



Comptroller of the Currency
Administrator of National Banks

Community Developments

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The OCC's Community Affairs Newsletter



Strengthening America: The Small Business Advantage

by John D. Hawke, Jr.
Comptroller of the Currency

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First Things First

Minority-owned small businesses represent a fast-growing sector of our economy, so over the past year financing minority businesses has been a key focus for the OCC. We joined with the Minority Business Development Agency to host a forum on that topic in Los Angeles, California, issued Advisory Letter 2003-8 on financing opportunities and strategies, and created a small business financing resource directory that you can access from OCC's Web site. This work aims to help create new business opportunities for innovative banks looking to strengthen community relationships. And opportunities abound. With tax season approaching, you may attract new customers by partnering with local organizations that help taxpayers claim Earned Income Tax Credit (EITC) refunds. For low-income wage earners without bank accounts, EITC refund checks can be a great way to seed a starter account. Consider offering space in your bank to local Volunteer Income Tax Assistance (VITA) providers who help community residents file their taxes. Taxpayers filing electronically, with the assistance of a VITA counselor, can speed receipt of their tax refunds by having the refunds deposited in new bank accounts you set up for them. To identify VITA providers in your area, contact your IRS Territory Manager at (800) 829-1040. For more information on the EITC, visit www.irs-etc.info/SPEC.

And be sure to watch for our next issue of *Community Developments*. The spring 2004 edition will highlight the range of products, from payroll and international remittance cards to electronic benefit accounts, that provide cost-effective ways to offer financial services for the unbanked and underbanked.

Anna Alvarez Boyd, Deputy Comptroller, Community Affairs

Small Business Resources Across America

SCORE is a nonprofit association dedicated to entrepreneurial education and the formation, growth and success of small businesses nationwide. SCORE's 10,500 retired and working volunteers provide free business counseling and advice in 389 locations nationwide. www.score.org

Small Business Development Centers provide assistance to businesses in obtaining capital as well as business counseling and planning. There are more than 1,100 SBDC service locations in the U.S. To locate an SBDC in your community, visit www.asbdc-us.org and click on "Lead Centers." This will provide you the lead SBDC in your state which can then put you in touch with the closest SBDC. Information is also available at <http://www.sba.gov/sbdc/>

Community Development Financial Institutions (CDFIs) often provide counseling to small businesses and partner with banks to provide financing to their small

business clients. There are more than 660 CDFIs certified by the Treasury Department's CDFI Fund operating in rural and urban areas in all 50 states. Visit <http://www.cdfifund.gov/awardees/states.asp> to search CDFIs by state.

Minority Business Development Agency Business Development Centers assist with the start-up, expansion and development of minority-owned firms. Minority Business Development Centers (MBDCs), Native American Business Development Centers (NABDCs), and Business Resource Centers (BRCs) provide individualized management and technical assistance to minority entrepreneurs at every stage of business development. Visit http://www.mbda.gov/templates/collection.php?collect_bucket=54&site_id=1 for a listing of locations.

Community Developments

The Community Affairs newsletter from the Office of the Comptroller of the Currency

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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.

Strengthening America: The Small Business Advantage

by John D. Hawke, Jr., Comptroller of the Currency

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](http://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

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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 nonprofit 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

Velma Cardwell puts the finishing touches on a quilt that will be marketed through Cabin Creek Quilts. This cooperative has 300 members, about half of whom are actively producing quilts at any one time.



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 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



Jorge Fierro started Rico's Pinto Beans with a card table and two coolers in Salt Lake City's downtown Farmers Market. Today he employs 14 people and earns over \$16,000 per week in sales.

to launch a successful marketing and catering business. A technical

assistance group in California partners with banks and the SBA's *CommunityExpress* 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 in 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 advantages 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)

How a Newark Bank Helps Small Businesses Contribute to Community Revitalization

by Stanley M. Weeks, Senior Vice President & Chief Credit Officer, City National Bank of New Jersey

City National Bank of New Jersey (CNB) has been a beacon of light for African-Americans for 30 years. Founded in 1973 by Charles Whigham, a prominent Newark businessman and community leader, CNB is still the only commercial bank in the state owned and operated by African-Americans.

Mr. Whigham's campaign to start a bank was grounded in his awareness that many qualified Newark residents and local small-business owners were being denied credit by other banks. He led a grassroots effort consisting of church groups and other community-based organizations that sent volunteers literally door-to-door to raise the bank's initial capital. More than 1,800 individuals contributed a total of \$1.2 million. Today the bank has over 1,900 stockholders, most of whom were among the original contributors. CNB, although it now has over \$220 million in assets, remains true to its original mission: to serve the underserved.

A staggering task

CNB operated out of one branch location in downtown Newark for 15 years. The challenge of helping the underserved to improve their financial well being proved to be daunting. The riots that stunned Newark in 1967 triggered a dramatic change in the size and ethnic make-up of its population. Newark was battered in the 1970s by an economic decline and dramatic demographic shifts. Dependent on manufacturing, the city watched helplessly as thousands of manufacturing jobs went elsewhere to be replaced by fewer numbers of service-sector jobs that generally paid much less. Newark's net job losses were staggering: private-sector employment in the city dropped 43 percent before finally stabilizing in the 1990s.

