

August 29, 1963

ADDRESS OF M. MONROE KIMBREL

President, The American Bankers Association, before the Annual Meeting of the Southern Regional Association of Small Business Investment Companies, The Cloister Hotel, Sea Island, Georgia, Sunday evening, September 8, 1963. Mr. Kimbrel is ~~President~~ ^{Chairman}, The First National Bank, Thomson, Ga.

When Mr. Simms invited me to join you here this evening, I was delighted for a couple of reasons. First, being a native Georgian, I always like to help welcome visitors from other states. And, I might add, my interest in the development of the economy of Georgia tempts me to be even more cordial when the visitors happen to be a group of investors with venture capital.

My main reason, however, for accepting the invitation is that it gives me a chance to talk to you for a few minutes about the problems of the small businessman—a subject that is of great interest to all bankers.

As most of you know, the nation's commercial banks have historically been the main source of financing for the small businessman. However, we realized, as did many others, that there was a definite need to establish some way of providing equity capital to small business concerns. In line with this thinking, The American Bankers Association supported the Small Business Investment Act when it was being considered by the Senate and House Banking and Currency Committees. I am happy to say that I had a hand in determining the A.B.A.'s position, since I was serving as the chairman of the A.B.A.'s Federal Legislative Committee at that time. Then the A.B.A. followed through by supporting the amendments to the Act, which were made in 1961.

Moreover, many A.B.A. member banks across the country are now actively

participating in the affairs of Small Investment Companies. And, as is the case with SBIC's in general, progress and prospects for those SBIC's connected with banks varies widely.

There are, as you know, some built-in advantages. At the same time, my fellow bankers have found out that there is quite a big difference between appraising an application for credit as a loan officer in a bank, and going out and discovering and investigating good investment outlets for venture capital. Some of these old bankers are going to have to learn new tricks if they are going to be successful investors. However, one thing they know from their banking experience is that they are in business for the long pull.

My bank is not associated with any Small Investment Companies, so I will be spared some of the major readjustments that my friends are facing. However, as a country banker, I come in contact with small businessmen every day, and like all bankers, I am aware of their problems.

The man who runs the local funeral home, for example, used to come in and talk to me about various ways that he could make a better profit. He was an aggressive man with excellent facilities and did by far the best funeral business in the area. After considering all the aspects of his situation, including his native talent, I told him that if he wanted to make more money he would have to go into some other line of business. He was not very enthusiastic about my advice, so I asked him what the trouble was. He stammered for a minute and said he just didn't like the idea of changing from one field to another. When I pressed him and asked him why, he said, "I don't know, I guess I just like people."

Situations of this type are constantly being brought to the attention

of bankers. In fact, aside from the tax collector, bankers know more about the problems, prospects, and vicissitudes of the small businessman than anyone else.

In view of this, it seems to me that sound banking relationships are among the most valuable assets that a Small Business Investment Company can have. There are many areas where commercial banks can be of tremendous assistance to SBIC's.

I don't have time to discuss them all, but I would like to touch briefly on a few of them.

The most obvious way that banks can serve you is by referring prospective clients to you. Now I am not an expert on SBIC's, but I do know that the investment policies and philosophies cover a broad spectrum, and that they change from time to time. It simply makes good sense to work closely with the banks in the geographic area in which you serve. Let the banks know what you are doing. Let the banks know what type of investments you are looking for. Armed with this information, the local banker can be more selective in making referrals.

At the same time, the banker wants to know which companies you are going to support financially. Many companies cannot qualify for seasonal and short-term credit without additional capital backing. However, these situations can change rapidly if equity financing is made available to this type of company. In most cases, the local bank will want to reappraise the credit application. This situation is advantageous to both the SBIC and the bank for several reasons. The SBIC is interested in improving the credit standing of the portfolio company. The local banker is interested in developing local business interests. If the bank is involved, it can meet some of the credit needs of the business-

Particularly shorter term credit, thus supplementing the services of the SBIC.
man, ~~thereby reducing the amount needed from the SBIC.~~ Most SBIC's welcome bank

participation for another reason. The local bank is in a good position to keep a close eye on the operations and performance of the local small business.

~~Then too, the local banker~~ ^{he} knows the people involved, and he knows ~~their background.~~ ^{and he} He is also in a position to know the local market potential for goods and services produced in his area.

In short, bankers, through what might be termed enlightened self-interest, have a deep interest in the development of the economy they serve. Their banks cannot grow if the economy they serve is not growing. You just will not find dynamic and prosperous banks in communities which have a sluggish economy. So it follows, naturally, that banks will do everything they can to help you if in the long run it will help the local economy.

Another unique aspect of our commercial banking system that can be useful to SBIC's is the system of correspondent banking. Many of you will find yourselves in situations where you will be investing in portfolio companies which are some distance from your headquarters. Some of these investments might be through a syndicate. Some might be related to a parent organization, or some might result from an investment interest in a particular field. But whatever the reason, you can keep in touch with the progress of your investments by working through your local bank, which will in turn, work with the bank in the community where your portfolio company is located.

This system can also work in reverse. If a banker has a small business investment situation that cannot be undertaken by people in his own community, he might be able to make the situation known to you through your local bank.

I could discuss many other services which banks can provide for you and for companies in which you have an interest, but I believe I have mentioned enough

to let you know why the local bank is interested in your progress, and why you should work closely with the nation's banks in planning and executing your investment programs.

In closing, I would like to stick my neck out and make an observation about the future of SBIC's. In doing so, I realize I am joining a multitude of others whose views collectively express almost every possible human expectation.

My opinion, after reading all the various forecasts, is that for the most part they are premature. Any new program is going to encounter problems. In fact, if the small businessman for whom the program was established did not encounter problems in getting his business moving, your problems would not have been created in the first place.

Perhaps some legislative changes are needed such as the ones now being considered by Congress. Perhaps those who viewed SBIC's as an ideal, sure-fire way to get rich quick will have to revise their policies now that they have been disillusioned.

But my banking background has conditioned me to take a longer view of trends and events. I believe the SBIC's will make the necessary adjustments and, in the long run, will prove successful. Small businessmen need your backing. Congress wants you to succeed in doing this job. And, what is most important, I know that you are determined to make this business work on a profitable basis. Given time, I am sure that many of the present problems will be resolved.

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