concessions, attempted to obtain venture capital from a fund specifically established for underserved communities. Even in that context, this business owner was asked to meet extraordinary requirements that would not have been required of majority owned businesses. This was true despite the business owner's sterling business, educational and financial qualifications. Because of the denial of venture capital the deal, which would have involved 5 franchises with a Fortune 100 firm, ultimately fell through.
- Another, minority airport concession owner, with 15 years of experience in the airport market nationally has tried many different approaches to obtaining capital – and has continually faced the barrier of discrimination. He has attempted to get venture capital help but has found that, as a minority business owner, he is expected to cede majority control of his business in order to get even moderate amounts of capital. Of course, if he were to do that, he would make himself ineligible for many other minority business opportunity programs. In the debt capital arena, he recently put together a long term plan to obtain conventional debt capital at a commercial bank. He maintained a personal account at the bank with which he wanted to do business with a balance of \$100,000 for over a year. He then proposed a plan to expand his business to two new locations by investing \$200,000 of his own equity and financing another \$600,000 by the bank where he had maintained the personal account. Even though he knows that majority businesses have been able to obtain financing under similar circumstances, he was told by this bank that it would be a "waste of his time and the loan officer's time" to submit an application for the loan. Despite this, he ultimately was able to secure such a loan from another bank but only because he knew one of the bank's board of directors and he obtained an SBA loan guarantee.

- Even in the conventional loan context, minority owned firms often face hurdles that majority competitors do not. The experts who will testify today, will state discrimination permeates the conventional capital markets. One AMAC member we spoke to recently explained that even now, after more than 20 years in business and a very successful record, he is always asked to give a personal guarantee. This business owner has real questions about whether majority businesses with similar experience and records of success are also required to provide such guarantees.

These stories illustrate the real and lasting harm that discrimination imposes on entrepreneurs. The disparity studies that have been completed across the country show that these real life examples are backed up by the statistics. While the results of each study are different, a clear picture emerges: discrimination in access to capital is a problem for business owners in every racial minority group in every region of the country. I have brought six examples of recent airport-related studies that have been conducted. I would like to ask that these be included in the record. These studies come from all across our nation – the State of Maryland; Denver, Colorado; Phoenix, Arizona; Broward County, Florida; Nashville, Tennessee and Dallas, Texas<sup>1</sup>-- but they all present compelling evidence of discrimination in the public and private sectors and many of them present direct statistical and/or anecdotal evidence of discrimination in access to capital. It is important to note that these are just a small fraction of the studies that have been conducted.

In closing, discrimination in access to capital against minority and women entrepreneurs is continuing and has devastating results. This makes it imperative that we maintain and expand programs that seek to make more capital available and the programs that seek to provide real business opportunities for minority and women owned businesses. In the end, as long as minority and women owned businesses access to capital is restricted so also will be their opportunity to participate in the economic mainstream.

Thank you for the opportunity to appear here today. I look forward to answering any questions from the committee member

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<sup>1</sup> *Dallas /Fort Worth International Airport Board Disparity Study Final Report*, MGT of America, October 17, 2000. *Final Report: Broward County Small Disadvantaged Business Enterprise (SDBE) Disparity Study*, MGT of America, Inc., April 3, 2001; *The City of Phoenix, Minority-, Women-Owned and Small Business Enterprise Program Update Study: Final Report*, MGT of America, April 21, 2005; *Race, Sex and Business Enterprise: Evidence from the State of Maryland*, NERA Economic Consulting, March 8, 2006; *Race, Sex and Business Enterprise: Evidence from Denver, CO*, NERA Economic Consulting, May 5, 2006; and *Final Report for Development and Revision of Small, Minority and Women Business Enterprise Program, Nashville International Airport, (BNA)*, Griffin and Strong, PC, September 19, 2007