Lost jobs were just part of the problem. Middle-class residents, predominantly white, fled the city in droves. Both of these trends made CNB's mission more problematic—

but also more relevant. Despite great difficulties, the bank experienced 15 years of steady growth.

In 1989, Louis E. Prezeau became President and CEO. Under his leadership the bank has continued to flourish. CNB has grown from one branch to nine branches in New Jersey and New York. The bank has over \$13 million in capital, assets have passed the \$220-million mark, and CNB has over \$120 million in loans.

Key to CNB's growth has been the growth of its loan portfolio. Since 1994 CNB has made nearly \$175 million in loans, resulting in a net portfolio increase of more than \$100 million. Because these loans are largely going back into the community—helping to revitalize Newark—the bank enjoys an outstanding Community Reinvestment Act rating. The Treasury Department's CDFI Fund has also designated CNB as a Community Development Financial Institution and Community Development Entity, and the bank has received a Bank Enterprise Award.

"It was the best choice that we have made having City National Bank handle the loan. They were so professional, but with great understanding of the problems of inner cities such as Paterson, NJ." These were the reflections of Georgette Hauser, Executive Director of Memorial Day Nursery, Paterson, NJ, speaking about the loan she received to purchase a 16,000-square-foot building to accommodate growth of her day care facility. City National Bank arranged to fund the project and reduce Memorial's annual debt obligation through the purchase of tax-exempt bonds issued by the New Jersey Economic Development Authority.



Success stories

Typical of our customers are a local husband and wife optometry practice that had served the community for more than 15 years. Their practice had grown to the point where they needed a larger location and new equipment. Although they were short of capital, by using the SBA 7(a) loan guaranty program CNB was able to assist them in purchasing

and renovating an adjacent property and obtaining the new equipment they needed.

Similarly, a local carwash owner, who had been in business for only two years, sought to expand his business by acquiring a nearby building to house an auto accessory store that would complement the carwash. His business plan had merit but because of his limited operating history CNB opted to use the SBA 7(a) program to mitigate the risk to the bank.

Using the SBA 504 program, CNB was able to assist a local minister and his wife, a licensed funeral director, to acquire a building and open a business. Under the terms of the 504 program they were required to make an equity contribution of 10 percent with a bank loan of 50 percent and subordinated debt of 40 percent. Because the bank position was limited to only 50 percent its risk was reduced, and the modest equity requirement for the borrowers made it possible for them to have cash available for other purposes while acquiring the fixed assets they needed to open their business.

In addition to working with the SBA, CNB has used the various programs of the New Jersey Economic Development Authority and New Jersey Housing and Mortgage Finance Agency to mitigate risk and meet customer demand. For example, Memorial Day Care in Paterson, NJ needed to purchase a 16,000-square-foot building to accommodate growth. Although the day care center, founded in 1887, is the oldest in the nation, it was unable to obtain conventional financing because the income from expansion was projected. CNB arranged to fund the project — and reduce Memorial's annual debt obligation — through the purchase of tax-exempt bonds issued by the New Jersey Economic Development Authority. The renovated building opened in January 2003 and now accommodates 285 children.

CNB also partners loans with other banks by selling loan participations, generally to ensure that CNB stays within lending limits consistent with its size. Community bank partners have similar concerns and often seek out CNB to purchase loan participations from them. CNB maintains community bank relationships with banks within and outside of New Jersey and New York. Larger banks have also assisted CNB in its mission of servicing an underserved urban customer base and mitigating risk. One money-center bank recently partnered with CNB in making lines of credit

available to three community development companies that make microloans up to \$35,000 to small businesses.

Hard but rewarding work

Providing financial services to underserved small businesses and community organizations is hard, challenging work—but deeply rewarding. Traveling through the neighborhoods CNB serves, you come upon La Casa, a nonprofit providing social services to Newark's large Hispanic community. La Casa occupies a renovated building purchased and renovated with the help of a CNB bridge loan. You walk past the Union Gospel Tabernacle, built in 1973 with the help of a CNB

Dr. Frank Barnes and Dr. Tanya Carter are optometrists in Montclair, NJ. Their optometry practice obtained an SBA 7(a) loan from City National Bank to assist them in purchasing and renovating an adjacent property and obtaining the new equipment.



loan—the first of many CNB loans to area churches. (CNB is now the largest church lender in New Jersey.) You take note of a thriving beauty salon owned by Leo and Olivia Dougherty, who were able to open it with the help of CNB and the SBA. You pass Hellas Fashion, a Newark-based women's coat manufacturer that employs over 600 people. Six years ago the company needed working capital, but was turned down by other financial institutions because of its seasonal sales and relatively high labor costs. Reviewing the company's financial statements, CNB analysts found ways to significantly reduce some of the company's expenditures. CNB was then able to provide Hellas with a working capital line of credit secured by commercial real estate.

All of these clients, and countless others, are helping to make Newark—and the other communities we serve—better places to work and live. Our customers are the building blocks of community development, and CNB is proud to provide the financial glue that holds them together.

For more information, please contact Stanley Weeks at (973) 624-0865 x608, sweeks@citynatbank.com; www.citynatbank.com

How Fleet Development Ventures Invests in Underserved Markets

by Daniel L. Coleman, Director, Private Equity, Fleet Development Ventures

A minority entrepreneur hopes to expand a business started with funds raised from family and friends... An inner-city developer seeks to provide affordable housing through construction of a multi-unit apartment complex in a distressed neighborhood... A woman business owner has an unexpected opportunity to buy out her partner.

