



Comptroller of the Currency
Administrator of National Banks

Financing Minority Businesses

Virtual Seminar

Tuesday, September 28, 2004
2:00 p.m. – 3:30 p.m. Eastern
1:00 p.m. – 2:30 p.m. Central
12:00 Noon – 1:30 p.m. Mountain
11:00 a.m. – 12:30 p.m. Pacific

Presented by:

John D. Hawke, Jr.
Barry Wides
Ramón Cepeda
Jean Wojtowicz
Calvin R. Hagins



Comptroller of the Currency
Administrator of National Banks

A Telephone Seminar

Financing Minority Businesses

Tuesday, September 28, 2004

Speaker Biographies
Electronic Polling Question
Power Point Presentation

John D. Hawke, Jr.

Comptroller of the Currency



John D. Hawke, Jr. was sworn in as the 28th Comptroller of the Currency on December 8, 1998. After serving for 10 months under a Recess Appointment, he was sworn in for a full five-year term as Comptroller on October 13, 1999.

The Comptroller of the Currency is the Administrator of National Banks. The Office of the Comptroller (OCC) supervises about 2,200 federally chartered commercial banks and about 52 federal branches and agencies of foreign banks in the United States comprising more than half of the assets of the commercial banking system. The Comptroller also serves as a Director of the Federal Deposit Insurance Corporation, the Federal Financial Institutions Examination Council, and the Basel Committee on Banking Supervision.

Prior to his appointment as Comptroller, Mr. Hawke served for 3 1/2 years as Under Secretary of the Treasury for Domestic Finance. In that capacity he oversaw the development of policy and legislation in the areas of financial institutions, debt management, and capital markets, and served as Chairman of the Advanced Counterfeit Deterrence Steering Committee and as a member of the board of the Securities Investor Protection Corporation. Before joining Treasury, Mr. Hawke was a Senior Partner at the Washington, D.C., law firm of Arnold & Porter, which he first joined as an associate in 1962. At Arnold & Porter he headed the Financial Institutions practice, and from 1987 to 1995 he served as Chairman of the firm. In 1975 he left the firm to serve as General Counsel to the Board of Governors of the Federal Reserve System, returning in 1978.

Mr. Hawke was graduated from Yale University in 1954 with a B.A. in English. From 1955 to 1957 he served on active duty with the U.S. Air Force. After graduating in 1960 from Columbia University School of Law, where he was Editor-in-Chief of the Columbia Law Review, Mr. Hawke was a law clerk for Judge E. Barrett Prettyman on the U.S. Court of Appeals for the District of Columbia Circuit. From 1961 to 1962 he served as counsel to the Select Subcommittee on Education in the House of Representatives.

From 1970 to 1987 Mr. Hawke taught courses on federal regulation of banking at the Georgetown University Law Center. He has also taught courses on bank acquisitions and financial regulation and serves as the Chairman of the Board of Advisors of the Morin Center for Banking Law Studies at Boston University School of Law.

In 1987 Mr. Hawke served as a member of a Committee of Inquiry appointed by the Chicago Mercantile Exchange to study the role of futures markets in connection with the stock market crash in October of that year.

Mr. Hawke has written extensively on matters relating to the regulation of financial institutions, and is the author of Commentaries on Banking Regulation, published in 1985. He was a founding member

of the Shadow Financial Regulatory Committee, and served on the committee until joining Treasury in April 1995.

Mr. Hawke is a member of the Cosmos Club, the Economic Club of Washington, and the Exchequer Club of Washington.

Born in New York City on June 26, 1933, Mr. Hawke resides in Washington, D.C. He was married in 1962 to the late Marie R. Hawke and has four adult children, Daniel, Caitlin, Anne, and Patrick, and two grandchildren, Spencer Patrick Hawke and Camerynn Marie Hawke.

Barry Wides

Acting Deputy Comptroller

OCC Community Affairs



Barry Wides is the OCC's acting deputy comptroller for Community Affairs where he leads a department of community development professionals located in Washington and the four OCC districts. The Community Affairs staff is responsible for outreach to banks and their community partners, the administration of the "Part 24" public welfare investment authority, the development of policy, and the creation and distribution of educational materials on community development issues.

Prior to joining the OCC in 1999, Mr. Wides was director of Affordable Housing Sales at Freddie Mac where he led a nationwide sales team responsible for developing products and strategies to achieve the company's congressionally-mandated affordable housing goals. He previously served as deputy director of the Resolution Trust Corporation's Affordable Housing Program. Mr. Wides began his career in Washington as a presidential management intern and budget examiner at the Office of Management and Budget.

Barry is a Certified Public Accountant and holds a BS in Accounting and an MBA from Indiana University.

Ramón Cepeda

First Vice President

LaSalle Bank, N.A.



Ramon Cepeda is First Vice President of LaSalle Bank's Commercial Lending Group, where he leads a new effort to capitalize on the growth of Hispanic-owned middle market companies across the county, including targeting U.S. subsidiaries of Mexican-owned companies. During his first 12 months, the portfolio has grown to \$27,000,000, which includes two of the largest owned companies as reported by the Hispanic Business magazines' top 500 list.

Mr. Cepeda began his career at LaSalle in 1995 in its Community Development Lending Group. In 2000, he was appointed Vice President in the Commercial Real Estate Acquisition and Construction group, where he managed and developed one of the largest individual portfolios at LaSalle of more than \$300 million consisting of industrial, retail, office and hotel properties throughout the Midwest and some parts of the Southeast.

Mr. Cepeda established at the ABN AMRO/ LaSalle Bank the ABN AMRO Hispanic Advisory Council (AAHAC), an internal diversity group. This group helped increase the number of Hispanics at LaSalle, leading to more Hispanics in decision-making positions.

Mr. Cepeda currently serves as president of the Hispanic Bankers Association, former chairman/member of ABN AMRO's Hispanic Advisory Council, and member of the board of Trustees at Holy Cross Hospital. He is also a member of the Union League Club of Chicago and the Illinois Hispanic Chamber of Commerce.

Prior to 1995, Mr. Cepeda was a loan officer and assistant branch manager at Second Federal Savings in Chicago, where he mainly served customers in low- to moderate-income neighborhoods.

Mr. Cepeda graduated from the University of Illinois – Chicago in 1990 with a BA in criminal justice.

Jean Wojtowicz

President

Cambridge Capital Management Corp.



Jean Wojtowicz is president of the consulting firm, Cambridge Capital Management Corp., which she founded in 1983. The corporation has been awarded management contracts for the Indiana Statewide Certified Development Corporation and the Indiana Community Business Credit Corporation. Both corporations are consortiums of financial institutions.

