



Comptroller of the Currency
Administrator of National Banks

Community Developments

Winter 2003

Community Affairs OnLine News Articles

Special Purpose Credit Programs Can Help Level the Playing Field

by Frank Robinson, *Vice President, Union Bank of California*



Susan Glennan, president of The Busy Woman, Inc., a small producer of time management tools in Thousand Oaks, CA.

Their numbers are growing. Of the 2.5 million small businesses in California, more than half — about 1.4 million — are owned by women and minorities. They're a powerful and positive force in the state's economy and a key to its future prosperity. Yet they often face obstacles as they try to grow their businesses.

One of the most common concerns is how and where to obtain financing. Often, these business owners are unsure about how to access capital. They may not believe that they can qualify for loans, or that loans will be available on terms they can manage; they may not be aware of all the available financing options. As the U.S. becomes more diverse, financial institutions may want to consider developing and adapting loan programs specifically geared toward assisting this growing segment of the small-business community.

Union Bank of California established the Urban Enterprise Banking (UEB) Program in 1993 as a Special Purpose Credit Program under Regulation B (the implementing regulation of the Equal Credit Opportunity Act) in order to increase access to business financing for businesses owned by women and minorities in California, Oregon, and Washington. In doing so, we were advancing an agenda — to be a bank that respects, celebrates, and supports diversity.

Diversity and business potential

We think that recognition of diversity begins at home. A bank that seeks to serve minority markets ought to be able to demonstrate its credibility through its employment policies. Union Bank of California's diversity efforts have been widely recognized. In 2003, for the fifth consecutive year, *Fortune* magazine ranked Union Bank first among the nation's financial institutions in its annual list of "America's 50 Best Companies for Minorities." We don't boast about this record — in a highly diverse society we think it ought to be the norm — but we do think it gives us an edge (and even an extra measure of aggressiveness) when it comes to promoting financing measures tailored to the specific needs of women- and minority-owned businesses.

That defines our Urban Enterprise Banking Program. To be eligible for consideration for UEB products, businesses must be 51 percent women- and/or minority-owned and managed (we use the

minority definitions — Black, Hispanic, Asian/Pacific Islander and Native American/Alaskan Native — used by the U.S. Equal Employment Opportunity Commission), with annual revenues under \$10 million and borrowing needs less than \$2.5 million. Additionally, the business must have been in operation for at least two years; profitable in its most recent fiscal year; have positive interim financial results; and have an adequate primary source of repayment.

All Union Bank business-lending products (lines of credit and loans) are available to UEB clients, including term loans and secured and unsecured lines of credit from \$5,000 to \$2.5 million. Purposes can include business expansion, short-term working capital, permanent working capital, new equipment, seasonal purchasing, and to carry accounts receivable. Other available credit options include owner-occupied real estate loans, equipment leasing arrangements, and programs offered by the Small Business Administration (SBA), California Capital Access Program (CalCAP), and California Economic Development Lending Initiative (CEDLI). Our goal is to help secure the financing a small business needs whether through conventional or specialized channels.

For loans up to \$100,000, we use our credit scoring model. For real estate loans and lines of credit exceeding \$100,000, we offer flexible underwriting. The UEB underwriting guidelines recognize that businesses in the UEB target market may exhibit potential weaknesses that might disqualify the business for conventional lending. These risk factors may include: weak secondary and tertiary sources of repayment; required guaranty from principal(s) and weak or unproven guarantor support; evident accounts receivable concentration, including concentration in government receivables; marginal quality collateral or liquidation value; and leverage greater than industry standards. The underwriters perform a manual review of every UEB application to ensure that these key risk factors are weighted properly in the context of the bank's explicit goal of supporting women- and minority-owned businesses as well as its participation in the Special Purpose Credit Program.

To illustrate, some profitable businesses put most of their earnings back into the business to help sustain it. As a result, they lack the secondary source of repayment that banks ordinarily look for and insist upon when extending credit. This puts such businesses at a disadvantage. The UEB underwriting guidelines, while recognizing this problem, allow us to work around it by taking into account the business's overall strengths.

Marketing strategies

It's not enough to simply offer extra help to women- and minority-owned small businesses. We also have to make sure our potential clients know that our help is available. We market Urban Enterprise Banking both internally and externally within Union Bank of California. Bilingual (English/Spanish) informational materials are available in every one of our more than 250 banking offices. Additionally, many of our more than 9,000 employees are active in their communities, and they refer businesses, professional associations, and community organizations to us — the best kind of referral system.

For example, Susie Glennan was referred to us by Oscar Dominguez, manager of our Thousand Oaks branch. Ms. Glennan had bought The Busy Woman, Inc., a small producer of time management tools marketed mainly through its Web site www.thebusywoman.com. The business had to grow to be competitive, but despite demonstrable skills and marketing savvy she had been turned down by other banks. We decided she was an excellent candidate for UEB assistance — and her business has grown as expected.

“Union Bank of California had faith in me when other banks and even the SBA didn’t,” Susie Glennan says. “They actually see me as an individual business and person instead of putting me into some sort of group.”

Referrals like this are a great way for us to learn about promising businesses that our employees believe in. Businesses interested in our products and services can also access UEB information via our Web site and can even apply for a loan or line of credit online.

There’s no one best way to level the playing field for traditionally underserved businesses, such as those owned by women and minorities, and especially those based in low- and moderate-income communities. But targeted efforts, such as our Urban Enterprise Banking program, can help.

*For more information, contact Frank Robinson at (619) 230-4500;
frank.robinson@uboc.com; www.uboc.com.*