Each of these individuals faces not only just tough decisions but also potentially even tougher hurdles to find the funding they'll need to reach their goals.

Although loans to small inner-city businesses have become increasingly available, none of these situations would likely attract the interest of an equity investment firm. When that

The minority venture capital sector of the U.S. economy has an estimated \$2 billion in capital under management — less than 1 percent of the \$250 billion in U.S. venture capital overall. In other words, less than 1 percent of the venture capital dollars available are being focused on meeting the needs of the more than 30 percent of Americans (about 80 million) who are minorities. The situation is not much better for women-owned businesses: although women own 40 percent of all businesses in the U.S., women-owned businesses receive less than 5 percent of all venture capital investment according to a 2003 study by the Ewing Marion Kaufman Foundation.

directs a \$100-million equity fund specifically targeted to minority- and women-owned and managed enterprises and companies situated in low- and moderate-income (LMI) areas.

“FDV is one of the few places in America where a minority businessman seeking equity capital is taken seriously and can actually receive funding,” says Sidney Smalls, CEO and majority owner of Access.1 Communications Corp., one of the largest African-American radio broadcasting networks in the United States. A successful owner-operator of radio stations for over 30 years (including one of the largest AM stations in New York City), Smalls recently sought capital to expand his business. But he quickly discovered that of the nation’s approximately 1,700 private equity funds, fewer than 10 focused on his marketplace and had sufficient funding to meet his needs.

FDV had its roots in the profitable urban retail model that Fleet (then BankBoston) had launched to serve the needs of urban low- to moderate-income consumers. Through this retail franchise, senior bank management began to identify the lending and equity capital needs of inner-city

businesses, particularly those owned by minorities and women. In 1997, BankBoston Development Company (FDV’s predecessor) opened as a bank subsidiary community development corporation, approved by the Office of the Comptroller of the Currency



Broadcasters at a conference sponsored by American Urban Radio Networks (AURN). Access.1 Communications, which received funding from Fleet Development Ventures, was one of the two founding partners of AURN which provides 300 weekly shows targeting African-Americans.

happens it’s not only the entrepreneur who fails to benefit, but also the community. Too often, minority, women, and inner-city business owners have found themselves unable to secure the equity capital they need to grow their enterprises.

A mission to serve the underserved

Meeting the equity investment and lending needs of the traditionally underserved is the primary mission of Fleet Development Ventures (FDV), which

(OCC) as a Part 24 initiative. It was the first private equity investment fund for urban communities created by a commercial bank. Two years later, when BankBoston and Fleet National Bank merged, the combined banks' community-based equity investment efforts were consolidated and renamed Fleet Development Ventures.

FDV's investment philosophy has been to generate superior financial returns by providing at-risk capital financing and business consulting to entrepreneurs and small businesses in disadvantaged communities, with an eye toward creating a new wave of entrepreneurs and having an overall positive economic impact on the larger community. We see these markets as attractive not only in their own right but also because there is such a substantial unmet need for equity financing and because there are so few competing sources of capital. To date FDV has

invested more than \$100 million in 20 businesses led by women and minorities and in 25 funds that target these markets.

FDV offers several product lines to further its mission. It provides Fleet's business line lenders with mezzanine-type, quasi-equity capital that assists lenders who are making "stretch" (higher than normal advance rates on collateral) commercial and real estate loans in LMI communities. The group also invests in a number of CDFI-type funds that have high community impact yet typically deliver lower-than-market returns on their investment portfolios.

A sound deal structure

FDV has demonstrated that market-rate returns are attainable from investments in our target markets. In doing so, we've dispelled the myth that our target populations and communities are

incapable of competing and succeeding in the market economy. FDV equity investments typically must generate a market rate of return (IRR), with the return on the overall portfolio expected to exceed 20-25 percent.

FDV uses the same techniques as mainstream venture capitalists in serving the equity capital needs of FDV's niche market. In 2002 we successfully exited a multi-million-dollar communications deal with an IRR exceeding 30 percent — a rate of return that many mainstream private equity funds would envy. According to the Kaufman Foundation, the average yield among for-profit minority private equity funds was 23.9 percent. This compares to a 20.2 percent average return for all private equity funds over the past 10 years.

FDV uses a two-channel investment strategy in our target markets, each

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Emilce Zepeta proudly displays her company's soccer uniforms. ACCION Texas provided a micro-loan to help finance her company. ACCION Texas received an "equity equivalent" investment under Part 24 to fund its operations.

"Part 24" Community Development Investment Process Streamlined

Many national banks have used the "Part 24" community development investment authority to support community development corporations (CDC) and other entities focused on providing small business financing and technical assistance. Over the years, national banks have invested more than \$60 million in 150 small business focused CDCs.