Cambridge also holds the management contract for LYNX Capital Corporation, established to link capital to minority business opportunities, and has assisted loan programs offered by the Indiana Economic Development Corporation and the Indiana Department of Commerce. Ms. Wojtowicz's firm joined with T.M. Englehart Corporation in 1991 to launch a venture capital fund called Cambridge Ventures L.P.

From 1994 to 1998, Cambridge Capital was retained to develop and manage the West Virginia Capital Corporation, which is modeled after the Indiana Community Business Credit Corp. From 1998 to 2002, Cambridge Capital was retained to develop and manage ShoreBridge Capital Ltd. in Cleveland, Ohio, which is a mezzanine fund for growing companies.

Ms. Wojtowicz serves on the following boards: Vectren Corp (NYSE: VVC); Windrose Medical Properties Trust (NYSE: WRS); First Merchants Corp. (NASDAQ: FRME); First Internet Bank of Indiana; Indiana State Chamber; Indianapolis Chamber of Commerce; Greater Indianapolis Progress Committee; OneAmerica Funds, Inc.; Goodwill Industries; Venture Club of Indiana; and national professional organizations including NADCO and NABDC. She is also on the Advisory Council of the Federal Reserve Bank of Chicago.

Ms. Wojtowicz earned a degree in business administration with emphasis on finance, investment, and banking matters from the University of Wisconsin in Madison.

Calvin R. Hagins

Senior Advisor

OCC Compliance Division



Calvin R. Hagins became Senior Advisor to the Deputy Comptroller in March 2003. In that position, he serves as an expert on the formulation and implementation of a broad range of policies and procedures relating to the efficient and effective supervision of compliance risk. He also advises OCC executive management and examiners throughout the country on complex compliance supervision issues and provides recommendations on a broad range of compliance supervision, operational and planning matters, and reviews of proposed and final policies, advisory letters, and other issuances. In addition, he represents the deputy comptroller at conferences and in meetings with other federal government agencies and banking organizations.

From March 1999 through March 2003, he served as the assistant deputy comptroller (ADC) – Compliance. In that capacity he provided technical expertise and guidance to the Southeast District’s mid-size and community banks on all aspects of consumer compliance, CRA, fair lending and Bank Secrecy Act/ AntiMoney Laundering activities.

Prior to serving as the ADC - Compliance, he served as an examiner in the Compliance Cadre from 1994 to 1999. During that period, Mr. Hagins was active in developing and instructing in the National Basic Consumer Compliance School, the National Fair Lending School, and the National CRA School.

Mr. Hagins joined the OCC in 1987 and was commissioned a national bank examiner in 1993. He holds a BS in finance from the University of South Florida in Tampa.

Polling Question
9/28/04 Teleconference

- 1 How many people are at your listening site? Press:**
- 2 for two people**
- 3 for three people**
- 4 for four people**
- 5 for five people**
- 6 for six people**
- 7 for seven people**
- 8 for eight people**
- 9 for nine or more people listening at your site.**

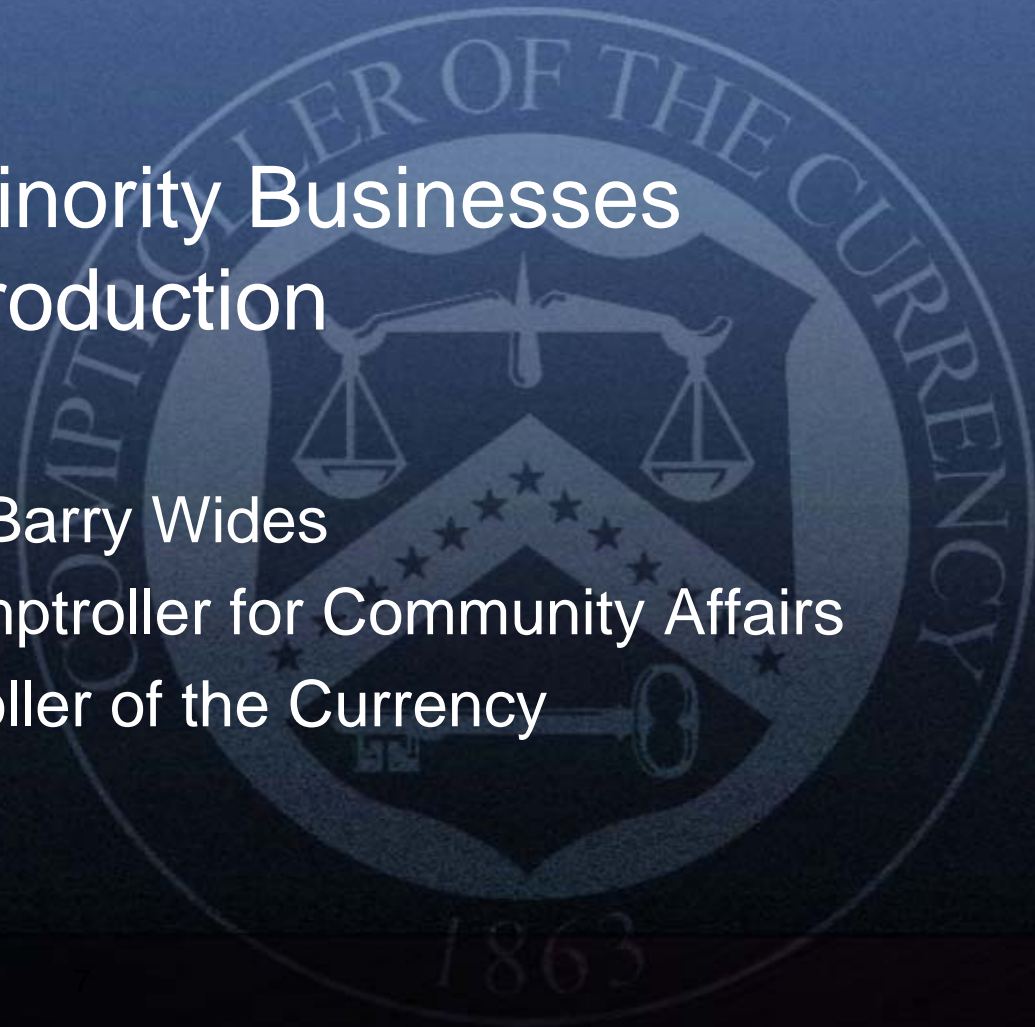


Comptroller of the Currency
Administrator of National Banks

Financing Minority Businesses Introduction

Barry Wides

Acting Deputy Comptroller for Community Affairs
Comptroller of the Currency



Overview

- Innovative ways of reaching minority-owned businesses
- Technical assistance and financing partnerships with intermediaries
- Using government guaranteed programs to mitigate risk and enhance liquidity
- CRA, fair lending, and other regulatory considerations





Comptroller of the Currency
Administrator of National Banks

Specialty Banking Initiative

Ramon Cepeda

First Vice President Commercial Lending

LaSalle Bank

Chicago, Illinois



LaSalle Bank - Overview

- LaSalle Bank is a subsidiary of Netherlands-based ABN AMRO Bank N.V., one of the world's largest banks with total assets of more than \$625 billion.
- LaSalle Bank Corporation, headquartered in Chicago, is the holding company for LaSalle Bank and Standard Federal Bank. It has more than \$105 billion in assets.
- LaSalle Bank has more than \$60 billion in assets. One of the largest banks in the Midwest and second largest in Chicago, LaSalle serves individuals, small businesses, middle-market companies, and institutions.



Specialty Banking Group

- Established in 2003
- Two senior Hispanic commercial bankers
- Relationship banking approach
- Focus is on Hispanic-owned middle market companies
- Not industry specific
- Multi-layered approach by size of company



Structure

Coordinated Efforts

- Informal organizational structure allows each unit to report to larger unit within bank yet still operate within the focus of its' targeted business.
- Allows for referrals both up and down the ladder between units
- More efficient: loan requests end-up in the “right business unit”



Structure

Multi-layered Approach

- Commercial banking – Traditional middle market revenues > \$40 million
- Metropolitan banking – Small to middle revenues between \$2.5 million up to \$40 million
- Small business banking – Very small to small revenues up to \$2.5 million
- Branch level - Very small to small
Some cross over from small business banking and SBA lending



Specialty Banking Group

- Portfolio more than \$27 million in the first 12 months
- Including four of the top 500 largest Hispanic-owned companies as reported by Hispanic Business Magazine
- Deposits in excess of \$5 million
- Year 2 of portfolio on track to top \$50 million



Why a Specialty Banking Group?

- Changing demographics
- Growth of Hispanic-owned businesses
- Good business



Strategy - Beginings

Begins with Senior Level Commitment –

- Selecting the right people
- Patience
- Stay the course



Strategy – Internal Approach

Leverage existing customer base

- Customers of customers

Leverage internal relationships

- Some of the best networking is done internally
- Awareness of other areas of your bank



Strategy – External Approach

Leveraging external relationships

- Local chambers of commerce
- Trade and professional associations
- Periodicals
- Minority business advocacy groups
- Strategic partnerships



Barriers to Financing MBE's

- Language
- Culture
- Lack of financial controls
- Preparation of business plans
- Concentration of business in service and retail with lower capital investments requirements
- Contractor financing



Sector Composition

- Service 22.2%
- Automotive 21.2%
- Wholesale 16.9%
- Construction 14.4%
- Manufacturing 12.3%
- Finance 8.4%
- Retail 3.6%
- Transportation 0.9%

Sector composition reflects companies in the Hispanic Business 500 for 2004.



Contractor Financing Challenges

Contractor financing: companies awarded federal/state/local or large public/private contracts and requiring short-term or bridge financing

- What are the receivables for? Goods and products or services? Easier to lend against goods, products or raw materials than services
- Service companies have very few assets
- High concentration of business from one source



Contractor Financing Benefits

- Solid receivables
- Supplier diversity programs give confidence in continued source of revenue
- Most MBE's are in high growth fields
- Is it a joint venture (JV) with other larger established companies? JVs help meet supplier diversity initiatives of Fortune 500 companies



Contractor Financing Example

- MBE service company in facilities management
- Other banks would not consider
- Contacted through Chicago venture capital firm
- Mid-sized company in a high growth area
- Company initially sought equity for growth through acquisition
- Helped fund line of credit on state contracts to grow the company organically



Contractor Financing Example

- Manufacturing company in Detroit, MI
- Local banks were chasing
- High concentration in receivables from one auto maker
- Tier 1 OEM joint venture company in high growth area
- Strong relationship with automaker and infusion of equity from automaker



Summary

- Targeted business approach generates revenue.
- Changing demographics means you have to change.
- Building the right team is critical.
- Bi-cultural/bi-lingual approach works best if combined with decision making ability.