In August, OCC published revisions to 12 CFR 24 that streamlined the process for making Part 24 public welfare investments in small businesses and other community development investment activities. The changes include:

- Providing that a bank may make a Part 24 investment for any activity that would receive positive consideration as a "qualified investment" under the CRA regulations.
- Simplifying the requirements for making public welfare investments and removing the requirement that a bank must demonstrate community support for its investment.
- Updating the definition section of the regulation to reflect the additional types of community development investment structures that have become more common in recent years and that are permissible under the governing statute.
- Providing that, unless a bank receives OCC's approval to use another accounting method, Generally Accepted Accounting Principles should be used when determining the value of a bank's community development investments to comply with the rule's investment limits.
- Simplifying the regulation's investment self-certification and prior approval processes.
- Expanding the list of examples of qualifying public welfare investments that satisfy the rule's requirements.

The rule and revised CD-1 form are available on OCC's Web site at <http://www.occ.treas.gov/cdd/pt24toppage.htm>.

representing approximately 50 percent of investment activity within the unit:

Direct Channel involves FDV investing directly in a company, usually in the form of convertible preferred stock, thereby giving FDV an agreed percentage of ownership in the company. In almost all cases FDV has taken a seat on the company's board of directors (or observation rights), and always is an active adviser to management. The normal term of the investment is five years. "Liquidity," or an exit from the investment, is provided for by a put option, or the right to require redemption of the stock. Such exits are typically accomplished by the company's re-capitalizing its balance sheet or selling the business. Exits by an initial public offering (IPO) are rare.

The target investment profile is an expansion-stage, late-stage or mature company with sales in excess of \$1 million that has either established cash flows or will reach cash flow break even in the near future. Seed-stage investments are generally avoided. The average investment has been in the range of \$2-\$2.5 million with a typical maximum of \$5 million per deal. FDV's targeted industry groups include media and communications, technology, specialty manufacturing, and services.

SelecTech, Inc., illustrates our direct-channel strategy. Located in a low-income area of Taunton, MA, SelecTech is an innovative manufacturer of high quality flooring tiles and other products, using recycled plastic and requiring no adhesives

or floor preparation, so they can be installed much faster at much lower cost. FDV's investment will help the company to meet the substantial growth potential for its highly marketable new product.

Indirect Channel consists of fund investments. FDV requires that the fund demonstrate a market rate of



Staff from SelecTech and the Chelsea Center for Recycling and Economic Development pose in front of a wall constructed of materials recycled through SelecTech's proprietary processing system.

return, while at the same time having a positive impact on FDV's target markets. FDV has invested in some of the most successful equity funds that provide capital to minorities and women. An example is Opportunity Capital of Fremont, CA, one of the most experienced and successful of minority private equity investment groups.

Equally important to FDV's mission are our investments in Small Business Investment Companies (SBICs). These private equity funds are licensed by the Small Business Administration (SBA) and receive financial support from the agency in the form of government loans at favorable rates. SBICs are one of the few sources of capital for small companies seeking less than \$1 million.

Untapped potential

FDV has been one of a handful of

investors who have demonstrated that investing in underserved markets can be profitable, and that it just makes good economic sense to seek out these untapped opportunities. It's a strategy that has helped spur FDV's own growth, while also serving to attract other investors to the marketplace.

The recent tough economic environment has been accompanied by a sharp contraction in private equity investment generally, including among minority- and women-owned businesses. The challenge during this uncertain economic period is not only to invest prudently and profitably in underserved businesses, but also to provide advice and guidance to help these firms build strong management teams and winning strategies.

For more information, contact Daniel L. Coleman at (617) 434-2221, Daniel_L_Coleman@fleet.com; www.fleet.com

Do you know...

you can use your own loan documents in the 7(a) SBAExpress program?

The 7(a) SBAExpress program permits approved lenders to use their own loan application and documentation forms if the lender agrees to a lower loan guaranty (50 percent versus the standard 85 percent). This method makes it easier and faster for lenders to provide small business loans of \$250,000 or less. <http://www.sba.gov/financing/lendinvest/sbaexpress.html>

SBA 504 Certified Development Companies: The Nation's Leading Economic Development Lenders

by Kurt Chilcott, President & CEO, CDC Small Business Finance

Something remarkable happened in the last 15 years in the economic development finance arena — something that has remained a relatively well-kept secret.

A network of 200-plus community-based nonprofit organizations funded more than \$21 billion in loans, leveraged an additional \$26 billion in private capital from hundreds of financial institutions across the country, and helped small business clients to create more than a million jobs.

Over the past decade the growth of this industry has rivaled that of some of the nation's fastest-growing companies. Since 1992, the number of loans generated by this industry has risen more than 170 percent, and their dollar volume has increased 293 percent. And what, exactly, is this industry? Call it "the 504 industry." It's the result of a government loan program: the Small Business Administration's Certified Development Company (504) Loan Program, known simply as SBA 504 — and recognized as the most significant economic development finance program in the nation.

Among its many other benefits, this government-underwritten success story has been achieved at virtually no cost to taxpayers — because program costs are recovered from loan fee revenues.

SBA 504 partnerships at work

The SBA 504 is a subordinated debt product fully guaranteed by the Small Business Administration that allows growing small businesses access

to below-market, long-term, fixed-rate financing for major fixed assets, typically owner-occupied real estate.