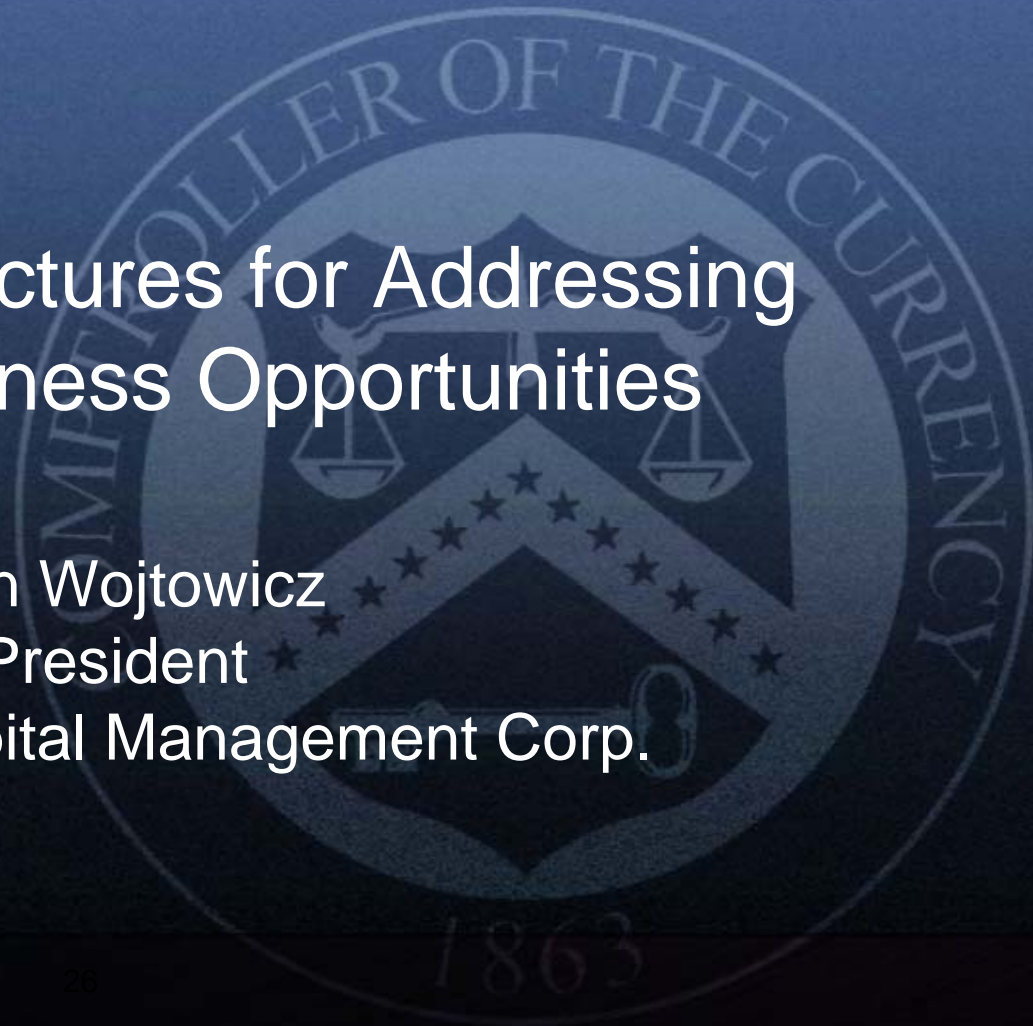




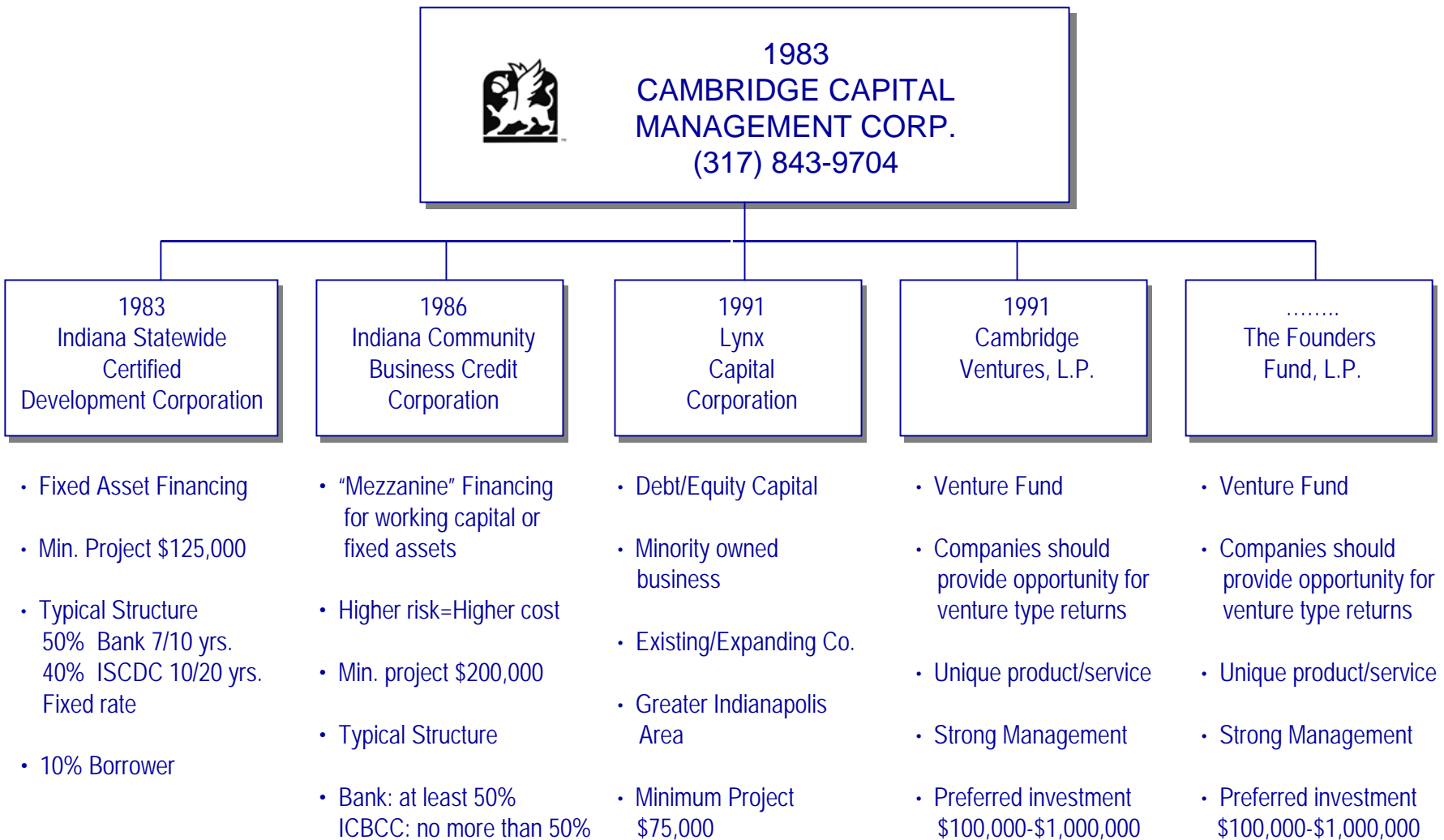
Comptroller of the Currency
Administrator of National Banks

Alternative Structures for Addressing Minority Business Opportunities

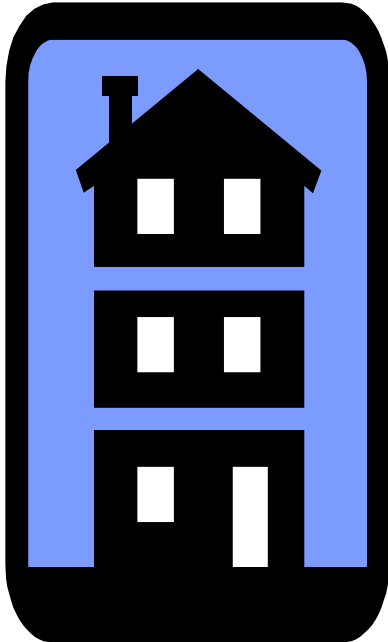
Jean Wojtowicz
President
Cambridge Capital Management Corp.