The SBA 504 program helps participating small businesses purchase and occupy their buildings, facilitating business growth and creating jobs and investment in their communities. Through a partnership with hundreds of banks, small businesses receive up



CDC Small Business Finance provided financing to Alfa Scientific Designs to purchase its new facility near San Diego. Alfa Scientific Designs develops one-step tests for pregnancy, allergies, cancer, drug abuse and infectious diseases.

to 90 percent loan-to-value financing, with the bank providing the major share of the needed capital (typically 50 percent) through a first trust deed and the SBA providing most of the remainder of the financing (typically 40 percent). The borrower contributes a minimum down payment (typically 10 percent), freeing much-needed cash for other business purposes.

The entities that deliver this valuable program are certified development companies (CDCs), an evolution of

the development company concept first established by Congress in 1958 to promote economic development through small business support in communities around the country. Today there are about 270 nonprofit CDCs nationwide — urban, rural, large and small. They are diverse organizations that have evolved to meet the specific economic development needs of their communities. Many CDCs are one-stop capital-access shops offering a range of other small business programs in addition to the 504 program.

"CDCs add tremendous value to the SBA infrastructure, and they don't compete with banks for general business finance needs," says Chris Crawford, President of the National Association of Development Companies (NADCO), the industry's trade association. "Rather, they provide a valuable service that banks cannot provide. CDCs are advocates for small businesses in their communities, complementing and reinforcing SBA's advocacy role."

Just as homeownership helps families to build equity and stabilizes communities, the SBA 504 program does the same for small businesses. A small business that owns its facility is more likely to stay in the community and become involved in its development or revitalization.

Good business for banks

The SBA 504 is fundamentally a co-lending product. That is, every loan is completed in partnership with a bank or other financial institution.

continued on page 12

These partnerships are essential to the success of the 504 program, the CDC industry, and banks' outreach to small businesses. Banks ensure that their small business clients are aware of the SBA 504 product and work closely with CDCs to ensure success and customer satisfaction. They recognize the value of the program and the CDCs in bringing jobs, investment, and small business growth to the communities that the partner banks serve. Smaller banks, in particular, appreciate the value of CDCs in helping them to provide SBA products that they might not otherwise be able to offer, given their limited infrastructure.

Bottom line: The SBA 504 program is good business for banks. They can provide their small business customers with access to long-term fixed-asset financing, minimize their risk, increase their lending limits, maintain liquidity, and do all of this without bogging down in paperwork and SBA oversight.

But there's more. Working with CDCs and the SBA 504 program can be an excellent way for banks to meet the requirements of the Community Reinvestment Act (CRA). In addition, since CDCs must have financial institution representation on their boards and loan committees, bank representatives' serving in these roles meets the CRA service test. Many CDCs have several different boards and committees, providing ample opportunity for bank involvement.

The 504 program's public policy goals also create opportunities for CRA credit. CDCs undertake specific outreach to women, minority, veteran and other underserved small businesses that for-profit lenders cannot always accomplish while still adhering to their fiduciary duty to their shareholders. Many CDCs also offer investment opportunities, such as multibank consortiums or targeted revolving loan funds.

And that pretty much says it all. Working with CDCs and the SBA 504 program is a winning strategy for all concerned — especially the communities we all serve and the small businesses that are essential to their survival and success.

For more information, contact Kurt Chilcott at (800) 611-5170; kchilcott@cdcloans.com; www.cdcloans.com

Partnering with a Certified Development Company Under the SBA 504 Program

Certified Development Companies (CDCs) work with the SBA and private-sector lenders to provide financing to small businesses. There are about 270 CDCs nationwide and each CDC covers a specific geographic area. To locate a CDC in your area visit <http://www.sba.gov/financing/sbaloan/cdc504.html>

How a CDC brings the benefits of SBA 504 loans to clients

Serving southern California, CDC Small Business Finance Corporation is the largest of the 270 certified development companies chartered by the Small Business Administration to undertake economic development through the SBA 504 and other small business programs. CDC has funded almost \$1 billion in small business projects that have created more than 50,000 new jobs in southern California communities. In 2002 CDC set a new national record — and maintained its status as the number-one SBA 504 lender nationwide — by securing more than \$152 million in SBA 504 loan approvals, working with 56 different lending partners. CDC also offers small business technical assistance as well as a wide range of other local and state economic development programs.

Chieu Le knows first-hand how CDC Small Business Finance can help a minority entrepreneur. Le escaped from Vietnam on a small boat in 1978, spent a year in a Malaysian refugee camp, and then made his way to San Jose, CA. There, in partnership with his wife Yen and brother Henry, he started operating a mobile food truck in 1980.

From that small beginning the three partners built a food service products and restaurant equipment business that now employs 120 and distributes products to more than 400 independently operated catering trucks in the Sacramento and Bay areas. Recently the partners opened a gourmet foods market offering

prepared dishes hot-to-go. Its success has been so great that two new stores are in the works.

At two critical points during the development of their business, the partners obtained SBA 504 loans through CDC — first to buy a warehouse and then to finance their market and the facility to supply it. "The people at CDC explained everything very clearly," says Yen Le, "and they had great follow-through. Our SBA 504 loans were essential to our success."

Naishu Wang, M.D., is yet another extraordinary entrepreneur who built a successful business with CDC and SBA 504 help. A native of China who practiced medicine there for 14 years, she came to the U.S. as a teaching assistant. She made her mark in the biomedical field through work that significantly improved the leading early pregnancy test. She then founded Alfa Scientific Designs, which is now an FDA-licensed manufacturer of in-vitro diagnostic devices — and a highly successful business developing one-step tests for pregnancy, allergies, cancer, drug abuse and infectious diseases.