Professional Manager of Non-traditional Financing Sources



What is Mezzanine Financing



- Retail Store
 - 1st Floor – Equity
 - 2nd Floor – Sr. Lender
 - Balcony - Mezzanine
- More expensive than senior debt
- More risk
- 2nd position on collateral



Indiana Statewide Certified Development Corporation

- Established 1983
- 504 Lender – SBA Program
- Fixed assets only
- Up to 90% LTV
 - 50% Senior Lender
 - 40% 504 Company
 - 10% Small business



Indiana Statewide Certified Development Corporation

- Effective way to structure fixed asset loan package
- 13% of our portfolio MBE
- Franchise opportunities
- Low down payment, conserve w/c, structure improves success



Indiana Community Business Credit Corporation

- Established 1986
- For profit
- Multibank community development corp.
- Mezzanine Loan Fund – Leveraged
- 58 Banks pool \$25 million (\$2 million equity \$23 million lines of credit)



Indiana Community Business Credit Corporation

- Bank mezzanine department for small transactions (\$100,000-\$750,000)
- Requires “member” bank in senior position with new exposure
- To date: funded \$37.4 million to 92 companies with total projects of \$191 million
- Risk/Reward



LYNX Capital Corporation

- Established 1991
- Minority-focused lender
- 18 corporate investors (7 financial institutions)
- Funded \$4.7 million in equity



LYNX Capital Corporation

- To date: \$7.4 million loaned to 50 minority companies
- Growth capital
- Try to leverage with senior lender



LYNX Capital Portfolio Composition

- Race
 - Black 76%
 - Hispanic 14%
 - Asian 8%
 - Am. Indian 2%
- Industry
 - Contracting/Construction 34%
 - Service 28%
 - Retail 24%
 - Transportation 8%
 - Manufacturing 6%



Frequent Deficiencies in Applicants

- Weak professionals
 - Tax preparer –vs- accounting firm
- Customer concentration
- Weak capitalization
- Understanding the commercial credit process



Solutions

- Prepare the company for presentation
- Review/strengthen business plans
- Improve professionals
- Mandatory Advisory Board with mandatory meetings



MBE Certifications

- State/local government
- 8 (a) through SBA
- Benefits
- Addictions



ICBCC Success Story

Telecommunications Industry (MBE)

- Before Funding
 - 11-year-old company in the broadband data and telecommunications industry
 - Aggressive growth strategy, industry acquisitions, outstripping capital
 - Revenue scheduled to double every 3 years
 - Equipment (collateral) located in 230 metropolitan areas
 - Revenue \$2 million, \$2.4 million, \$4 million



ICBCC Success Story

Telecommunications Industry

- Structure – Financing need \$8 million
 - Senior Lender:
 - \$1.2 million Line of Credit; P + 1
 - \$1.65 million Term Loan; P + 2
 - ICBCC:
 - \$375,000 5 yr. term/7 yr. am/ 1 yr. interest only
 - \$375,000 5 yr. term/4 yr. am/ 1 yr. interest only
 - 3% fee at closing
 - P + 4; annual facility fee
 - Seller:
 - \$5 million subordinated debt



ICBCC Success Story

Telecommunications Industry

- Post Funding
 - ICBCC paid off at end of 4 years
 - IRR 24.73%
 - Employment increased 40% to 427 people
 - Revenues \$6.5 million; \$9 million; \$13.6 million



LYNX Success Story

Electrical Contractor (MBE)

- Before Funding
 - Losses two of the last three years resulting in deficit net worth
 - A/R average 75 days
 - Cash flow cannot support overhead
 - Existing bank seeking an exit from credit within 60 days
 - Revenues \$6.7 million, \$6.6 million, \$3.8 million



LYNX Success Story

Electrical Contractor

- Evaluation Period
 - Need \$300,000 to pay off bank and \$500,000 to support growth
 - LYNX requested 120-day forbearance from existing bank
 - Business plan completed resulting in a restructured staff, improved accounting support
 - Advisory board created
 - LYNX required company to evaluate becoming certified
 - LYNX required additional equity injection from leveraging personal residences



LYNX Success Story

Electrical Contractor

- Structure
 - Senior Lender
 - \$500,000 LOC, P + 2
 - \$500,000 term, P + 2 ½, SBA 7 (A) guaranty 75%
 - LYNX
 - \$250,000 5 yr. term/ 7 yr. am
 - P + 2 plus variable transaction fee



LYNX Success Story

Electrical Contractor

- Current Situation
 - Three years of double digit growth
 - Revenues \$5.7 million; \$10.8 million; \$14.4 million
 - Profitable – backlog exceeds \$15 million
 - Leverage under 2:1
 - Employment increased 150% over past 4 years
 - Bank now has \$2 million LOC; \$1.3 million term; \$500,000 mortgage



Additional Opportunities

- Franchises
- High MBE rate in hospitality
- Diversity initiatives



Summary

- MBE fast growing segment
- Opportunities to partner to appropriately structure
- Profitable business model with possible CRA implications





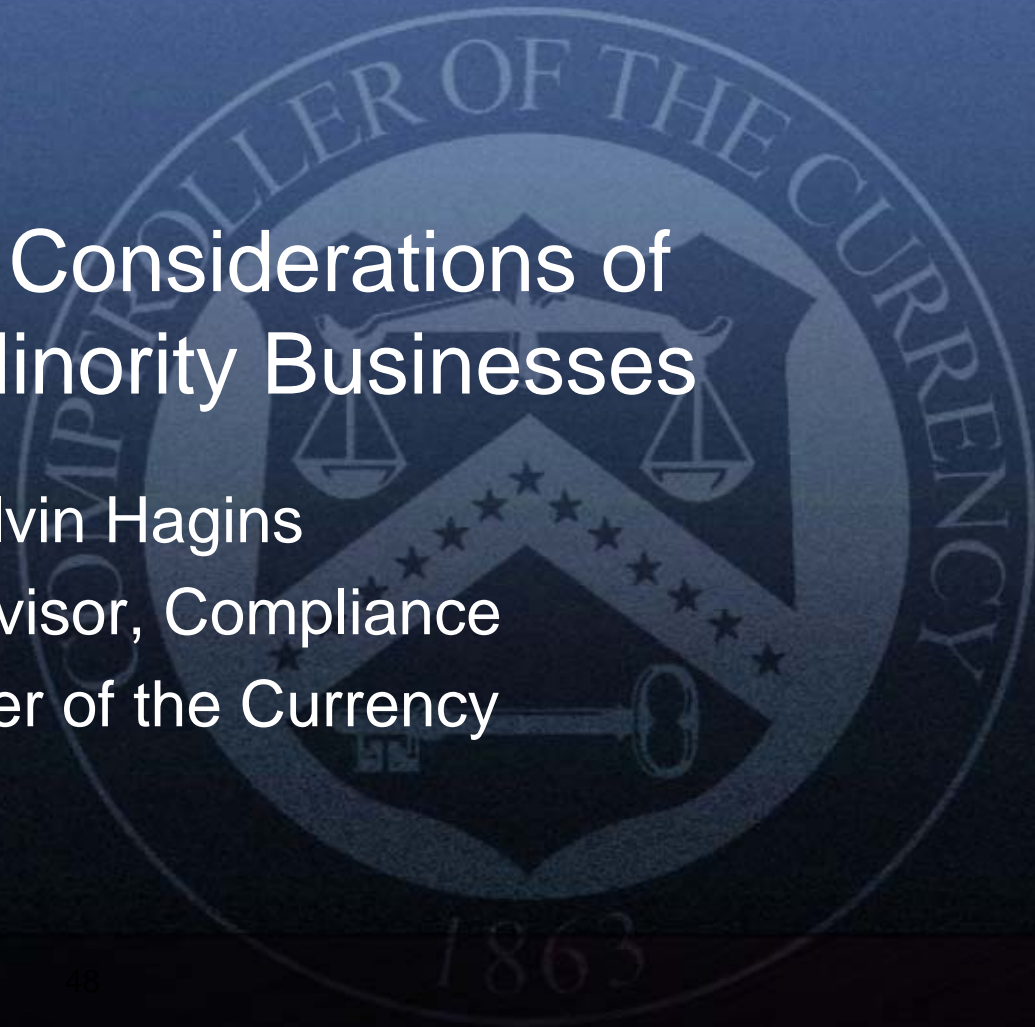
Comptroller of the Currency
Administrator of National Banks