Growing rapidly, Alfa Scientific needed to relocate. Two years ago, with a CDC-managed SBA 504 loan, it was able to purchase a facility near San Diego. "Without CDC's help," Dr. Wang says simply, "we never would have been able to do what we've done."

Business Assistance Partnerships Help Minority Entrepreneurs – and Boost Bank Profits

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

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' 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 on page 15) 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

“Successful business assistance partnerships are built on commitment, patience, mutual respect, and a thorough understanding of each partner's role in the relationship.”

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.

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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 Community Express 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.



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.

For more information, contact Sharon D. Evans at (310) 575-3309; sevans@bizresourcegroup.com; www.bizresourcegroup.com.

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. Visit the "Government Resources" section of the OCC's Small Business Web Resource Directory at www.occ.treas.gov/c22/sbrg09032003.htm to see SBA's tips for ensuring that your claim gets paid in full. For more information, contact Walter Intlekofer at SBA (202) 205-7543; walter.intlekofer@sba.gov.

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 providing 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.



Compliance Corner:

Small Business Lending and CRA

by Karen Tucker, Senior Compliance Specialist, Compliance Division, Office of the Comptroller of the Currency

Lending remains the key to satisfactory Community Reinvestment Act (CRA) performance, regardless of the size of your bank. And, small business lending is an important part of this performance. As always, examiners consider a bank’s particular performance context when evaluating lending performance.

Small business loans are actually “small loans to businesses,” because they are loans of \$1 million or less that are made to businesses. (See the sidebar on page 17 for more on the definition of small business loans.)

Large banks and small loans to businesses

Small loans to businesses are always considered in large bank CRA examinations, according to the regulation, in the lending test. To help examiners consider this lending, large banks collect certain loan data. These data include:

- Loan identification number.
- Loan amount at origination.
- Loan location.
- An indicator of whether a loan was made to a “small business” – generally, a business with gross annual revenues of \$1 million or less.

Small banks and small loans to businesses

A small bank examination is primarily a lending review and investments and services are considered at a bank’s option. In a small bank CRA



Tonya Longi (left) and Sue Barber (right) formed Floral Keepsake Collections, a home-based business, in 2002 with a \$10,000 micro-loan from Utah Microenterprise Loan Fund. Several banks made investments in UMLF under the Part 24 community development investment authority.

examination, examiners determine what types of loan products a bank primarily originated and purchased during the evaluation period. If business loans were one of the primary loan products, examiners will select a sample of business loans to help them perform their analysis of the bank’s CRA performance.

Although some differences in the complexity of analysis exist between small and large banks, examiners focus both analyses on how well banks help meet credit needs for businesses in low- or moderate-income geographies and for small businesses. Their analyses include the geographic distribution of loans within the bank’s assessment area, as well as the percentage of small loans to small businesses.

Expanded geographic consideration

Banks also may receive positive CRA consideration for originating and purchasing small loans to small businesses, even if they are located outside of the banks’ assessment areas.

This consideration is realized when such banks have otherwise adequately met the small business credit needs within their assessment areas (see Interagency Q&A __.22(b)(2) & (3) – 4). Both small banks and large banks can receive this consideration – another good reason to geocode your small loans to small businesses!

Business loans that also meet the purpose of community development

Small loans to businesses that also meet the purpose of community development in the CRA regulation are classified as small business loans, not as community development loans. But, a bank may provide information about such loans to the examiners as “other loan data” and request that they be considered in the CRA examination. Examiners will consider the qualitative impact of these loans in terms of community development and may discuss them in the narrative portion of the public performance evaluation.

Government-guaranteed business loans

Government-guaranteed business loans are treated like other business loans. Those that meet the definition of small business loans will be reported by the large banks and included in the large bank lending test. If business loans were a primary loan product of a small bank, government-guaranteed loans would be included in the population from which a loan sample is chosen. To the extent that the government-guaranteed loans also meet the definition of community development, they would bring additional positive consideration to the bank, as discussed previously. For example, the SBA Certified Development Company section 504 Program loans would be considered as community development loans if they were greater than \$1

million. Information on section 504 program loans of \$1 million or less can be provided to the examiners as “other loan data.”

How else can you help finance small businesses?

Some banks don't have the necessary tools or expertise in-house to make some kinds of small loans to businesses – e.g., micro loans to small, start-up businesses. Because CRA must be accomplished in a safe and sound manner, examiners would not expect such a bank to make loans that would be outside of its capabilities. However, a bank could take another route to help meet these types of credit needs. For example, a bank could make an investment in a nonprofit entity whose primary purpose is to originate micro loans to start-up businesses in its

assessment area. Such an investment would be considered a qualified investment. A large bank would receive positive CRA consideration for this under the investment test. In addition, a small bank also could receive positive CRA consideration for the investment previously mentioned as part of the examiner's review of the bank's *lending* performance. Since this qualified investment would be a “lending-related” qualified investment, the bank could provide information to the examiners about how those micro business loans helped to meet a local credit need that the bank could not otherwise have met. Examiners would consider this qualitative effect in their CRA review.

CRA Credit for Business Loans

Small loans to businesses receive positive CRA consideration under the small bank test and under the lending test for large banks.

Small loans to businesses are:

- Loans of \$1 million or less, secured by nonfarm nonresidential properties, and reported in Schedule RC-C, part 1, item 1e of the call reports. They include, for example, loans secured by real estate as evidenced by mortgages or other liens on business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, “homes” for aged persons and orphans, golf courses, recreational facilities, and similar properties.
- Loans of \$1 million or less, for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured (other than by real estate) or unsecured, single-payment or installment, and reported in Scheduled RC-C, part 1 item 4, “Commercial and industrial loans” of the call reports.

Business loans more than \$1 million are community development loans if they meet the definition of community development (CD) in the CRA regulation.

- For example, your local county has developed an informal plan to redevelop certain low-income census tracts by

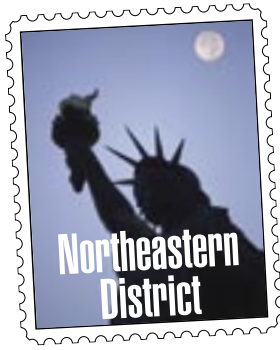
attracting and retaining businesses and jobs. Your bank extends a \$1.2 million loan to a business located in one of these low-income census tracts in your assessment area. The loan enables the business to retain a significant number of jobs to low- or moderate-income persons who reside in and near the low-income area. Because this loan helps to retain businesses and residents in the low-income area, it is a CD loan. It helps to revitalize and stabilize the low-income area.

- A bank makes a \$2 million loan through the SBA section 504 program. This is a CD loan. [If this loan were \$1 million or less, it would be a small loan to a business, but information could be presented to the examiners as “other loan data” for the community development impact of the loan.]
- A bank makes an unsecured loan to a nonprofit organization whose purpose is to originate very small business loans to small businesses. The loan qualifies as a CD loan under the CRA.

Other CRA consideration related to small businesses:

- A bank receives positive consideration under the service test, as a CD service, for providing technical assistance to small business owners. Small business is generally defined as one with gross annual revenues of \$1 million or less.

This just in. . .OCC's Districts report on new opportunities for banks —



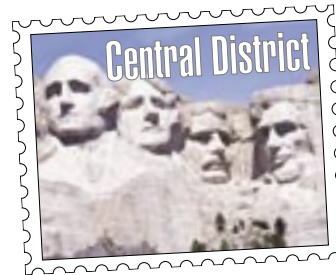
John Farrell (617) 482-1643
Denise Kirk-Murray (212) 790-4053

Small Allocations of New Markets Tax Credits Can Go a Long Way

Even relatively small New Markets Tax Credit (NMTC) allocations can make a big difference to neighborhood businesses, as two Northeast District community development entities have set out to prove. Although the average first round NMTC allocation was \$38 million, some enterprising organizations are planning big changes in their local communities with allocations of \$1 million or less. That is the case with Boston's Roxbury-based Nuestra Development Fund that will use its \$1 million dollar allocation to provide subordinated debt to small, community-based businesses seeking capital to purchase or rehabilitate their properties. In Pittsburgh, the Northside Community Development Fund received the smallest NMTC allocation — \$500,000 — but has big plans for helping local small businesses. It will use its allocation to offer microenterprise loans, provide gap financing, and offer counseling services to neighborhood small businesses. Contacts: Evelyn Friedman at Nuestra Development Fund (617) 989-1202; Linda LeFever at Northside Community Development Fund (412) 322-0290.

Lower Manhattan Gets Affordable Housing

HUD, the state and city of New York, and Lower Manhattan Development Corp., are working together on affordable housing in Lower Manhattan to revitalize the area effected by the September 11th terrorist attacks. The agencies will implement a \$50 million affordable housing initiative in Lower Manhattan that will fund 300 residential units for working families. The program will provide subsidies for affordable housing tied to the New York Liberty Bond program, which is a joint city/state partnership that provides tax-exempt bonds for the construction and renovation of commercial and residential facilities. The bonds are an incentive for developers operating in the residential market in Lower Manhattan by making construction and/or permanent mortgage loans for residential rental projects located in the area. This affordable housing initiative compliments the plan by Mayor Michael Bloomberg, "New Housing Marketplace: Creating Housing for the Next Generation." The Mayor's plan dedicates \$3 billion in funds over the next five years, creating or preserving 65,000 units of affordable housing in NYC. Contact: Lower Manhattan Development Corp. (212) 962-2300; www.renewnyc.org



Paul Ginger (312) 360-8876

Indiana: Entrepreneurship Training

The award winning Purdue University Calumet Entrepreneurship Center (PUCEC) stimulates economic growth in Northwest Indiana by enrolling experienced business owners in a peer-learning program that improves their chances for success. About 300 entrepreneurs have completed the program since its 1995 inception and according to those responding to a recent survey, experienced average increases of 25 percent in sales, 32 percent in profitability and 62 percent in productivity. Banks refer prospective loan customers to PUCEC, discuss business plans and business credit with participants, find new borrowers among PUCEC graduates, and provide grant funding to PUCEC. Contact: Jim Kilinski at PUCEC (219) 989-2100; kilinski@calumet.purdue.edu.