Regulatory Considerations of Financing Minority Businesses

Calvin Hagins

Senior Advisor, Compliance

Comptroller of the Currency



Overview

Why Financing MBE's is Important to Banks

- Benefits of lending to MBE's
- Credit issues and risk mitigation techniques
- Technical assistance and affirmative lending activities
- HMDA reporting and CRA considerations.



Benefits of Lending to MBEs

- Profitable line of business
- Opportunity to make an impact in the communities you serve
- Possible CRA credit



Reportable Small Business Loans

- Small business loans are “small loans to businesses” in the amount of \$1 million or less
- See the Report of Condition and Income (Call Report) Instructions for Guidance



Things to Consider

- Safety and soundness issues
- Compliance Issues



Credit Risk

- Credit Risk
 - New businesses carry more credit risk
 - More difficult to grow and start businesses in some areas



Risk Mitigation Techniques

- Increased lending limits
 - Government guaranteed portion does not count in legal lending limit
- Appraisals and collateral
- Manage liquidity



Government Loan Guaranty Programs

- SBA's 504 CDC loan program
- SBA's 7(a) program
- SBA's *CommunityExpress* Program
- USDA business and industry loans



Technical Assistance

- Refer applicants “not ready to borrow” to technical assistance providers
 - SBA’s Small Business Development Centers
 - MBDA’s Minority Business Development Centers
- Work with area incubators, mezzanine funds and nonprofit economic development corporations



Affirmative Lending Activities

- Specialized lending units
- Second level review programs
- Special purpose credit programs
- Self-testing option



Data Collection and Reporting

- Loan identification number
- Loan amount at origination
- Loan location
- Revenue indicator – an indicator of whether or not the loan was made to a business with gross revenues of \$1 million or less



Data Collection and Reporting

continued

- Renewals
- Refinances
- Double reporting of loans to small businesses
- Optional loan data
- Impact loans



Summary

- Lending to MBE's is good business
- Good for the community and job creation
- Use of government loan programs can mitigate risk
- CRA considerations



Questions



Appendices

OCC's Financing Minority Business Teleconference Resource List

OCC's Small Business Resource Directory - www.occ.treas.gov/cdd/resource.htm

OCC's Advisory Letter on Financing Minority Businesses

- www.occ.treas.gov/ftp/advisory/2003-8.doc

OCC's *Community Developments* Small Business-Focused newsletter:

- Strengthening America: The Small Business Advantage - Winter 2003
www.occ.treas.gov/cdd/resource.htm

Small Business Administration (SBA) - www.sba.gov

- **SBA 7(a) Loan Guaranty Program** – SBA's primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. It is SBA's most flexible business loan program, since financing under this program can be guaranteed for a variety of general business purposes. Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets. For those applicants that meet the SBA's credit and eligibility standards, the Agency can guaranty up to 85 percent of loans of \$150,000 and less, and up to 75 percent of loans above \$150,000 (generally up to a maximum guaranty amount of \$1,000,000). This standard applies to most variations of the 7(a) Loan Program. However, SBAExpress loans carry a maximum guaranty of 50 percent guaranty. The Export Working Capital Loan Program carries a maximum of 90 percent guaranty.
<http://www.sba.gov/financing/sbaloan/7a.html>
- **SBA Certified Development Company (504) Loan Program** – provides long-term, fixed-rate financing to small businesses to acquire real estate or machinery or equipment for expansion or modernization. Typically, a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (financing by a 100 percent SBA-guaranteed debenture) with a junior lien covering up to 40 percent of the total cost, and a contribution of at least 10 percent equity from the borrower. The maximum SBA debenture generally is \$1 million (and up to \$1.3 million in some cases). <http://www.sba.gov/financing/sbaloan/cdc504.html>
- **SBA *CommunityExpress* Program** – part of the 7(a) Loan Guaranty Program, *CommunityExpress* guarantees loans to small businesses in low- and moderate-income geographies, and includes technical assistance to the small business – www.sba.gov/financing/lendinvesrt/comexpress.html
- **SBA CAPLines** – finances short-term and cyclical working capital needs of small businesses – www.sba.gov/financing/frcaplines.html

- **SBA 8(a) Business Development Program** - SBA's 8(a) Business Development programs are intended to help small businesses be successful for the future. Companies just starting or in a growth stage, can benefit from the wide-range of services offered—support for government contractors, access to capital, management and technical assistance, and export assistance—just to name a few. This is accomplished by building community-based small businesses, which in turn revitalizes neighborhoods, create jobs, and encourages economic growth. SBA uses a number of assistance intervention tools, ranging from contract support to low-interest loans for site acquisition, construction, and the purchase of new or upgraded equipment. An 8(a) certified firm is a firm owned and operated by socially and economically disadvantaged individuals and eligible to receive federal contracts under the 8(a) program. For additional information, visit www.sba.gov/8abd/.

- **SBA Small Business Development Centers** – These 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.sba.gov/SBDC

- **SBA Office of International Trade** – export assistance – www.sba.gov/oit

- **Small Business Investment Companies** – National banks are permitted to invest in Small Business Investment Companies (SBICs) under 15 USC 681-682. SBICs are privately owned and managed companies licensed by SBA. The primary benefit of becoming a licensed SBIC is that once approved, an SBIC is eligible to receive a 2-to-1 public/private-funding match from the SBA on the required minimum private capital, thereby leveraging the investor's initial equity contribution. Funds raised by SBICs are then invested in firms that meet the SBA's definition of small businesses or small enterprises. Currently, there are more than 80 bank or bank holding company-owned SBICs licensed by the SBA. One important difference between bank-owned SBICs and all others is that bank-owned SBICs do not normally participate in the SBA's 2-to-1 funding match (or leverage) since banks have their own available source of funding at lower cost. National banks are permitted to invest up to 5 percent of capital and surplus in SBICs. Under SBA rules, national bank ownership of an SBIC that receives funding match is limited to 70 percent, while the remaining ownership must include at least three investors unaffiliated with the bank or each other. There are no ownership limits for banks that own SBICs that do not receive leverage from the SBA. Additionally, a national bank that controls one SBIC is generally limited by the SBA from owning more than 10 percent of a second SBIC without prior approval. SBICs are governed by SBA regulations at 13 CFR 107.

U.S. Department of Agriculture – Rural Business and Cooperative Service (RBCS) –
www.rurdev.usda.gov/rbs.index.html

- **USDA's Business and Industry (B&I) Loan Guarantee Program** - provides a guarantee of up to 90 percent of a commercial loan made by a private lender. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing. B&I loan guarantees can only be extended in rural areas

(this includes all areas other than cities or towns with a population greater than 50,000 people and the urbanized area contiguous to such city or town). The maximum aggregate B&I Guaranteed Loan(s) amount that can be offered to any one borrower under this program is \$25 million.

http://www.rurdev.usda.gov/rbs/busp/b&i_gar.htm

Export-Import Bank of the United States – www.exim.gov/index.cfm

- **Export-Import Bank Loan Pre-Export Financing Working Capital Loan Guarantees** – Export-Import Bank’s working capital guarantee allows a lender to expend pre-export working capital loans to qualifying U.S.-based companies. Loans guaranteed by the Export-Import Bank can support bid and performance bonds, export-related inventory advances up to 75% (including work-in-process) and advances up to 90% against export-related accounts receivable. Pre-qualified commercial lender partners, working under Export-Import Bank’s delegated authority can expedite the loan process by committing to an Ex-Im Bank loan guarantee with the agency’s prior approval.
http://www.exim.gov/products/work_cap.html

Minority Business Development Agency Business Development Centers – These 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.mbd.gov/templates/collection.php?collect_bucket=54&site_id=1 for a listing of locations.

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 600 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.

National Association of Government Guaranteed Lenders (NAGGL) - The National Association of Government Guaranteed Lenders, Inc. was established as a source of technical information for small businesses and financial institutions on the SBA 7(a) loan program.
www.naggl.com

National Association of Development Companies (NADCO) - NADCO is a trade association of Certified Development Companies (CDCs) - companies that have been certified by the Small Business Administration (SBA) to provide funding for small businesses under the SBA 504 Program.
www.nadco.org/NADCO/welcome.html

SCORE – 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 over 300 locations nationwide.
www.score.org

Regulatory Advantages of Bank Participation in Government Loan Guarantee

Programs – In accordance with 12 CFR 32, the guaranteed portion of the loan does not count against the bank's legal lending limits. In addition, the guaranteed portion does not count against the loan-to-value ratio when determining adequate collateral for a loan (see "Excluded Transactions" in 12 CFR 34, Subpart D-Real Estate Lending Standards).

Special Purpose Credit Programs Under Regulation B – A Special Purpose Credit Program (SPCP) is a tool banks can use to increase the availability of credit to underserved populations, including MBEs (12 CFR 202.8). SPCPs allow for-profit lenders to extend credit to a class of prospective borrowers who, under a bank's customary underwriting guidelines, probably would not receive such credit or would receive it on less favorable terms than are available to other borrowers who meet the bank's underwriting criteria.

Self Testing Option under Regulation B - The Federal Reserve Board published a final rule 12 CFR 202.5(b) (1), which became effective April 15, 2003, permitting banks the option of collecting any information (including race and gender), on applicants for their non-mortgage credit products. The collection of these data must be used by banks to measure their success in compliance with Regulation B. Provided that a bank carefully follows the procedures specified in Regulation B and uses the collected information only for self-testing purposes, it will be protected from disclosure under the self-test privilege. For additional information on this topic, please see OCC Bulletin 2003-20, "Equal Credit Opportunity (Regulation B)."

CRA Questions and Answers – www.ffiec.gov/cra/qnadoc.htm

OCC – Financing Minority Businesses Seminar Definitions

Small business loan

A small business loan is really a “small loan to a business.” Small loans to businesses are loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, part 1, item 1e “Loans secured by nonfarm nonresidential properties” and in Schedule RC-C, part 1 item 4, “Commercial and industrial loans” of the Call Reports. See *Call Report Instructions* for detailed reporting instructions, available on the FDIC web site. Also, see the *CRA Loan Data Collection Grid* for examples of where to report certain types of loans.

Small farm loan

A small farm loan is really a “small loan to a farm.” Small loans to farms are loans with original amounts of \$500 thousand or less that have been reported in Schedule RC-C, part I, item 1.b, “Loans secured by farmland (including farm residential and other improvements)” (in domestic offices), and loans with original amounts of \$500,000 or less that have been reported in Schedule RC-C, part I, item 3, “Loans to finance agricultural production and other loans to farmers” (in domestic offices) of the Call Reports.

Original amount of loans, per the Call Report Instructions:

1. Loans drawn down under lines of credit or loan commitments: the original amount of the loan is the size of the line of credit or loan commitment when the line of credit or loan commitment was most recently approved, amended, or renewed prior to the Call Report date. However, if the amount currently outstanding as of the Call Report date exceeds this size, the original amount is the amount currently outstanding on the Report date.
2. Loan participations and syndications: the original amount of the loan is the entire amount of the credit originated by the lead lender.
3. All others: the original amount is the total amount at origination or currently outstanding as of the Call Report date, whichever is larger.

What is a Community Development Loan?

A community development loan has as its primary purpose community development; and except in the case of a wholesale or limited purpose bank has not been reported or collected by the bank or an affiliate for consideration in the bank’s CRA assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (per HMDA regulation); and it benefits the bank’s assessment area or a broader statewide or regional area that includes the bank’s assessment area.