Venture Capital in the Midwest

Venture capital fund Hopewell Ventures, L.P. in July 2003 received its "Go Forth" letter from the U.S. Small Business Administration (SBA), a key step toward becoming a Small Business Investment Company. Hopewell, raising up to \$150 million of capital, will invest \$1 to \$5 million in early- to later-stage companies in a dozen Midwestern states – between Nebraska and Ohio, the Canadian border and Kentucky – that Hopewell says are underserved by venture capital sources. Banks can invest in Hopewell Ventures as limited partners, can refer companies needing an equity infusion, and can provide banking services to companies in which Hopewell has invested. Hopewell's sister fund, \$34 million Adena Ventures, serving Appalachian Ohio and West Virginia, was the first New Markets Venture Capital Company designated by SBA. Contact: Tom Parkinson at (312) 357-9600; info@hopewellventures.com; www.hopewellventures.com.



Karol Klim (404) 588-4538
David Lewis (214) 720-7027

Microenterprise Lending in Texas

ACCION Texas is the largest micro lender in the U.S. for the second year in a row — having originated 4,192 micro-enterprise loans and disbursed more than \$22 million to clients since its inception in 1994. These loans provided working capital, inventory, and start-up funds for small businesses that could not qualify for loans from banks. In 2002, a new phrase entered the ACCION language - pink-slip entrepreneurs. “We have heard from our clients that, after being downsized out of their jobs, they never wanted to experience that kind of insecurity again. They looked around and found inventive ways to market themselves and to offer services that are needed in their communities. ACCION was there to provide the needed capital and start up assistance,” according to Phillip McCammon, Chairman of the ACCION board of directors. ACCION benefits from the support of more than 20 banks and thrifts to implement their Texas strategy. Their commitment enables us to provide capital to those who need it most.” ACCION Texas operates seven offices strategically located around the state. Contact: Janie Barrera (888) 215-2373; www.acciontexas.org.

Mississippi's New Housing Loan Pool Operational

The Financial Institution Housing Opportunity Pool (FIHOP) was just recently developed by the Mississippi Home Corporation (MHC), with the assistance of the Mississippi banking community and bank regulators. Developed over a two-year period, FIHOP's initial thrust will be to fund developers of multi-family housing which will utilize low-income housing tax credits. The FIHOP Board of Representatives and the FIHOP Loan Committee, each made up of participating members, will determine the future lending goals and objectives of FIHOP. In addition to being a 10 percent participant in FIHOP, MHC has agreed to administer the program until such time as FIHOP can meet its administrative needs. The FIHOP program was initially developed to provide CRA investment opportunities to the banking community, as well helping MHC further its affordable housing mission. Initial capitalization is underway and letters of interest have been received from leading financial institutions. Contact: Charles Morris (601) 718-4624; cmorris1@mshc.com; www.mshc.com.



Susan Howard (818) 240-5175
Dave Miller (720) 475-7670

Affordable Housing in Nevada

Reno was the site of Nevada's most successful affordable housing event to date. In August, more than 140 affordable housing advocates and professionals from Nevada and California spent two days immersed in affordable housing issues that ran the gamut from community land trusts and special needs housing to predatory lending and legislative issues. The genesis of the conference came from a group of CRA officers' desire to know more about successful affordable housing activities outside of the local area. They had identified a need for a more comprehensive knowledge of topnotch programs and projects outside of Nevada. The group worked together with the Federal Reserve Bank of San Francisco to develop an agenda that would explore new strategies and best practices and provide opportunities for networking between affordable housing advocates and professionals. Workshop presenters from banking, federal, state and municipal government, and from the nonprofit and profit-motivated development communities presented cutting edge information on challenges and accomplishments in the field.

OCC/MBDA Host Los Angeles Minority Small Business Forum

Los Angeles was the site of a minority small business conference, “Capitalizing on Profitable Minority Markets, ” co-sponsored by the OCC and the Minority Business Development Agency. The conference was held on September 18 and 19 and brought together 100 bankers, government representatives, technical assistance providers, and nonprofits to discuss barriers and solutions to reaching the untapped minority small business market. Los Angeles was selected as the conference site because of its diverse small business market that runs the gamut from home-based and swap meet style businesses to medium-sized manufacturing operations. The Los Angeles marketplace also presents challenges for bankers in reaching business owners of a variety of ethnicities. The speakers and panelists focused on opportunities and solutions for addressing these businesses that are often neglected because of real and perceived risks. Banks have often been reluctant to lend to minority small businesses because of the risk associated with a lack of knowledge of the marketplace. One of the conference goals was to remove some of the confusion by sharing examples from successful programs in Southern California with the participants. Panels addressed loans pools and loan funds, government loan guaranty programs, and technical assistance. Presentations are available on OCC's Small Business Web resource directory at www.occ.treas.gov/cdd/SBRG09032003.htm.



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Visit our Web site/ www.occ.treas.gov/cdd/resource.htm to see additional materials

Bank One: Small Business Credit Scoring Systems

LaSalle Bank: Capital Access Programs

Union Bank of California: Special Purpose Credit Programs

Wells Fargo: Targeted Business Services

Small Business Administration: Celebrating a Golden Anniversary

Minority Business Development Agency: Minority Business Development Centers

Microenterprise Loan Funds

Rural Small Business Technical Assistance

OCC's Small Business Resource Directory: www.occ.treas.gov/cdd/SBRG09032003.htm