Community development means:

1. Affordable housing (including multifamily housing) for low- or moderate-income individuals;
2. Activities that revitalize or stabilize low- or moderate-income geographies.
3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company (SBDC) or Small Business Investment Company programs (SBIC) or have gross annual revenues of \$1 million or less; or
4. Community services targeted to low- or moderate-income individuals;

Can you explain #3 promote economic development?

To meet this definition, activities must meet both a size test and a purpose test.

1. Size test. Finance entities that meet either:
 - a. The size eligibility standards of SBDC and SBIC, or
 - b. Have gross annual revenues of \$1 million or less.
2. Purpose test. Promote economic development by:
 - a. Supporting permanent job creation, retention, and/or improvement for persons who are currently LMI, or
 - b. Supporting permanent job creation, retention, and/or improvement in:
 - i. LMI geographies, or
 - ii. Areas targeted for redevelopment by Federal, state, local, or tribal governments.
3. Q&A ____12(h)(3)-1 indicates a loan to a New Markets Venture Capital Company, Small Business Investment Company, or Small Business Administration's Development Company promote economic development – and so these are all CD loans.

How do you apply the geographic restriction to CD loans for small and large banks?

1. A loan whose purpose meets the CD definition, that is not otherwise considered a small business, small farm, consumer, or home mortgage loan (except for multifamily housing), and whose proceeds benefit the assessment area (AA) is a CD loan – and the bank receives positive CRA consideration.
2. The same loan, located somewhere in the broader statewide or regional area that includes the bank's AA, whose proceeds have the *potential* to benefit the AA, as in a statewide affordable housing program, is a CD loan – and the bank receives positive CRA consideration.
3. The same loan, whose proceeds have *no potential* to benefit the AA, even though it is located somewhere within the broader statewide or regional area around the bank's AA – does not provide positive CRA consideration to the bank UNLESS the bank has otherwise adequately met the CD lending needs of its AA.
4. The same loan, whose proceeds benefit an area outside the broader statewide or regional area, does not provide positive CRA consideration to the bank.

Loans Made to For-Profit Entities

	Type of Loan	Small Business	2003 HMDA	Community Development	Not Collected
Non-real estate secured	Loan to a for-profit entity not secured by real estate and equal to or less than \$1 million. *	X			
	Loan to a for-profit entity not secured by real estate and greater than \$1 million with a primary purpose consistent with the definition of community development.			X	
	Loan to a for-profit entity not secured by real estate and greater than \$1 million without a primary purpose consistent with the definition of community development.				X
Non-residential real estate secured	Permanent loan to a for-profit entity secured by nonresidential real estate and equal to or less than \$1 million. *	X			
	Permanent loan to a for-profit entity secured by nonresidential real estate and greater than \$1 million with a primary purpose consistent with the definition of community development.			X	
	Permanent loan to a for-profit entity secured by nonresidential real estate and greater than \$1 million without a primary purpose consistent with the definition of community development.				X
Residential real estate secured	Interim construction loan to a for-profit entity secured by residential real estate with a primary purpose consistent with the definition of community development.			X	
	Interim construction loan to a for-profit entity secured by residential real estate without a primary purpose consistent with the definition of community development.				X
	Permanent loan to a for-profit entity for 1–4 family real estate (rental property) with a primary purpose consistent with the definition of community development.		X		
	Permanent loan to a for-profit entity for multifamily real estate with a primary purpose consistent with the definition of community development.		X	X	
	Permanent loan to a for-profit entity for multifamily real estate without a primary purpose consistent with the definition of community development.		X		

* Small farm loan data are collected on loans of \$500,000 or less if (1) the loan is secured by farmland (including farm residential and other improvements) or (2) the loan is used to finance agricultural production and other loans to farmers.

Loans Made to Nonprofit Entities

	Type of Loan	Small Business	2003 HMDA	Community Development	Not Collected
Non-real estate secured	Loan to a nonprofit entity that is not secured by real estate or production payments and with a primary purpose consistent with the definition of community development (no dollar limit).			X	
	Loan to a nonprofit entity that is not secured by real estate or production payments and without a primary purpose consistent with the definition of community development (no dollar limit).				X
Non-residential real estate secured	Permanent loan to a nonprofit that is secured by nonfarm, nonresidential real estate or production payments and in an amount equal to or less than \$1 million with or without a primary purpose consistent with the definition of community development.	X			
	Permanent loan to a nonprofit that is secured by nonfarm, nonresidential real estate and greater than \$1 million with a primary purpose consistent with the definition of community development.			X	
	Construction loan to a nonprofit secured by nonresidential real estate with a primary purpose consistent with the definition of community development (no dollar limit).			X	
	Construction loan to a nonprofit secured by nonresidential real estate without a primary purpose consistent with the definition of community development.				X
Residential real estate secured	Interim construction loan, i.e., not permanent, to a nonprofit secured by residential real estate with a primary purpose consistent with the definition of community development.			X	
	Interim construction loan, i.e., not permanent, to a nonprofit secured by residential real estate without a primary purpose consistent with the definition of community development.				X
	Permanent loan to a nonprofit secured by 1–4 family residential real estate and whose purpose falls under the purview of HMDA 2003.		X		
	Permanent loan to a nonprofit entity for 1–4 family real estate (rental property) with a primary purpose consistent with the definition of community development.		X		
	Permanent loan to a nonprofit entity for multifamily real estate with a primary purpose consistent with the definition of community development.		X	X	
	Permanent loan to a nonprofit entity for multifamily real estate without a primary purpose consistent with the definition of community development.		X		

Program Evaluation

This form is electronically tallied. Please mark only one selection for each question. Do not mark outside the boxes.

Financing Minority Businesses:

September 27, 2004

OCC8779-0

Scale Definition: 1 - Excellent 2 - Good 3 - Fair 4 - Poor

	1	2	3	4
1. Overall rating of program.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Similarity of actual program content to advertised content.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Audibility of Seminar	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Presenter: Overall Effectiveness

4. Barry Wides	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Ramon Cepeda	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Jean Wojtowicz	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Calvin Hagins	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Participant Information

8. How many people listened at your site?

1
 2
 3
 4
 5
 6-10
 11-15
 16-20
 21+

9. Would you participate in another virtual seminar?.....

Y N

10. Did the web component add to the value of the virtual seminar?.....

Y N

How can we make the web portion of the call more useful to the participants?

What was your overall impression of the program and format?

X

X

PLEASE FAX COMPLETED FORM TO 1-800-472-5138